

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

FORM 10-Q

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

For the quarterly period ended June 30, 2019

OR

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

Commission file number 001-38129

**Mersana Therapeutics, Inc.**

(Exact name of registrant as specified in its charter)

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

**04-3562403**  
(I.R.S. Employer  
Identification No.)

**840 Memorial Drive Cambridge, MA 02139**

(Address of principal executive offices)

(Zip Code)

**(617) 498-0020**

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value	MRSN	The Nasdaq Global Select Market

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

There were 47,809,976 shares of Common Stock (\$0.0001 par value per share) outstanding as of August 7, 2019.

*Unless otherwise stated or the context requires otherwise, all references to “us,” “our,” “we,” the “Company” and similar designations in this Quarterly Report on Form 10-Q refer to Mersana Therapeutics, Inc. and its consolidated subsidiary, Mersana Securities Corp.*

#### **FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, our clinical results and other future conditions. The words “anticipate,” “believe,” “estimate,” “expect,” “goal,” “intend,” “may,” “seek,” “plan,” “predict,” “project,” “target,” “potential,” “will,” “would,” “possible,” “could,” “should,” “continue,” “contemplate” or the negative of these terms or other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

These forward-looking statements may include, among other things, statements about:

- the initiation, cost, timing, progress and results of our current and future research and development activities, preclinical studies and clinical trials;
- the potential benefits of strategic partnership agreements and our ability to enter into selective strategic partnership arrangements;
- the timing of, and our ability to obtain and maintain, regulatory approvals for our product candidates;
- our ability to quickly and efficiently identify and develop additional product candidates;
- our ability to advance any product candidate into, and successfully complete, clinical trials;
- our intellectual property position, including with respect to our trade secrets; and
- our estimates regarding expenses, future revenues, capital requirements, the sufficiency of our current and expected cash resources and our need for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Quarterly Report on Form 10-Q, particularly in the “Risk Factors” section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

The forward-looking statements contained herein represent our views as of the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments may cause our views to change. However, we disclaim any obligation to update these forward-looking statements, except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements**

**Mersana Therapeutics, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(unaudited)**  
**(in thousands, except share and per share data)**

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 116,206	\$ 59,634
Short-term marketable securities	11,971	10,497
Accounts receivable	288	459
Prepaid expenses and other current assets	3,151	3,715
Total current assets	131,616	74,305
Property and equipment, net	2,755	2,694
Operating lease right-of-use assets	3,508	—
Other assets	1,503	1,503
Total assets	<u>\$ 139,382</u>	<u>\$ 78,502</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 6,517	\$ 10,727
Accrued expenses	9,761	12,375
Deferred revenue	5,481	46,196
Operating lease liabilities	2,074	—
Other liabilities	84	127
Total current liabilities	23,917	69,425
Operating lease liabilities	1,823	—
Long-term debt, net	4,805	—
Other liabilities	323	282
Total liabilities	<u>30,868</u>	<u>69,707</u>
Commitments (Note 12)		
<b>Stockholders' equity</b>		
Preferred stock, \$0.0001 par value; 25,000,000 shares authorized; 0 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	—	—
Common stock, \$0.0001 par value; 175,000,000 shares authorized; 47,799,138 and 23,234,472 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	5	3
Additional paid-in capital	267,834	172,966
Accumulated other comprehensive income (loss)	11	(8)
Accumulated deficit	<u>(159,336)</u>	<u>(164,166)</u>
Total stockholders' equity	108,514	8,795
Total liabilities and stockholders' equity	<u>\$ 139,382</u>	<u>\$ 78,502</u>

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

**Mersana Therapeutics, Inc.**  
**Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**(unaudited)**  
**(in thousands, except share and per share data)**

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Collaboration revenue	\$ 202	\$ 4,191	\$ 41,237	\$ 7,255
Operating expenses:				
Research and development	13,766	12,663	28,909	24,919
General and administrative	4,192	4,231	8,635	7,801
Total operating expenses	17,958	16,894	37,544	32,720
Other income (expense):				
Interest income	725	349	1,177	709
Interest expense	(40)	—	(40)	—
Total other income (expense), net	685	349	1,137	709
Net income (loss)	(17,071)	(12,354)	4,830	(24,756)
Other comprehensive income (loss):				
Unrealized gain on marketable securities	11	72	19	59
Comprehensive income (loss)	\$ (17,060)	\$ (12,282)	\$ 4,849	\$ (24,697)
Net income (loss) attributable to common stockholders — basic and diluted	\$ (17,071)	\$ (12,354)	\$ 4,830	\$ (24,756)
Net income (loss) per share attributable to common stockholders — basic	\$ (0.36)	\$ (0.54)	\$ 0.12	\$ (1.08)
Net income (loss) per share attributable to common stockholders — diluted	\$ (0.36)	\$ (0.54)	\$ 0.12	\$ (1.08)
Weighted-average number of shares of common stock used in net income (loss) per share attributable to common stockholders — basic	47,708,085	22,966,314	39,051,958	22,891,831
Weighted-average number of shares of common stock used in net income (loss) per share attributable to common stockholders — diluted	47,708,085	22,966,314	40,184,374	22,891,831

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

**Mersana Therapeutics, Inc.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(unaudited)**  
**(in thousands, except share data)**

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2017	22,765,017	\$ 3	\$ 168,018	\$ (149)	\$ (97,878)	\$ 69,994
Cumulative effect adjustment for adoption of ASC 606	—	—	—	—	(2,031)	(2,031)
Exercise of stock options	104,945	—	255	—	—	255
Stock-based compensation expense	—	—	745	—	—	745
Other comprehensive loss	—	—	—	(13)	—	(13)
Net loss	—	—	—	—	(12,403)	(12,403)
Balance at March 31, 2018	22,869,962	3	169,018	(162)	(112,312)	56,547
Exercise of stock options	247,776	—	470	—	—	470
Stock-based compensation expense	—	—	958	—	—	958
Other comprehensive income	—	—	—	72	—	72
Net loss	—	—	—	—	(12,354)	(12,354)
Balance at June 30, 2018	23,117,738	3	170,446	(90)	(124,666)	45,693
Exercise of stock options	43,137	—	128	—	—	128
Stock-based compensation expense	—	—	1,053	—	—	1,053
Other comprehensive income	—	—	—	48	—	48
Net loss	—	—	—	—	(17,069)	(17,069)
Balance at September 30, 2018	23,160,875	3	171,627	(42)	(141,735)	29,853
Exercise of stock options	31,411	—	65	—	—	65
Purchase of common stock under ESPP	42,186	—	146	—	—	146
Stock-based compensation expense	—	—	1,128	—	—	1,128
Other comprehensive income	—	—	—	34	—	34
Net loss	—	—	—	—	(22,431)	(22,431)
Balance at December 31, 2018	23,234,472	3	172,966	(8)	(164,166)	8,795
Exercise of stock options	12,192	—	42	—	—	42
Issuance of common stock under public offering, net of issuance costs of \$5,587	24,437,500	2	92,160	—	—	92,162
Stock-based compensation expense	—	—	1,164	—	—	1,164
Other comprehensive income	—	—	—	8	—	8
Net income	—	—	—	—	21,901	21,901
Balance at March 31, 2019	47,684,164	5	266,332	—	(142,265)	124,072
Exercise of stock options	32,693	—	58	—	—	58
Purchase of common stock under ESPP	82,281	—	283	—	—	283
Stock-based compensation expense	—	—	1,161	—	—	1,161
Other comprehensive income	—	—	—	11	—	11
Net loss	—	—	—	—	(17,071)	(17,071)
Balance at June 30, 2019	47,799,138	\$ 5	\$ 267,834	\$ 11	\$ (159,336)	\$ 108,514

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

**Mersana Therapeutics, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**  
**(in thousands)**

	Six months ended June 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 4,830	\$ (24,756)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	653	565
Loss on disposal of fixed assets	—	20
Net amortization of premiums and discounts on investments	(9)	(248)
Stock-based compensation	2,325	1,703
Non-cash rent expense	(20)	56
Non-cash interest expense	27	—
Changes in operating assets and liabilities:		
Accounts receivable	171	(897)
Prepaid expenses and other current assets	(536)	(1,970)
Other assets	—	(1,433)
Accounts payable	(3,916)	976
Accrued expenses	(1,694)	1,377
Deferred revenue	(40,715)	(4,231)
Net cash used in operating activities	<u>(38,884)</u>	<u>(28,838)</u>
<b>Cash flows from investing activities</b>		
Maturities of marketable securities	10,500	53,565
Purchase of marketable securities	(11,947)	—
Purchase of property and equipment	(578)	(820)
Net cash provided by (used in) investing activities	<u>(2,025)</u>	<u>52,745</u>
<b>Cash flows from financing activities</b>		
Net proceeds from public offering of common stock	92,162	—
Proceeds from exercise of stock options	100	725
Proceeds from purchases of common stock under ESPP	283	—
Proceeds from issuance of debt, net of issuance costs	4,965	—
Payments under capital lease obligations	(29)	—
Payments of financing costs	—	(81)
Net cash provided by financing activities	<u>97,481</u>	<u>644</u>
Increase in cash, cash equivalents and restricted cash	56,572	24,551
Cash, cash equivalents and restricted cash, beginning of period	60,005	26,962
Cash, cash equivalents and restricted cash, end of period	<u>\$ 116,577</u>	<u>\$ 51,513</u>
<b>Supplemental disclosures of non-cash activities:</b>		
Purchases of property and equipment in accounts payable and accrued expenses	\$ 26	\$ 234
Debt financing costs in accrued expenses	\$ 180	\$ —
Cash paid for interest	\$ 20	\$ —
Property and equipment acquired under finance leases	\$ 429	\$ —
Adjustment to accumulated deficit and deferred revenue upon adoption of Topic 606	\$ —	\$ 2,031

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

**Mersana Therapeutics, Inc.**  
**Notes to condensed consolidated financial statements**  
**(unaudited)**  
**(in thousands, except share and per share data)**

**1. Nature of business and basis of presentation**

Mersana Therapeutics, Inc. is a clinical stage biopharmaceutical company located in Cambridge, Massachusetts. The Company is focused on developing antibody drug conjugates (ADCs) that offer a clinically meaningful benefit for cancer patients with significant unmet need. The Company has leveraged over 20 years of industry learning in the ADC field to develop proprietary technologies that enable it to design ADCs to have improved efficacy, safety and tolerability relative to existing ADC therapies. The Company's novel platform, Dolaflexin, has been used to generate proprietary ADC product candidates to address patient populations that are not currently amenable to treatment with traditional ADC-based therapies. The Company's lead product candidate, XMT-1536, is a first-in-class, wholly-owned Dolaflexin ADC targeting NaPi2b, an antigen broadly expressed in ovarian cancer and non-small cell lung cancer (NSCLC) adenocarcinoma. The first patient was dosed on XMT-1536 in late 2017 and the study is currently in Phase 1 dose escalation in ovarian cancer, NSCLC adenocarcinoma and rare cancers potentially expressing NaPi2b.

In January 2019, following a strategic evaluation by the Company of the competitive environment for HER2-targeted therapies, the Company and its former partner, Takeda Pharmaceutical Company Limited, or Takeda, discontinued the development of XMT-1522, which was then being studied in the dose escalation of a Phase 1 clinical trial. The Company's collaboration agreements with Takeda were terminated during the first quarter of 2019.

The Company is subject to risks common to companies in the biotechnology industry, including but not limited to, the need for additional capital, risks of failure of preclinical studies and clinical trials, the need to obtain marketing approval and reimbursement for any drug product candidate that it may identify and develop, the need to successfully commercialize and gain market acceptance of its product candidates, dependence on key personnel, protection of proprietary technology, compliance with government regulations, development of technological innovations by competitors, reliance on third party manufacturers and the ability to transition from pilot-scale production to large-scale manufacturing of products.

The Company has incurred cumulative net losses since inception. In the first quarter of 2019, the Company recognized deferred revenue of \$39,965 as a result of the above-mentioned discontinuation of the partnership with Takeda, resulting in net income of \$4,830 for the six months ended June 30, 2019. The Company did not recognize any revenue related to the Takeda agreements in the second quarter and will not have any further revenue related to these agreements. Cash used in operations for the three and six months ended June 30, 2019 was \$14,197 and \$38,884, respectively. The Company's net loss was \$64,257 for the year ended December 31, 2018. The Company expects to continue to incur operating losses and negative operating cash flows for the foreseeable future. As of June 30, 2019, the Company had an accumulated deficit of \$159,336. The future success of the Company is dependent on its ability to identify and develop its product candidates, and ultimately upon its ability to attain profitable operations. The Company has devoted substantially all of its financial resources and efforts to research and development and general and administrative expense to support such research and development. The Company's net losses may fluctuate significantly from quarter to quarter and year to year. Net losses and negative operating cash flows have had, and will continue to have, an adverse effect on the Company's stockholders' equity and working capital. The Company believes that its cash, cash equivalents, and marketable securities as of June 30, 2019, will enable it to fund its operating plan through at least mid-2021. Management's belief with respect to its ability to fund operations is based on estimates that are subject to risks and uncertainties. If actual results are different from management's estimates, the Company may need to seek additional funding.

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification (ASC) and Accounting Standards Updates (ASU) of the Financial Accounting Standards Board (FASB). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from this report, as is permitted by such rules and regulations. Accordingly, these financial statements should be read in conjunction with the audited financial statements as of and for the year ended



**Mersana Therapeutics, Inc.**  
**Notes to condensed consolidated financial statements (continued)**  
**(unaudited)**  
**(in thousands, except share and per share data)**

December 31, 2018 and the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 8, 2019.

The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments that are necessary to present fairly the Company's financial position as of June 30, 2019, the results of its operations for the three and six months ended June 30, 2019 and 2018, a statement of stockholders' equity for the six months ended June 30, 2019 and 2018 and cash flows for the six months ended June 30, 2019 and 2018. Such adjustments are of a normal and recurring nature, other than the adjustments associated with the adoption of ASC 842, *Leases* (ASC 842). The results for the three and six months ended June 30, 2019 are not necessarily indicative of the results for the year ending December 31, 2019, or for any future period.

Effective January 1, 2019, the Company adopted the requirements of ASC 842 using the modified retrospective method as discussed below in Note 2: Summary of Significant Accounting Policies.

## **2. Summary of Significant Accounting Policies**

### ***Principles of Consolidation***

The accompanying unaudited condensed consolidated financial statements include those of the Company and its subsidiary, Mersana Securities Corp. All intercompany balances and transactions have been eliminated.

### ***Use of Estimates***

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity, revenue, expenses and related disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company's management evaluates its estimates, which include, but are not limited to, management's judgments with respect to the performance obligations and estimated selling prices within its revenue arrangements, accrued expenses, valuation of stock-based awards and income taxes. Actual results could differ from those estimates.

### ***Segment Information***

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision-maker in deciding how to allocate resources and assess performance. The Company operates and manages its business as a single operating segment, which is the business of discovering and developing ADCs.

### ***Summary of Accounting Policies***

The significant accounting policies used in preparation of these condensed consolidated financial statements for the three and six months ended June 30, 2019 are consistent with those discussed in Note 2 to the consolidated financial statements in the Company's 2018 Annual Report on Form 10-K, except as noted below with respect to the Company's lease accounting policies and as disclosed within the "Recently Issued Accounting Pronouncements" section below.

### ***Fair Value Measurements***

Fair value is defined as the price that would be received upon sale of an asset or paid to transfer a liability between market participants at measurement dates. ASC Topic 820 *Fair Value Measurement* (ASC 820) establishes a three-level

**Mersana Therapeutics, Inc.**  
**Notes to condensed consolidated financial statements (continued)**  
**(unaudited)**  
**(in thousands, except share and per share data)**

valuation hierarchy for instruments measured at fair value. The hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original maturity, or a remaining maturity at the time of purchase, of three months or less to be cash equivalents. The Company invests excess cash primarily in money market funds, commercial paper and government agency securities, which are highly liquid and have strong credit ratings. These investments are subject to minimal credit and market risks. Cash and cash equivalents are stated at cost, which approximates market value.

The following amounts were presented as cash, cash equivalents and restricted cash:

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Beginning of period	End of period	Beginning of period	End of period
Cash and cash equivalents	\$ 59,634	\$ 116,206	\$ 26,591	\$ 51,142
Restricted cash included in other assets, noncurrent	371	371	371	371
Total cash, cash equivalents and restricted cash per statement of cash flows	<u>\$ 60,005</u>	<u>\$ 116,577</u>	<u>\$ 26,962</u>	<u>\$ 51,513</u>

***Marketable Securities***

Short-term marketable securities consist of investments with maturities greater than three months and less than one year from the balance sheet date. Long-term marketable securities consist of investments with maturities greater than one year that are not expected to be used to fund current operations. The Company classifies all of its marketable securities as available-for-sale. Accordingly, these investments are recorded at fair value. Amortization and accretion of discounts and premiums are recorded as interest income within other income. Unrealized gains and losses on available-for-sale debt securities are included in other comprehensive income (loss) as a component of stockholders' equity until realized. Realized gains and losses and declines in value judged to be other than temporary are included as a component of other income (expense), net, based on the specific identification method. When determining whether a decline in value is other than temporary, the Company considers various factors, including whether the Company has the intent to sell the security, and whether it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost basis. Fair value is determined based on quoted market prices.

***Other Assets***

The Company recorded other assets of \$1,503 as of June 30, 2019 and December 31, 2018, comprised of restricted cash of \$371 held as security deposits for a standby letter of credit and \$1,132 held by a service provider.

**Mersana Therapeutics, Inc.**  
**Notes to condensed consolidated financial statements (continued)**  
**(unaudited)**  
**(in thousands, except share and per share data)**

***Leases***

Consistent with ASC 842, the Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use lease assets (ROU assets), current portion of lease obligations and long-term lease obligations on the Company's consolidated balance sheets. Assets subject to finance leases are included in property and equipment, and the related lease obligation is included in other current liabilities and other long-term liabilities on the Company's consolidated balance sheets. Lease assets are tested for impairment in the same manner as long-lived assets used in operations. Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense while expense for financing leases is recognized as depreciation expense and interest expense using the effective interest method. The Company elected the short-term lease recognition exemption for short-term leases, which allows the Company to not recognize lease liabilities and ROU assets on the consolidated balance sheets for leases with an original term of twelve months or less.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease obligations represent the Company's obligation to make lease payments arising from the lease. Operating ROU assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its estimated incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The ROU lease asset also includes lease payments made and lease incentives received. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately.

***Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASC 842), which replaced the guidance in ASC 840, *Leases*. The updated standard aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This standard is effective for the Company in the fiscal year beginning after December 15, 2018. The Company adopted the new standard effective January 1, 2019 using the modified retrospective method as of the beginning of the period of adoption. The Company has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Company accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the operating leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. The Company also elected not to include leases with an initial term of twelve months or less in the recognized ROU asset and lease liabilities. As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2019 (a) an operating lease liability of \$4,778, and (b) an operating ROU asset of \$4,369 which represents the lease liability of \$4,778 adjusted for deferred rent of \$409. This standard had a material impact on the Company's balance sheets but had no impact on the Company's results of operations and cash flows from operations. The most significant impact was the recognition of ROU assets and lease obligations for operating leases.

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. This guidance simplifies the accounting for share-based payments to non-employees by aligning it with the accounting for share-based payments to employees, with certain exceptions. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, and early adoption is permitted. The guidance per ASU 2018-07 is to be adopted by using a modified retrospective approach with the cumulative effect of initially applying the new standard at the date of initial application. The Company adopted the new standard effective January 1, 2019. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

**Mersana Therapeutics, Inc.**  
**Notes to condensed consolidated financial statements (continued)**  
**(unaudited)**  
**(in thousands, except share and per share data)**

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. The main provisions of ASU 2018-18 include: (i) clarifying that certain transactions between collaborative arrangement participants should be accounted for as revenue when the collaborative arrangement participant is a customer in the context of a unit of account and (ii) precluding the presentation of transactions with collaborative arrangement participants that are not directly related to sales to third parties together with revenue. This guidance will be effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual reporting periods, and early adoption is permitted. The guidance per ASU 2018-18 is to be adopted retrospectively to the date of initial application of Topic 606. The Company is currently evaluating the potential impact that ASU No. 2018-18 may have on its financial position and results of operations.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. Currently, U.S. GAAP delays recognition of the full amount of credit losses until the loss is probable of occurring. Under this ASU, the income statement will reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses will be based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down of the security. This ASU is effective for annual periods beginning after December 15, 2019, including interim periods within those annual reporting periods, and early adoption is permitted. The Company is currently evaluating the potential impact that ASU 2016-13 may have on its financial position and results of operations.

### **3. Collaboration agreements**

#### ***Merck KGaA***

In June 2014, the Company entered into a Collaboration and Commercial License Agreement with Merck KGaA (the Merck KGaA Agreement). Upon the execution of the agreement, Merck KGaA paid the Company a nonrefundable technology access fee of \$12,000 for the right to develop ADCs directed to six exclusive targets over a specified period of time. No additional fees are due when a target is designated and the commercial license to the target is granted. Merck KGaA will be responsible for the product development and marketing of any products resulting from this collaboration. All six targets were designated prior to 2018. The Company is eligible to receive milestones under the Merck KGaA Agreement. The next potential milestone payment is a development milestone of \$500 on Merck KGaA's designation of a preclinical development candidate for any target. Revenue for the milestone is fully constrained until it is certain the milestone would be achieved.

Under the terms of the Merck KGaA Agreement, the Company and Merck KGaA develop research plans to evaluate Merck KGaA's antibodies as ADCs incorporating the Company's technology. The Company receives fees for its efforts under the research plans. The goal of the research plans is to provide Merck KGaA with sufficient information to formally nominate a development candidate and begin IND-enabling studies or cease development on the designated target.

In May 2018, the Company entered into a Supply Agreement with Merck KGaA (the Merck KGaA Supply Agreement). Under the terms of the agreement, the Company will provide Merck KGaA with materials that could be used for IND-enabling studies and clinical trials. The Company receives fees and reimbursement for its efforts under the Merck KGaA Supply Agreement.

#### ***Accounting Analysis***

The Company identified the following performance obligations under the agreement: (i) exclusive license and research services for six designated targets, (ii) rights to future technological improvements and (iii) participation of project team leaders and providing joint research committee services.

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The Company recognizes revenue related to the exclusive license and the research and development services over the estimated period of the research and development services using a proportional performance model. The Company measures proportional performance based on the costs incurred relative to the total costs expected to be incurred as the Company will satisfy the performance obligations as the research and development services are performed. To the extent that the Company receives fees for the research and development services as they are performed, these amounts are recorded as deferred revenue. Revenue related to future technological improvements and joint research committee services will be recognized ratably over the respective performance periods (which in the case of the joint research committee services approximates the time and cost incurred each quarter), which are 10 and five years, respectively. The Company continues to reassess the estimated remaining term at each subsequent reporting period.

For the three months ended June 30, 2019 and 2018 and the six months ended June 30, 2019 and 2018, the Company recorded collaboration revenue of \$18, \$612, \$36 and \$944, respectively, related to its efforts under the Merck KGaA Agreement. During the three and six months ended June 30, 2019, the Company recognized collaboration revenue and corresponding research and development expense of \$184 and \$1,221, respectively, related to the Merck KGaA Supply Agreement. Included in accounts receivable as of June 30, 2019 and December 31, 2018 were \$262 and \$450, respectively, related to the Merck KGaA Supply Agreement.

As of June 30, 2019, the Company had \$5,481 in deferred revenue related to the Merck KGaA Agreement and Merck KGaA Supply Agreement that will be recognized in accordance with the proportional performance method.

***Takeda XMT-1522 Strategic Partnership***

In January 2016, the Company entered into a Development Collaboration and Commercial License Agreement with Takeda through its wholly owned subsidiary, Millennium Pharmaceuticals, Inc. for the development and commercialization of XMT-1522 (the XMT-1522 Agreement). Under the XMT-1522 Agreement, Takeda was granted the exclusive right to commercialize XMT-1522 outside of the United States and Canada. Under the XMT-1522 Agreement, the Company was responsible for conducting certain Phase 1 development activities for XMT-1522, including the ongoing Phase 1 clinical trial, at its own expense. The parties agreed to collaborate on the further development of XMT-1522 in accordance with a global development plan (Post-Phase 1 Development). On January 2, 2019, the Company received notice from Takeda stating that Takeda was exercising its right to terminate the XMT-1522 Agreement upon 30 days' prior written notice. The XMT-1522 Agreement terminated in accordance with its provisions, and the Company and Takeda wound down activities related to the XMT-1522 Agreement as of March 31, 2019.

Under the XMT-1522 Agreement, the Company and Takeda shared equally all Post-Phase 1 Development costs through the date of termination and for a period of 30 days after the effective termination date. For the applicable period within the three months ended March 31, 2019, the Company was billed \$200 by Takeda, representing the Company's share of Post-Phase 1 Development costs incurred by Takeda. This amount has been reflected as research and development costs in the consolidated statement of operations.

***Takeda strategic research and development partnership***

In March 2014, the Company entered into a Research Collaboration and Commercial License Agreement with Takeda through Takeda's wholly owned subsidiary, Millennium Pharmaceuticals, Inc. (the 2014 Agreement). The 2014 Agreement was amended in January 2015 and amended and restated in January 2016 (the 2016 Restated Agreement). The agreements provided Takeda with the right to develop ADCs directed to a total of seven exclusive targets, designated by Takeda, over a specified period of time. On January 2, 2019, the Company received notice from Takeda stating that Takeda was exercising its right to terminate the 2016 Restated Agreement upon 45 days' prior written notice. The 2016 Restated Agreement terminated in accordance with its provisions, and the Company and Takeda wound down activities related to the 2016 Restated Agreement as of March 31, 2019.

During the applicable period within the three months ended March 31, 2019, the Company billed Takeda \$195 related to ASC 808 costs.

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**Accounting Analysis**

The Company concluded that the termination of the XMT-1522 Agreement and the 2016 Restated Agreement resulted in the completion of all of its remaining performance obligations. As a result, \$39,965 of previously deferred revenue related to the Takeda agreements as of December 31, 2018 was recognized as revenue during the three months ended March 31, 2019. The Company did not recognize any revenue related to the XMT-1522 Agreement or the 2016 Restated Agreement in the second quarter and will not have any further revenue related to these agreements.

Included in accounts receivable as of June 30, 2019 and December 31, 2018 was \$26 and \$9, respectively, related to the Takeda agreements. Included in accounts payable as of June 30, 2019 and December 31, 2018 was \$2,754 and \$2,749, respectively, related to the Takeda agreements.

**Summary of Contract Assets and Liabilities**

The following table presents changes in the balances of our contract assets and liabilities during the six months ended June 30, 2019:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
<b>Six months ended June 30, 2019</b>				
Contract assets	\$ —	\$ —	\$ —	\$ —
Contract liabilities:				
Deferred revenue	\$ 46,196	\$ —	\$ 40,715	\$ 5,481
	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
<b>Six months ended June 30, 2018</b>				
Contract assets	\$ —	\$ —	\$ —	\$ —
Contract liabilities:				
Deferred revenue	\$ 52,439	\$ 1,524	\$ 5,755	\$ 48,208

During the three and six months ended June 30, 2019, the Company recognized the following revenues as a result of changes in the contract asset and the contract liability balances in the respective periods:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Revenue recognized in the period from:</b>				
Amounts included in the contract liability at the beginning of the period	\$ 123	\$ 2,691	\$ 40,715	\$ 5,755
Performance obligations satisfied in previous periods	\$ —	\$ —	\$ —	\$ —

**Other Revenue**

The Company has provided limited services for a collaboration partner, Asana BioSciences. For the six months ended June 30, 2019 and 2018, the Company recognized revenue of \$15 and \$195, respectively, related to these services. The Company did not recognize any revenue related to these services in the three months ended June 30, 2019 and 2018. In addition, during the three and six months ended June 30, 2018, the Company recognized revenue of \$1,500 related to a milestone achieved upon the completion of a GLP toxicology study by Asana BioSciences. The Company did not recognize any revenue related to milestones in the three and six months ended June 30, 2019. The next potential

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milestone the Company is eligible to receive is \$2,500 upon dosing the fifth patient in a Phase 1 clinical trial by Asana BioSciences.

**4. Fair value measurements**

The following table presents information about the Company's assets and liabilities regularly measured and carried at a fair value and indicates the level within fair value hierarchy of the valuation techniques utilized to determine such value as of June 30, 2019 and December 31, 2018:

	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2019</b>				
Marketable securities:				
Commercial paper	\$ 2,959	\$ —	\$ 2,959	\$ —
Corporate bonds	9,012	—	9,012	—
	<u>\$ 11,971</u>	<u>\$ —</u>	<u>\$ 11,971</u>	<u>\$ —</u>
<b>December 31, 2018</b>				
Marketable securities:				
U.S. Treasuries	\$ 10,497	\$ 10,497	\$ —	\$ —
	<u>\$ 10,497</u>	<u>\$ 10,497</u>	<u>\$ —</u>	<u>\$ —</u>

The carrying amounts of accounts payable and accrued expenses approximate their fair values due to their short-term maturities. There were no changes in valuation techniques or transfers between fair value measurement levels during the six months ended June 30, 2019 and 2018. As of June 30, 2019 and December 31, 2018, cash and cash equivalents were comprised of cash and money market funds. As of June 30, 2019, the carrying value of the Company's outstanding borrowing under the Credit Facility approximates fair value (a Level 2 fair value measurement), reflecting interest rates currently available to the Company. The Credit Facility is discussed more detail in Note 7, "Debt".

**5. Marketable securities**

The following table summarizes marketable securities held at June 30, 2019 and December 31, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2019</b>				
Commercial paper	\$ 2,959	\$ —	\$ —	\$ 2,959
Corporate bonds	9,001	11	—	9,012
	<u>\$ 11,960</u>	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 11,971</u>

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2018</b>				
U.S. Treasuries	\$ 10,505	\$ —	\$ (8)	\$ 10,497
	<u>\$ 10,505</u>	<u>\$ —</u>	<u>\$ (8)</u>	<u>\$ 10,497</u>

**6. Accrued expenses**

Accrued expenses consisted of the following:

	June 30, 2019	December 31, 2018
Accrued payroll and related expenses	\$ 2,108	\$ 3,042
Accrued preclinical, manufacturing and clinical expenses	5,655	8,314
Accrued professional fees and insurance	1,770	567
Accrued other	228	452
	<u>\$ 9,761</u>	<u>\$ 12,375</u>

**7. Debt**

On May 8, 2019, the Company entered into a loan and security agreement (the Credit Facility) with Silicon Valley Bank (SVB) pursuant to which the Company can borrow, at its option, up to \$20,000, in up to four principal advances of at least \$5,000 each (each, a Term Loan or collectively, the Term Loans) through August 31, 2020. The Company drew \$5,000 on the Term Loan upon execution of the Credit Facility.

The Term Loans bear interest at a floating per annum rate equal to the greater of (i) 4.0% and (ii) 1.50% below the Prime Rate, as defined. The Company is obligated to make monthly interest only payments on each outstanding Term Loan commencing on the first calendar day of the month following the funding date of such Term Loan and continuing on the first calendar day of each month thereafter through August 31, 2020. Commencing on September 1, 2020 and continuing on the first calendar day of each month thereafter, the Company is obligated to make 30 consecutive equal payments of principal, together with applicable interest in arrears to SVB.

All outstanding principal and accrued and unpaid interest with respect to the Term Loans are due and payable in full on February 1, 2023. Upon repayment of the Term Loans, the Company is also required to make a final payment to SVB equal to 5.0% of the principal amount of the Term Loans then extended to the Company. This final payment is accreted under the effective interest method over the life of each loan. The Term Loans are secured by substantially all of the Company's assets, except for its intellectual property which is subject to a negative pledge, and certain other customary exclusions.

At the Company's option, it may prepay the outstanding principal balance of any Term Loans in whole but not in part, subject to a prepayment fee of: (a) 3.0% of the Term Loans then extended to the Company if the prepayment occurs on or prior to May 8, 2020, (b) 2.0% of the Term Loans then extended to the Company if the prepayment occurs after May 8, 2020 but on or prior to May 8, 2021, or (c) 1.0% of the Term Loans then extended to the Company if the prepayment occurs after May 8, 2021 but before February 1, 2023. In the event the Company has not borrowed a total of \$20,000 upon the earlier of August 21, 2020, acceleration of the Company's payment obligations or Company's prepayment of the then extended Term Loans, the Company is required to pay an additional fee in equal to 3.0% of any unborrowed portion of the committed funding (the Unused Term Loan Commitment Fee).

The Credit Facility includes customary affirmative, financial, and restrictive covenants applicable to the Company. Affirmative covenants include, among others, covenants requiring the Company to maintain its corporate existence and



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governmental approvals, deliver certain financial reports, maintain insurance coverage and satisfy certain requirements regarding deposit accounts. Financial covenants include maintaining a liquidity ratio (as defined in the Credit Facility) of 1.50 to 1.00. The restrictive covenants include, among others, requirements relating to the Company's ability to transfer collateral, incur additional indebtedness, engage in mergers or acquisitions, pay dividends or make other distributions, make investments, create liens, sell assets and agree to a change in control, in each case subject to certain customary exceptions.

The Company's payment obligations under the Credit Facility are subject to acceleration upon the occurrence of specified events of default, which include, but are not limited to, the occurrence of a material adverse change in the Company's business, operations, or financial or other condition. Amounts outstanding upon the occurrence of an event of default are payable upon SVB's demand and shall accrue interest at an additional rate of 5.0% per annum of the past due amount outstanding. As of June 30, 2019, the Company was in compliance with all covenants under the Credit Facility. As such, as of June 30, 2019, the classification of the loan balance was long-term based on the timing of payment obligations.

The Company incurred \$215 of debt issuance costs related to external legal and transaction fees. The Company recorded the debt issuance costs as a direct deduction from the carrying value of the Term Loans which are amortized as interest expense using the effective-interest method over the term of the Term Loans.

As of June 30, 2019, the Company had drawn a Term Loan of \$5,000.

As of June 30, 2019, Debt consisted of the following:

	<b>June 30,</b>
	<b>2019</b>
Total debt	\$ 5,000
Debt financing costs, net of accretion	(206)
Accretion related to final payment	11
Long-term debt, net	<u>\$ 4,805</u>

As of June 30, 2019, the estimated future principal payments due are as follows:

2019 (excluding the six months ended June 30, 2019)	\$ —
2020	666
2021	2,000
2022	2,000
2023	334
Total debt	<u>\$ 5,000</u>

During the three months ended June 30, 2019, the Company recognized \$13 of interest expense related to the Credit Facility.

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**8. Earnings per share**

The following table presents the calculation of basic and diluted net income per share:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
<b>Numerator:</b>				
Net income (loss)	\$ (17,071)	\$ (12,354)	\$ 4,830	\$ (24,756)
<b>Denominator:</b>				
Weighted-average number of shares - basic	47,708,085	22,966,314	39,051,958	22,891,831
Dilutive securities - share-based awards	-	-	1,023,184	-
Dilutive securities - common stock warrants	-	-	109,232	-
Weighted-average number of shares - diluted	47,708,085	22,966,314	40,184,374	22,891,831
Net income (loss) per share - basic	\$ (0.36)	\$ (0.54)	\$ 0.12	\$ (1.08)
Net income (loss) per share - diluted	\$ (0.36)	\$ (0.54)	\$ 0.12	\$ (1.08)

For the three and six months ended June 30, 2019 and 2018, basic earnings per share were computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period.

For the six months ended June 30, 2019, diluted earnings per share was computed using the "treasury method" by dividing the net income by the weighted-average number of shares of common stock and potentially dilutive securities outstanding during the period. The weighted-average number of shares of common stock were adjusted for the potential dilutive effect of the exercise of stock options and warrants to purchase common stock.

Anti-dilutive stock-based awards excluded from the calculation of diluted EPS for the six months ended June 30, 2019 were 2,860,328.

For the three months ended June 30, 2019 and 2018 and the six months ended June 30, 2018, potentially dilutive securities were excluded from the calculation of diluted net loss per share because their effect would be anti-dilutive, therefore basic and diluted net loss per share were the same for the three months ended June 30, 2019 and 2018 and the six months ended June 30, 2018.

**9. Stockholders' equity**

***Preferred stock***

As of June 30, 2019, the Company had 25,000,000 shares of authorized preferred stock. No shares of preferred stock have been issued.

***Common stock***

The holders of the common stock are entitled to one vote for each share held. Common stockholders are not entitled to receive dividends, unless declared by the Board of Directors (the Board).

In March 2019, the Company completed a follow-on public offering in which the Company issued and sold an aggregate of 24,437,500 shares of its common stock at the public offering price of \$4.00 per share, which included the exercise in full of the underwriters' option to purchase additional shares of common stock. The net proceeds from the offering were \$92,162.

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At June 30, 2019 and December 31, 2018, there were 4,674,458 and 3,856,932 shares of common stock, respectively, reserved for the exercise of outstanding stock options and warrants.

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Warrants	110,365	110,365
Stock options	4,564,093	3,746,567
	<u>4,674,458</u>	<u>3,856,932</u>

***At-the-market equity offering program***

On July 2, 2018, the Company established an at-the-market equity offering program (ATM) pursuant to which it is able to offer and sell up to \$75,000 of its common stock from time to time at prevailing market prices. As of June 30, 2019, the Company had not sold any shares under the ATM.

***Warrants***

In connection with a 2013 Series A-1 Preferred Stock issuance, the Company granted to certain investors warrants to purchase 129,491 shares of common stock. The warrants have a \$0.05 per share exercise price and a contractual life of 10 years. The fair value of these warrants was recorded as a component of equity at the time of issuance. As of June 30, 2019, warrants to purchase 110,365 shares of common stock were outstanding.

**10. Stock options**

***Stock option plans***

In June 2017 the Company's shareholders approved the 2017 Stock Incentive Plan (the 2017 Plan). Under the 2017 Plan, up to 2,255,000 shares of common stock may be granted to the Company's employees, officers, directors, consultants and advisors in the form of options, restricted stock awards or other stock-based awards. The 2017 Plan provides that the number of shares of common stock issuable under the 2017 Plan shall be increased annually by 4% of the outstanding shares or such lesser amount specified by the Board. The terms of the awards are determined by the Board, subject to the provisions of the 2017 Plan. As of the adoption date of the 2017 Plan, there were 3,141,625 options outstanding under the Company's 2007 Stock Incentive Plan (the 2007 Plan) (the 2007 Plan and the 2017 Plan collectively are referred to as the Plans). Any cancellations under the 2007 Plan would increase the number of shares that could be granted under the 2017 Plan. In January 2019, the number of shares of common stock issuable under the Plan was increased by 929,378 shares. As of June 30, 2019, there were 2,152,015 shares available for future issuance under the 2017 Plan.

With respect to incentive stock options, the option price per share will equal the fair market value of the common stock on the date of grant, as determined by the Board, and the vesting period is generally four years. Nonqualified stock options will be granted at an exercise price established by the Board at its sole discretion (which has not been less than fair market value on the date of grant) and the vesting periods may vary. Options granted under the 2017 Plan expire no later than 10 years from the date of grant. The Board may accelerate vesting or extend the expiration of granted options in the case of a merger, consolidation, dissolution, or liquidation of the Company.

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A summary of the activity under the Plans is as follows:

	Number of Shares	Weighted- Average Exercise Price	Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2019	3,746,567	\$ 6.58	7.6	\$ 3,897
Granted	1,245,133	3.73		
Exercised	(44,885)	2.20		
Cancelled	(382,722)	9.66		
Options outstanding at June 30, 2019	<u>4,564,093</u>	\$ 5.58	7.6	\$ 4,178
Options exercisable at June 30, 2019	<u>2,385,051</u>	\$ 4.21	6.3	\$ 3,655

The weighted-average grant date fair value of options granted during the six months ended June 30, 2019 and 2018, was \$2.46 and \$9.56 per share, respectively.

Cash received from the exercise of stock options was \$100 and \$725 for the six months ended June 30, 2019 and 2018, respectively.

***Stock-based compensation***

The Company uses the provisions of ASC 718, *Stock Compensation*, to account for stock-based awards.

The measurement date for employee awards is generally the date of grant. Stock-based compensation expense is recognized over the requisite service period, which is generally the vesting period, using the straight-line method.

The following table presents stock-based compensation expense as reflected in the Company's condensed consolidated statements of operations and comprehensive income (loss):

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Research and development	\$ 533	\$ 438	\$ 1,049	\$ 807
General and administrative	628	518	1,276	896
Stock-based compensation expense included in total operating expenses	<u>\$ 1,161</u>	<u>\$ 956</u>	<u>\$ 2,325</u>	<u>\$ 1,703</u>

The Company had an aggregate of \$9,091 of unrecognized stock compensation cost as of June 30, 2019 remaining to be amortized over the weighted-average period of 2.3 years. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Risk-free interest rate	2.0 %	2.8 %	2.5 %	2.7 %
Expected dividend yield	— %	— %	— %	— %
Expected term (years)	5.70	6.10	5.95	6.08
Expected stock price volatility	74 %	73 %	74 %	73 %

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***Employee Stock Purchase Plan***

During the year ended December 31, 2017, the Board adopted, and the Company's stockholders approved the 2017 employee stock purchase plan (the 2017 ESPP). The Company initially reserved 225,000 shares of common stock for issuance under the 2017 ESPP. In January 2019, the number of shares of common stock for issuance under the 2017 ESPP was increased by 232,344 shares. During each of the three and six months ended June 30, 2019, the Company issued 82,281 shares under the 2017 ESPP. The Company did not issue any shares under the 2017 ESPP during the three and six months ended June 30, 2018. As of June 30, 2019, there were 332,877 shares available for issuance under the 2017 ESPP.

**11. Leases**

The Company has an operating lease for its facility and operating and finance leases for certain equipment. The Company leases office space in Cambridge, MA under an operating lease, which was last amended in January 2018, and is effective through March 2021. The Company has an option to extend the lease term for an additional five years. The Company's exercise of this option was not considered reasonably certain as of June 30, 2019. The Company has remaining lease terms of three years to five years for certain equipment, some of which may include options to purchase at fair value.

During the first quarter of 2019, the Company entered into finance leases for certain equipment. The Company recorded assets under finance leases of \$429 as property and equipment.

The components of lease expense were as follows:

	<u>Three months ended</u>	<u>Six months ended</u>
	<u>June 30, 2019</u>	
Operating lease cost	<u>\$ 540</u>	<u>\$ 1,080</u>
Finance lease cost:		
Amortization of right-of-use assets	\$ 24	\$ 24
Interest on lease liabilities	<u>7</u>	<u>7</u>
	<u>\$ 31</u>	<u>\$ 31</u>

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Supplemental balance sheet information related to leases was as follows:

	<b>Six months ended</b>
	<b>June 30, 2019</b>
<b>Operating leases:</b>	
Operating lease right-of-use assets	\$ 3,508
Operating lease liabilities, current	2,074
Operating lease liabilities	1,823
<b>Finance leases:</b>	
Property and equipment, gross	\$ 429
Property and equipment, accumulated depreciation	(24)
Other liabilities, current	84
Other liabilities	323
<b>Weighted-average remaining lease term:</b>	
Operating leases	1.8 years
Finance leases	4.2 years
<b>Weighted-average discount rate:</b>	
Operating leases	10.3%
Finance leases	6.9%

Supplemental cash flow information related to leases was as follows:

	<b>Six months ended</b>
	<b>June 30, 2019</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows from operating leases	\$ 1,100
Operating cash flows from finance leases	7
Financing cash flows from finance leases	29
<b>Right-of-use assets obtained in exchange for lease obligations:</b>	
Operating leases	4,369
Finance leases	429

Future minimum lease payments under non-cancellable leases as of June 30, 2019 were as follows:

	<b>Operating leases</b>	<b>Finance leases</b>
2019 (excluding the six months ended June 30, 2019)	\$ 1,171	\$ 58
2020	2,394	116
2021	687	116
2022	—	84
2023 and thereafter	—	92
	4,252	466
Imputed interest	—	(37)
	<u>\$ 4,252</u>	<u>\$ 429</u>

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**12. Commitments**

*License agreements*

Through June 30, 2019, the Company had licensed intellectual property from two biotechnology companies. The consideration included upfront payments and a commitment to pay annual license fees, milestone payments and, upon product commercialization, royalties on revenue generated from the sale of products covered by the licenses. The Company did not record any milestone payments during the six months ended June 30, 2019 and 2018, respectively.

**13. Subsequent events**

For the purposes of the unaudited financial statements as of June 30, 2019 and the period then ended, the Company has evaluated subsequent events through August 8, 2019, the date the unaudited interim financial statements were issued. There were no items requiring adjustment or disclosure in the consolidated financial statements.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and the audited financial information and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (SEC) on March 8, 2019.*

*Our actual results and the timing of certain events may differ materially from the results discussed, projected, anticipated, or indicated in any forward-looking statements. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industry in which we operate may differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q. In addition, even if our results of operations, financial condition and liquidity and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Quarterly Report on Form 10-Q, they may not be predictive of results or developments in future periods.*

*The following information and any forward-looking statements should be considered in light of factors discussed elsewhere in this Quarterly Report on Form 10-Q and under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 8, 2019.*

*We caution readers not to place undue reliance on any forward-looking statements made by us, which speak only as of the date they are made. We disclaim any obligation, except as specifically required by law and the rules of the SEC, to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.*

### **Overview**

We are a clinical stage biopharmaceutical company focused on developing antibody drug conjugates, or ADCs, that offer a clinically meaningful benefit for cancer patients with significant unmet need. We have leveraged over 20 years of industry learning in the ADC field to develop proprietary technologies that enable us to design ADCs to have improved efficacy, safety and tolerability relative to existing ADC therapies. Our novel platform, Dolaflexin, has been used to generate a pipeline of proprietary ADC product candidates to address patient populations that are not currently amenable to treatment with traditional ADC-based therapies. Our lead product candidate, XMT-1536, is a first-in-class, wholly-owned Dolaflexin ADC targeting NaPi2b, an antigen broadly expressed in ovarian cancer and non-small cell lung cancer (NSCLC) adenocarcinoma. The first patient was dosed on XMT-1536 in late 2017 and the study is currently in Phase 1 dose escalation in ovarian cancer, NSCLC adenocarcinoma and rare cancers potentially expressing NaPi2b.

In June 2019, we presented interim efficacy and safety data from the ongoing Phase 1 dose-escalation study evaluating XMT-1536 at the American Society of Clinical Oncology (ASCO) Annual Meeting in a poster titled "Phase 1 dose escalation study of XMT-1536, a novel NaPi2b-targeting antibody-drug conjugate (ADC), in patients (pts) with solid tumors likely to express NaPi2b." We continue to add sites in anticipation of dosing patients in the expansion groups in the third quarter of 2019. We plan to expand into patient groups aimed at establishing proof of concept in platinum-resistant ovarian cancer and NSCLC adenocarcinoma.

Since inception, our operations have focused on building our platform, identifying potential product candidates, producing drug substance and drug product material for use in preclinical studies, conducting preclinical and toxicology studies, manufacturing clinical trial material and conducting clinical trials, establishing and protecting our intellectual property, staffing our company and raising capital. We do not have any products approved for sale and have not generated any revenue from product sales. We have funded our operations primarily through our strategic partnerships, private placements of our convertible preferred stock and public offerings of our common stock.

Since inception, we have incurred significant cumulative operating losses. In the first quarter of 2019, we recognized revenue of \$40.0 million, which had previously been deferred, as a result of the termination of the partnerships with Takeda, which resulted in net income of \$4.8 million for the six months ended June 30, 2019. Cash used in operations for the three and six months ended June 30, 2019 was \$14.2 million and \$38.9 million, respectively. We expect to incur operating expenses during the year ended December 31, 2019 that will result in net loss for the year. As of June 30,



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2019, we had an accumulated deficit of \$159.3 million. We expect to continue to incur significant expenses and operating losses over the next several years. We anticipate that our expenses will increase significantly in connection with our ongoing activities, as we:

- continue clinical development activities for our lead product candidate XMT-1536;
- continue activities to discover, validate and develop additional product candidates;
- maintain, expand and protect our intellectual property portfolio; and
- hire additional research, development and general and administrative personnel.

### **Financial operations overview**

#### ***Revenue***

To date, all of our revenue has been generated from strategic partnerships. We have not generated any revenue from product sales, and we do not expect to generate any revenue from product sales for the foreseeable future.

In June 2014, we entered into an agreement with Merck KGaA for the development and commercialization of ADC product candidates utilizing our Fleximer polymer scaffold for up to six target antigens. Merck KGaA is responsible for generating antibodies against the target antigens and we are responsible for generating Fleximer and our proprietary payloads and conjugating this to the antibody to create the ADC product candidates. Merck KGaA has the exclusive right to and is responsible for the further development and commercialization of these ADC product candidates. In May 2018, we entered into a supply agreement with Merck KGaA for the supply of materials that could be used for Investigational New Drug-enabling studies and clinical trials.

For the three months ended June 30, 2019 and 2018 and the six months ended June 30, 2019 and 2018, we recognized revenue of \$0.2 million, \$0.6 million, \$1.2 million and \$0.9 million, respectively, related to our license agreement and supply agreement with Merck KGaA.

In January 2016, we entered into an agreement with Takeda for the development and commercialization of XMT-1522, a HER2-targeted ADC. Under this agreement, Takeda was granted the exclusive right and responsibility to commercialize XMT-1522 outside the United States and Canada. In addition, in January 2016, we entered into an agreement with Takeda for the development and commercialization of ADC product candidates utilizing Fleximer.

In January 2019, following a strategic evaluation by the Company of the competitive environment for HER2-targeted therapies, the Company and Takeda discontinued the development of XMT-1522, which was then being studied in the dose escalation of a Phase 1 clinical trial. The Company's collaboration agreements with Takeda were terminated following receipt of written notices during the first quarter of 2019.

We recognized the remaining deferred revenue of \$40.0 million related to the termination of the Takeda agreements in the first quarter of 2019. We did not recognize any revenue related to the Takeda agreements in the second quarter and will not have any further revenue related to these agreements.

We have provided limited services for Asana BioSciences. We recorded an immaterial amount of revenue and revenue of \$0.2 million in the six months ended June 30, 2019 and 2018, respectively, related to these services. We did not record any revenue related to these services in the three months ended June 30, 2019 or 2018. In addition, the Company recognized revenue of \$1.5 million related to a milestone achieved during the three and six months ended June 30, 2018. The Company did not recognize any revenue related to milestones in the three and six months ended June 30, 2019.

We expect substantially all of our revenue to be generated from our collaboration agreements with Merck KGaA and Asana BioSciences. Given the uncertain nature and timing of clinical development, we cannot predict when or whether we will receive further milestone payments or any royalty payments under these collaborations.

## *Operating expenses*

### *Research and development expenses*

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

- employee-related expenses, including salaries, bonus, benefits and stock-based compensation expense;
- costs of funding research and development performed by third parties that conduct research, preclinical activities, manufacturing and clinical trials on our behalf;
- laboratory supplies;
- facility costs, including rent, depreciation and maintenance expenses; and
- upfront and milestone payments under our third-party licensing agreements.

Research and development costs are expensed as incurred. Costs of certain activities, such as manufacturing, preclinical studies and clinical trials, are generally recognized based on an evaluation of the progress to completion of specific tasks. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts are expensed as the related goods are delivered or the services are performed.

We expect research and development costs to increase significantly for the foreseeable future as our product candidate development programs progress. There are numerous factors associated with the successful development and commercialization of any of our product candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at our current stage of development. Additionally, future commercial and regulatory factors beyond our control may impact our clinical development programs and plans.

A significant portion of our research and development costs have been external costs, which we track on a program-by-program basis following nomination as a product candidate. We have not historically tracked all of our internal research and development expenses on a program-by-program basis as they are deployed across multiple projects under development. The following table summarizes our external research and development expenses, by program, following nomination as a development candidate. All external expenses not attributable to the XMT-1536 and XMT-1522 programs are captured within preclinical and discovery costs. These costs relate to our next ADC clinical candidate, as well as additional earlier discovery stage programs and certain unallocated costs. Our internal research and development costs are primarily personnel-related costs, stock-based compensation costs, facility costs, including depreciation, and lab consumables.

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
XMT-1536 external costs	\$ 1,791	\$ 2,816	\$ 4,609	\$ 4,633
XMT-1522 external costs	985	3,214	1,963	6,701
Preclinical and discovery costs	4,281	719	8,388	1,845
Internal research and development costs	6,709	5,914	13,949	11,740
Total research and development costs	<u>\$ 13,766</u>	<u>\$ 12,663</u>	<u>\$ 28,909</u>	<u>\$ 24,919</u>

The successful development of our product candidates is highly uncertain. As such, we cannot reasonably estimate or know the nature, timing and estimated costs of the efforts that will be necessary to complete the remainder of the development of our product candidates. We are also unable to predict when, if ever, material net cash inflows will commence from the development efforts associated with our product candidates. This is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- successful completion of preclinical studies and IND-enabling studies;

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- successful enrollment in and completion of clinical trials;
- receipt of marketing approvals from applicable regulatory authorities;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- commercializing the product candidates, if and when approved, whether alone or in collaboration with others; and
- continued acceptable safety profile of the drugs following approval.

A change in the outcome of any of these variables with respect to the development, manufacture or commercialization of any of our product candidates would significantly change the costs, timing and viability associated with the development of that product candidate.

### *General and administrative expenses*

General and administrative expenses consist primarily of salaries and other employee-related costs, including stock-based compensation, for personnel in executive, finance, accounting, information technology, business development, legal operations and human resources functions. Other significant costs include facility costs not otherwise included in research and development expenses, legal fees relating to patent and corporate matters and fees for accounting and consulting services.

We anticipate that our general and administrative expenses will increase in the future to support continued research and development activities, including increased costs related to the hiring of additional personnel, fees to outside consultants and patent costs, among other expenses.

### *Other income (expense)*

Other income (expense) consists of interest income earned on cash equivalents and marketable securities. Interest expense was related to our outstanding borrowings under the credit facility that we entered into on May 9, 2019, consisting of the floating per annum rate interest due on the outstanding borrowings, a final payment of 5% of the amounts drawn down that is being recorded as interest expense over the term through the maturity date using the effective-interest method, the amortization of the deferred financing costs, and the accretion of debt discount relating to the credit facility.

### *Critical accounting policies and estimates*

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. On an ongoing basis, we evaluate our judgments and estimates in light of changes in circumstances, facts and experience. The effects of material revisions in estimates, if any, will be reflected in the financial statements prospectively from the date of change in estimates. There were no material changes to our critical accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on March 8, 2019, with the exception of our critical accounting policies related to the adoption of ASC 842, *Leases*, effective January 1, 2019, as described in Note 2 to our consolidated financial statements included herein.

## Results of Operations

### Comparison of the three months ended June 30, 2019 and 2018

The following table summarizes our results of operations for the three months ended June 30, 2019 and 2018:

(in thousands)	Three months ended June 30,		Dollar Change
	2019	2018	
Collaboration revenue	\$ 202	\$ 4,191	\$ (3,989)
Operating expenses:			
Research and development	13,766	12,663	1,103
General and administrative	4,192	4,231	(39)
Total operating expenses	17,958	16,894	1,064
Other income (expense):			
Interest income	725	349	376
Interest expense	(40)	—	(40)
Total other income (expense), net	685	349	336
Net income (loss)	\$ (17,071)	\$ (12,354)	\$ (4,717)

#### Collaboration Revenue

Collaboration revenue was \$0.2 million during the three months ended June 30, 2019, compared to \$4.2 million during the three months ended June 30, 2018, a decrease of \$4.0 million, primarily as a result of the termination of the XMT-1522 agreement with Takeda, the timing of efforts to support partner programs and, in addition, the recognition of a milestone during the three months ended June 30, 2018.

#### Research and Development Expense

Research and development expense increased by \$1.1 million from \$12.7 million for the three months ended June 30, 2018 to \$13.8 million for the three months ended June 30, 2019, an increase of 9%. The increase in research and development expense was primarily attributable to the following:

- \$0.7 million increased external research and development expenses primarily related to increased preclinical and discovery expenses associated with our next ADC clinical candidate, offset by decreased manufacturing costs for XMT-1536 and XMT-1522;
- \$0.5 million in increased employee compensation primarily due to an increase in headcount as our programs progress in clinical and preclinical studies;
- \$0.1 million in increased lab consumables and facilities costs;
- \$0.2 million due to decreased external clinical and regulatory expenses related to decreased XMT-1522 program costs, offset by increased XMT-1536 program costs.

We expect our research and development expenses to increase as we continue our clinical development of XMT-1536 and continue to advance our preclinical product candidate pipeline and invest in improvements in our ADC technologies.

#### General and Administrative Expense

General and administrative expense were approximately \$4.2 million during the three months ended June 30, 2019 and 2018. General and administrative expense remained flat due to the following:

- \$0.2 million in increased employee compensation primarily due to additional headcount as we build the infrastructure to support the growth of the research and development organization;

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- \$0.2 million due to decreased consulting and professional fees.

We expect that our general and administrative expense will increase in the future to support continued research and development activities. These increases will likely include legal, auditing and filing fees, additional insurance premiums and general compliance and consulting expenses.

*Other Income (Expense)*

Other income (expense), net, was \$0.7 million and \$0.3 million for the three months ended June 30, 2019 and June 30, 2018, respectively. Other income consists primarily of interest income on cash equivalents and marketable securities, which increased \$0.4 million due to higher investable balances for the three months ended June 30, 2019. Interest expense was related to our outstanding borrowings under the credit facility.

*Comparison of the six months ended June 30, 2019 and 2018*

The following table summarizes our results of operations for the six months ended June 30, 2019 and 2018:

(in thousands)	Six months ended June 30,		Dollar Change
	2019	2018	
Collaboration revenue	\$ 41,237	\$ 7,255	\$ 33,982
Operating expenses:			
Research and development	28,909	24,919	3,990
General and administrative	8,635	7,801	834
Total operating expenses	37,544	32,720	4,824
Other income (expense):			
Interest income	1,177	709	468
Interest expense	(40)	—	(40)
Total other income (expense), net	1,137	709	428
Net income (loss)	\$ 4,830	\$ (24,756)	\$ 29,586

*Collaboration Revenue*

Collaboration revenue was \$41.2 million during the six months ended June 30, 2019, compared to \$7.3 million during the six months ended June 30, 2018, an increase of \$34.0 million, primarily as a result of the termination of the Takeda agreements and the recognition of remaining deferred revenue of \$40.0 million, and \$1.2 million related to the recognition of revenue for the Merck supply agreement.

*Research and Development Expense*

Research and development expense increased by \$4.0 million from \$24.9 million for the six months ended June 30, 2018 to \$28.9 million for the six months ended June 30, 2019, an increase of 16%. The increase in research and development expense was primarily attributable to the following:

- \$2.6 million increased external research and development expenses primarily related to increased preclinical and discovery expenses associated with our next ADC clinical candidate, offset by decreased manufacturing costs for XMT-1536 and XMT-1522;
- \$1.3 million in increased employee compensation primarily due to an increase in headcount as our programs progress in clinical and preclinical studies;
- \$0.8 million in increased lab consumables and facilities costs;
- \$0.7 million due to decreased external clinical and regulatory expenses related to decreased XMT-1522 program costs, offset by increased XMT-1536 program costs.

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We expect our research and development expenses to increase as we continue our clinical development of XMT-1536 and continue to advance our preclinical product candidate pipeline and invest in improvements in our ADC technologies.

### *General and Administrative Expense*

General and administrative expense increased by \$0.8 million from \$7.8 million during the six months ended June 30, 2018 to \$8.6 million for the six months ended June 30, 2019, an increase of 11%. The increase in general and administrative expense was primarily attributable to \$0.8 million in increased employee compensation primarily due to additional headcount as we build the infrastructure to support the growth of the research and development organization.

We expect that our general and administrative expense will increase in the future to support continued research and development activities. These increases will likely include legal, auditing and filing fees, additional insurance premiums and general compliance and consulting expenses.

### *Other Income (Expense)*

Other income (expense), net, was \$1.1 million and \$0.7 million for the six months ended June 30, 2019 and June 30, 2018, respectively. Other income consists primarily of interest income on cash equivalents and marketable securities, which increased \$0.4 million due to higher investable balances for the six months ended June 30, 2019. Interest expense was related to our outstanding borrowings under the credit facility.

## **Liquidity and Capital Resources**

### *Sources of Liquidity*

Since our initial public offering in July 2017, we have financed our operations primarily with the proceeds from that offering and our 2019 follow-on public offering. The follow-on public offering was completed on March 5, 2019 and resulted in net proceeds of \$92.2 million. On May 8, 2019, the Company entered into a term loan agreement for up to \$20.0 million, of which \$5.0 million was funded in connection with the execution of the agreement. No additional amounts have been drawn since the initial \$5.0 million. As of June 30, 2019, we had cash, cash equivalents and marketable securities of \$128.2 million.

On July 2, 2018, we established an ATM pursuant to which we are able to offer and sell up to \$75.0 million of our common stock from time to time at prevailing market prices. As of June 30, 2019, we had not sold any shares under the ATM and had \$75.0 million of availability under the program.

### *Cash Flows*

The following table provides information regarding our cash flows for the six months ended June 30, 2019 and 2018:

(in thousands)	Six months ended	
	June 30,	
	2019	2018
Net cash used in operating activities	\$ (38,884)	\$ (28,838)
Net cash provided by (used in) investing activities	(2,025)	52,745
Net cash provided by financing activities	97,481	644
Increase in cash, cash equivalents and restricted cash	<u>\$ 56,572</u>	<u>\$ 24,551</u>

### *Net Cash Used in Operating Activities*

Net cash used in operating activities for the six months ended June 30, 2019 was \$38.9 million as compared to \$28.8 million during the six months ended June 30, 2018. The increase was due primarily to an increase in operating expenses and the timing of payments made to vendors.

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### *Net Cash Provided by (Used in) Investing Activities*

Net cash used in investing activities was \$2.0 million during the six months ended June 30, 2019 and consisted primarily of purchases of marketable securities, partially offset by maturities of marketable securities. Net cash provided by investing activities was \$52.7 million during the six months ended June 30, 2018 and consisted primarily of maturities of marketable securities.

### *Net Cash Provided by Financing Activities*

Net cash provided by financing activities was \$97.5 million during the six months ended June 30, 2019 as compared to \$0.6 million during the six months ended June 30, 2018. During the six month ended June 30, 2019 cash provided by financing activities consisted primarily of the proceeds from the Company's follow-on public offering and issuance of debt. During the six months ended June 30, 2018, cash provided by financing activities resulted primarily of the proceeds from exercises of stock options.

### *Funding Requirements*

We expect our cash expenditures to increase in connection with our ongoing activities, particularly as we continue the research and development of, continue clinical trials of, and seek marketing approval for, our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to drug sales, marketing, manufacturing and distribution to the extent that such sales, marketing and distribution are not the responsibility of potential collaborators. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We expect that our cash, cash equivalents, and marketable securities will enable us to fund our operating plan through at least mid-2021. Our future capital requirements will depend on many factors, including:

- the scope, progress, results and costs of drug discovery, preclinical development, laboratory testing and clinical trials for our product candidates;
- the scope, prioritization and number of our research and development programs;
- the costs, timing and outcome of reviews of our product candidates by regulatory agencies;
- our ability to establish and maintain collaborations on favorable terms, if at all;
- the achievement of milestones or occurrence of other developments that trigger payments under any collaboration agreements we obtain;
- the extent to which we are obligated to reimburse, or entitled to reimbursement of, clinical trial costs under future collaboration agreements, if any;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
- the extent to which we acquire or in-license other product candidates and technologies;
- the costs of securing manufacturing arrangements for clinical and commercial production; and
- the costs of establishing or contracting for sales and marketing capabilities if we obtain regulatory approvals to market our product candidates.

Identifying potential product candidates and conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes many years to complete, and we may never generate the necessary data or

results required to obtain marketing approval and achieve drug sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of drugs that we do not expect to be commercially available for many years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us on acceptable terms, or at all.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, strategic partnerships and licensing arrangements. We do not have any committed external source of funds outside of those to be earned in connection with our agreements with Merck KGaA and Asana BioSciences, if development activities are successful under those agreements. Future debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

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

#### **Off-Balance Sheet Arrangements**

We did not have, during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under applicable SEC rules.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk related to changes in interest rates. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments, including cash and cash equivalents and short-term marketable securities, are in a money market fund that invests in U.S. Treasury obligations. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our portfolio.

We are currently not exposed to market risk related to changes in foreign currency exchange rates, but we may contract with vendors that are located in Asia and Europe and may be subject to fluctuations in foreign currency rates at that time.

Inflation generally affects us by increasing our cost of labor and clinical trial costs. We do not believe that inflation had a material effect on our business, financial condition or results of operations during the three or six months ended June 30, 2019 and 2018.

#### **Item 4. Controls and Procedures**

##### *Management's Evaluation of our Disclosure Controls and Procedures*

We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2019, the end of the period covered by this



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Quarterly Report on Form 10-Q. Based upon such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of such date.

*Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be subject to various legal proceedings and claims that arise in the ordinary course of our business activities. Although the results of litigation and claims cannot be predicted with certainty, as of the end of the period covered by this report, we did not believe we were party to any claim or litigation, the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors

#### Risk Factors

There have been no material changes to the Company's risk factors as set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K, as filed with the SEC on March 8, 2019.

### Item 6. Exhibits.

- EXHIBIT 3.1 - [Fifth Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on July 10, 2017\).](#)
- EXHIBIT 3.2 - [Amended and Restated Bylaws \(incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on July 10, 2017\).](#)
- EXHIBIT 10.1 - [Loan and Security Agreement dated May 8, 2019, by and between Mersana Therapeutics, Inc. and Silicon Valley Bank](#)
- EXHIBIT 10.2 - [First Amendment to Loan and Security Agreement, dated June 21, 2019, by and between Mersana Therapeutics, Inc. and Silicon Valley Bank](#)
- EXHIBIT 31.1 - [Rule 13a—14\(a\) / 15d—14\(a\) Certifications — Chief Executive Officer.](#)
- EXHIBIT 31.2 - [Rule 13a—14\(a\) / 15d—14\(a\) Certifications — Principal Financial Officer.](#)
- EXHIBIT 32.1 - [Section 1350 Certifications.](#)
- EXHIBIT 101.INS - XBRL Instance Document.
- EXHIBIT 101.SCH - XBRL Taxonomy Extension Schema Document.
- EXHIBIT 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document.
- EXHIBIT 101.DEF - XBRL Taxonomy Extension Definition Linkbase Document.
- EXHIBIT 101.LAB - XBRL Taxonomy Extension Label Linkbase Document.
- EXHIBIT 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document.

**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.

**Mersana Therapeutics, Inc.**

Dated: August 8, 2019

By: /s/ Anna Protopapas  
Anna Protopapas  
President and Chief Executive Officer

Dated: August 8, 2019

By: /s/ Brian DeSchuytner  
Brian DeSchuytner  
Senior Vice President, Finance & Product Strategy

**LOAN AND SECURITY AGREEMENT**

**THIS LOAN AND SECURITY AGREEMENT** (this “**Agreement**”) dated as of May 8, 2019 (the “**Effective Date**”) between **SILICON VALLEY BANK**, a California corporation with a loan production office located at 275 Grove Street, Suite 2-200, Newton, Massachusetts 02466 (“**Bank**”), and **MERSANA THERAPEUTICS, INC.**, a Delaware corporation (“**Borrower**”), provides the terms on which Bank shall lend to Borrower and Borrower shall repay Bank. The parties agree as follows:

**1. ACCOUNTING AND OTHER TERMS**

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Notwithstanding the foregoing, all financial covenant and other financial calculations shall be computed with respect to Borrower only, and not on a consolidated basis. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

**2. LOAN AND TERMS OF PAYMENT**

**2.1 Promise to Pay.** Borrower hereby unconditionally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

**2.1.1 Term Loan Advances.**

(a) Availability. Subject to the terms and conditions of this Agreement, upon Borrower’s request, during the Draw Period, Bank shall make up to four (4) advances (each, a “**Term Loan Advance**”, and collectively, the “**Term Loan Advances**”) available to Borrower in an aggregate original principal amount not to exceed Twenty Million Dollars (\$20,000,000.00); provided that, the initial Term Loan Advance shall be made on or about the Effective Date in an original principal amount of Five Million Dollars (\$5,000,000.00). Each Term Loan Advance shall be in an amount equal to at least Five Million Dollars (\$5,000,000.00). After repayment, the Term Loan Advances (or any portion thereof) may not be reborrowed.

(b) Interest Period. Commencing on the first (1<sup>st</sup>) Payment Date of the month following the month in which the Funding Date of the applicable Term Loan Advance occurs, and continuing on each Payment Date thereafter, Borrower shall make monthly payments of interest on the principal amount of each Term Loan Advance at the rate set forth in Section 2.2(a).

(c) Repayment. Commencing on September 1, 2020, and continuing on each Payment Date thereafter, Borrower shall repay the Term Loan Advances in (i) thirty (30) consecutive equal monthly installments of principal, plus (ii) monthly payments of accrued interest at the rate set forth in Section 2.2(a). All outstanding principal and accrued and unpaid interest with respect to the Term Loan Advances, and all other outstanding Obligations with respect to the Term Loan Advances, are due and payable in full on the Term Loan Maturity Date.

(d) Mandatory Prepayment Upon an Acceleration. If the Term Loan Advances are accelerated following the occurrence of an Event of Default, Borrower shall immediately pay to Bank an amount equal to the sum of: (i) all outstanding principal plus accrued and unpaid interest, plus (ii) the Prepayment Fee, (iii) the Final Payment, (iv) the Unused Term Loan Commitment Fee, and (iv) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

(e) Permitted Prepayment of Term Loan Advances. Borrower shall have the option to prepay all, but not less than all, the Term Loan Advances advanced by Bank under this Agreement, provided Borrower (i) provides written notice to Bank of its election to prepay the Term Loan Advances at least ten (10) days prior to such prepayment, and (ii) pays, on the date of such prepayment (A) all outstanding principal plus accrued and unpaid

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interest, (B) the Prepayment Fee, (C) the Final Payment, (D) the Unused Term Loan Commitment Fee, and (E) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

## 2.2 Payment of Interest on the Credit Extensions.

(a) Interest Rate. Subject to Section 2.2(b), the principal amount outstanding for each Term Loan Advance shall accrue interest at a floating per annum rate equal to the greater of (i) four percent (4.0%) and (ii) one and one-half of one percent (1.50%) below the Prime Rate, which interest, in each case, shall be payable monthly in accordance with Section 2.2(d) below.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is five percent (5.0%) above the rate that is otherwise applicable thereto (the “**Default Rate**”). Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.2(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(c) Adjustment to Interest Rate. Changes to the interest rate of any Credit Extension based on changes to the Prime Rate shall be effective on the effective date of any change to the Prime Rate and to the extent of any such change.

(d) Payment; Interest Computation. Interest is payable monthly on the Payment Date and shall be computed on the basis of a 360-day year for the actual number of days elapsed. In computing interest, (i) all payments received after 12:00 p.m. Eastern time on any day shall be deemed received at the opening of business on the next Business Day, and (ii) the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension.

## 2.3 Fees. Borrower shall pay to Bank:

(a) Commitment Fee. A fully earned, non-refundable commitment fee of Twenty Thousand Dollars (\$20,000.00) on the Effective Date;

(b) Prepayment Fee. The Prepayment Fee, when due hereunder;

(c) Final Payment. The Final Payment, when due hereunder;

(d) Unused Term Loan Commitment Fee. The Unused Term Loan Commitment Fee, when due hereunder;

(e) Bank Expenses. All Bank Expenses (including reasonable attorneys’ fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due (or, if no stated due date, upon demand by Bank); and

(f) Good Faith Deposit. Borrower has paid to Bank a deposit of Fifty Thousand Dollars (\$50,000.00) (the “**Good Faith Deposit**”), to initiate Bank’s due diligence review process. The Good Faith Deposit shall be utilized toward the payment of Bank Expenses on the Effective Date.

Unless otherwise provided in this Agreement or in a separate writing by Bank, Borrower shall not be entitled to any credit, rebate, or repayment of any fees earned by Bank pursuant to this Agreement notwithstanding any termination of this Agreement or the suspension or termination of Bank’s obligation to make loans and advances hereunder. Bank may deduct amounts owing by Borrower under the clauses of this Section 2.3 pursuant to the terms

of Section 2.4(c). Bank shall provide Borrower written notice of deductions made from the Designated Deposit Account pursuant to the terms of the clauses of this Section 2.3.

#### **2.4 Payments; Application of Payments; Debit of Accounts.**

(a) All payments to be made by Borrower under any Loan Document shall be made in immediately available funds in Dollars, without setoff or counterclaim, before 12:00 p.m. Eastern time on the date when due. Payments of principal and/or interest received after 12:00 p.m. Eastern time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.

(b) Bank has the exclusive right to determine the order and manner in which all payments with respect to the Obligations may be applied. Borrower shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to be made by Borrower to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

(c) Bank may debit any of Borrower's deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank when due. These debits shall not constitute a set-off.

**2.5 Withholding.** Payments received by Bank from Borrower under this Agreement will be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority (including any interest, additions to tax or penalties applicable thereto). Specifically, however, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any withholding or deduction from any such payment or other sum payable hereunder to Bank, Borrower hereby covenants and agrees that the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required withholding or deduction, Bank receives a net sum equal to the sum which it would have received had no withholding or deduction been required, and Borrower shall pay the full amount withheld or deducted to the relevant Governmental Authority. Borrower will, upon request, furnish Bank with proof reasonably satisfactory to Bank indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this Section 2.5 shall survive the termination of this Agreement.

### **3. CONDITIONS OF LOANS**

**3.1 Conditions Precedent to Initial Credit Extension.** Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

- (a) duly executed signatures to the Loan Documents;
- (b) duly executed signatures to the Control Agreement, if any;
- (c) the Operating Documents and long-form good standing certificates of Borrower certified by the Secretary of State of Delaware and each other jurisdiction in which Borrower is qualified to conduct business, each as of a date no earlier than thirty (30) days prior to the Effective Date;
- (d) duly executed signatures to the completed Borrowing Resolutions for Borrower;

(e) a duly executed secretary's corporate borrowing certificate of Borrower with respect to Borrower's Operating Documents, incumbency, specimen signatures and resolutions authorizing the execution and delivery of this Agreement and the other Loan Documents;

(f) certified copies, dated as of a recent date, of financing statement searches, as Bank may request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;

(g) the Perfection Certificate of Borrower, together with the duly executed signature thereto;

(h) duly executed signatures to the Stock Pledge Agreement;

(i) stock power forms (5 originals) executed by Borrower with respect to capital stock of Securities Corp. and delivery of stock certificates evidencing ownership interest in Securities Corp.;

(j) a legal opinion of Borrower's counsel dated as of the Effective Date together with the duly executed signature thereto;

(k) with respect to the initial Term Loan Advance, receipt of evidence satisfactory to Bank in Bank's sole discretion that Borrower is in compliance with the Liquidity Ratio financial covenant set forth in Section 6.7 hereof; and

(l) payment of the fees and Bank Expenses then due as specified in Section 2.3 hereof.

**3.2 Conditions Precedent to all Credit Extensions.** Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) except as otherwise provided in Section 3.4, timely receipt of an executed Payment/Advance Form;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the proposed Credit Extension and/or the Payment/Advance Form and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

(c) Bank determines to its reasonable satisfaction that there has not been any material impairment in the general affairs, management, results of operation, financial condition or the prospect of repayment of the Obligations, nor any material adverse deviation by Borrower from the most recent business plan of Borrower presented to and accepted by Bank.

**3.3 Covenant to Deliver.** Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

**3.4 Procedures for Borrowing.** Subject to the prior satisfaction of all other applicable conditions to the making of a Credit Extension set forth in this Agreement, to obtain a Credit Extension, Borrower shall notify Bank (which notice shall be irrevocable) by electronic mail, facsimile, or telephone by 12:00 p.m. Eastern time at least two (2) Business Days prior to the proposed Funding Date of the Credit Extension. Together with any such electronic or facsimile notification, Borrower shall deliver to Bank by electronic mail or facsimile a completed Payment/Advance Form executed by an Authorized Signer. Bank may rely on any telephone notice given by a person whom Bank reasonably believes is an Authorized Signer. Bank shall credit the Credit Extensions to the Designated Deposit Account. Bank may make Credit Extensions under this Agreement based on instructions from an Authorized Signer or without instructions if the Credit Extensions are necessary to meet Obligations which have become due.

#### **4. CREATION OF SECURITY INTEREST**

**4.1 Grant of Security Interest.** Borrower hereby grants Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Regardless of the terms of any Bank Services Agreement, Borrower agrees that any amounts Borrower owes Bank thereunder shall be deemed to be Obligations hereunder and that it is the intent of Borrower and Bank to have all such Obligations secured by the first priority perfected security interest in the Collateral granted herein (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien in this Agreement).

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall, at the sole cost and expense of Borrower, release its Liens in the Collateral and all rights therein shall revert to Borrower. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement is terminated, Bank shall terminate the security interest granted herein upon Borrower providing cash collateral acceptable to Bank in its good faith business judgment for Bank Services, if any. In the event such Bank Services consist of outstanding Letters of Credit, Borrower shall provide to Bank cash collateral in an amount equal to (x) if such Letters of Credit are denominated in Dollars, then at least one hundred five percent (105.0%); and (y) if such Letters of Credit are denominated in a Foreign Currency, then at least one hundred ten percent (110.0%), of the Dollar Equivalent of the face amount of all such Letters of Credit plus, in each case, all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its business judgment), to secure all of the Obligations relating to such Letters of Credit.

**4.2 Priority of Security Interest.** Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien under this Agreement). If Borrower shall acquire a commercial tort claim with a value in excess of One Hundred Thousand Dollars (\$100,000.00), Borrower shall promptly notify Bank in a writing signed by Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

**4.3 Authorization to File Financing Statements.** Borrower hereby authorizes Bank to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

#### **5. REPRESENTATIONS AND WARRANTIES**

Borrower represents and warrants as follows:



**5.1 Due Organization, Authorization; Power and Authority.** Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, Borrower has delivered to Bank a completed certificate signed by Borrower, entitled "Perfection Certificate" (the "**Perfection Certificate**"). Borrower represents and warrants to Bank that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's organizational identification number or accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth Borrower's place of business, or, if more than one, its chief executive office as well as Borrower's mailing address (if different than its chief executive office); (e) Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Borrower and each of its Subsidiaries is accurate and complete (it being understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement). If Borrower is not now a Registered Organization but later becomes one, Borrower shall promptly notify Bank of such occurrence and provide Bank with Borrower's organizational identification number.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect (or are being obtained pursuant to Section 6.1(b)) or (v) conflict with, contravene, constitute a default or breach under, or result in or permit the termination or acceleration of, any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Borrower's business.

**5.2 Collateral.** Borrower has good title to, rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no Collateral Accounts at or with any bank or financial institution other than Bank or Bank's Affiliates except for the Collateral Accounts described in the Perfection Certificate delivered to Bank in connection herewith and which Borrower has taken such actions as are necessary to give Bank a perfected security interest therein, pursuant to the terms of Section 6.6(b). The Accounts are bona fide, existing obligations of the Account Debtors.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate or as permitted pursuant to Section 7.2. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

All Inventory is in all material respects of good and marketable quality, free from material defects.

Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers in the ordinary course of business, (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to Borrower and noted on the Perfection Certificate. Each Patent which it owns or purports to own and which is material to Borrower's business is valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on Borrower's business.

Except as noted on the Perfection Certificate or as disclosed in writing pursuant to Section 6.8(b), Borrower is not a party to, nor is it bound by, any Restricted License.

**5.3 Litigation.** There are no actions or proceedings pending or, to the knowledge of any Responsible Officer, threatened in writing by or against Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, One Hundred Thousand Dollars (\$100,000.00).

**5.4 Financial Statements; Financial Condition.** All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements provided to Bank in accordance with the terms of Section 6 hereof.

**5.5 Solvency.** The fair salable value of Borrower's consolidated assets (including goodwill minus disposition costs) exceeds the fair value of Borrower's liabilities; Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

**5.6 Regulatory Compliance.** Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower (a) has complied in all material respects with all Requirements of Law, and (b) has not violated any Requirements of Law the violation of which could reasonably be expected to have a material adverse effect on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted.

**5.7 Subsidiaries; Investments.** Borrower does not own any stock, partnership, or other ownership interest or other equity securities except for Permitted Investments.

**5.8 Tax Returns and Payments; Pension Contributions.** Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except (a) to the extent such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor, or (b) if such taxes, assessments, deposits and contributions do not, individually or in the aggregate, exceed Twenty-Five Thousand Dollars (\$25,000.00).

To the extent Borrower defers payment of any contested taxes, Borrower shall (i) notify Bank in writing of the commencement of, and any material development in, the proceedings, and (ii) post bonds or take any other steps required to prevent the Governmental Authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a Permitted Lien. Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower in excess of Twenty-Five Thousand Dollars (\$25,000.00). Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

**5.9 Use of Proceeds.** Borrower shall use the proceeds of the Credit Extensions as working capital and to fund its general business requirements and not for personal, family, household or agricultural purposes.

**5.10 Full Disclosure.** No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

**5.11 Definition of “Knowledge.”** For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower’s knowledge or awareness, to the “best of” Borrower’s knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of any Responsible Officer.

**6. AFFIRMATIVE COVENANTS**

Borrower shall do all of the following:

**6.1 Government Compliance.**

(a) Maintain its and all its Subsidiaries’ legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Borrower’s business or operations. Borrower shall comply, and have each Subsidiary comply, in all material respects, with all laws, ordinances and regulations to which it is subject.

(b) Obtain all of the Governmental Approvals necessary for the performance by Borrower of its obligations under the Loan Documents to which it is a party and the grant of a security interest to Bank in all of its property. Borrower shall promptly provide copies of any such obtained Governmental Approvals to Bank.

**6.2 Financial Statements, Reports, Certificates.** Provide Bank with the following:

(a) 10-Q Reports. Within forty-five (45) days after the last day of each fiscal quarter, Borrower’s 10-Q report;

(b) Monthly Compliance Certificate. Within thirty (30) days after the last day of each month, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank may reasonably request;

(c) Board-Approved Projections. At least annually, but no later than sixty (60) days after the last day of each fiscal year of Borrower, and contemporaneously with any updates or changes thereto, annual Board-approved operating budgets and financial projections, in a form acceptable to Bank;

(d) 10-K Reports and Annual Audited Financial Statements. As soon as available, but no later than ninety (90) days after the last day of Borrower’s fiscal year, Borrower’s 10-K report, together with audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank;

(e) Other Statements. Within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower’s security holders or to any holders of Subordinated Debt;

(f) SEC Filings. Within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may

be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the internet at Borrower's website address; provided, however, Borrower shall promptly notify Bank in writing (which may be by electronic mail) of the posting of any such documents;

(g) Beneficial Ownership Information. Prompt written notice of any changes to the beneficial ownership information set out in Section 14 of the Perfection Certificate. Borrower understands and acknowledges that Bank relies on such true, accurate and up-to-date beneficial ownership information to meet Bank's regulatory obligations to obtain, verify and record information about the beneficial owners of its legal entity customers;

(h) Legal Action Notice. A prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, One Hundred Thousand Dollars (\$100,000.00) or more; and

(i) Other Financial Information. Other financial information reasonably requested by Bank.

**6.3 Inventory; Returns.** Keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its Account Debtors shall follow Borrower's customary practices as they exist at the Effective Date. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims that involve more than Two Hundred Fifty Thousand Dollars (\$250,000.00).

**6.4 Taxes; Pensions.** Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.8 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

#### **6.5 Insurance.**

(a) Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with financially sound and reputable insurance companies that are not Affiliates of Borrower, and in amounts that are satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as lender loss payee. All liability policies shall show, or have endorsements showing, Bank as an additional insured. Bank shall be named as lender loss payee and/or additional insured with respect to any such insurance providing coverage in respect of any Collateral.

(b) Ensure that proceeds payable under any property policy are, at Bank's option, payable to Bank on account of the Obligations.

(c) At Bank's request, Borrower shall deliver certified copies of insurance policies and evidence of all premium payments. Each provider of any such insurance required under this Section 6.5 shall agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to Bank, that it will give Bank thirty (30) days prior written notice (or ten (10) days prior written notice in the event of cancellation for non-payment) before any such policy or policies shall be materially altered or canceled. If Borrower fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies Bank deems prudent.

#### **6.6 Operating Accounts.**

(a) Maintain all of its and all of its Subsidiaries' (excluding Securities Corp.) operating, depository and securities accounts with Bank and Bank's Affiliates. In addition to the foregoing, Borrower shall at

all times have on deposit in operating, depository and securities accounts maintained in the name of Borrower with Bank, cash in an amount equal to the lesser of (i) one hundred percent (100.0%) of the Dollar value of Borrower's consolidated cash, including any Subsidiaries', Affiliates', or related entities' cash, in the aggregate, at all financial institutions, and (ii) one hundred five percent (105.0%) of the then-outstanding Obligations of Borrower to Bank.

Bank may restrict withdrawals or transfers by or on behalf of Borrower that would violate this Section 6.6(a), regardless of whether an Event of Default exists at such time. Borrower shall also conduct all of its primary banking with Bank and Bank's Affiliates, including, without limitation, cash management, letters of credit, and business credit cards.

(b) Provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates. For each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to deposit accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such.

**6.7 Financial Covenant – Liquidity Ratio.** During the Financial Covenant Testing Period, maintain at all times (subject to period reporting as of the last day of each month), a Liquidity Ratio of at least 1.50:1.0.

**6.8 Protection of Intellectual Property Rights.**

(a) (i) Protect, defend and maintain the validity and enforceability of its Intellectual Property that is material to Borrower's business; (ii) promptly advise Bank in writing of material infringements or any other event that could reasonably be expected to materially and adversely affect the value of its Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent.

(b) Provide written notice to Bank within thirty (30) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Borrower shall take such steps as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed Collateral and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Bank to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank's rights and remedies under this Agreement and the other Loan Documents.

**6.9 Litigation Cooperation.** From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to Borrower.

**6.10 Access to Collateral; Books and Records.** Allow Bank, or its agents, at reasonable times, on three (3) Business Days' notice (provided no notice is required if an Event of Default has occurred and is continuing), to inspect the Collateral and audit and copy Borrower's Books. Such inspections or audits shall be conducted no more often than once every twelve (12) months unless an Event of Default has occurred and is continuing in which case such inspections and audits shall occur as often as Bank shall determine is necessary. The foregoing inspections and audits shall be at Borrower's expense.

**6.11 Further Assurances.** Execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement. Deliver to Bank, within five (5) days after the same are sent or received, copies of all correspondence, reports, documents and other filings with any Governmental Authority regarding compliance with or maintenance of Governmental Approvals or Requirements of Law or that could reasonably be expected to have a material effect on any of the Governmental Approvals or otherwise on the operations of Borrower or any of its Subsidiaries.

**6.12 Post-Closing Conditions.** Within thirty (30) days after the Effective Date, Borrower shall deliver to Bank, in form and substance satisfactory to Bank, evidence satisfactory to Bank that the insurance policies and endorsements required by Section 6.5 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses or endorsements in favor of Bank.

## **7. NEGATIVE COVENANTS**

Borrower shall not do any of the following without Bank's prior written consent:

**7.1 Dispositions.** Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn-out or obsolete Equipment that is, in the reasonable judgment of Borrower, no longer economically practicable to maintain or useful in the ordinary course of business of Borrower; and (c) consisting of Permitted Liens and Permitted Investments.

**7.2 Changes in Business, Management, Control, or Business Locations.** (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; (c) fail to provide notice to Bank of any Key Person departing from or ceasing to be employed by Borrower within ten (10) days after such Key Person's departure from Borrower; or (d) permit or suffer any Change in Control.

Borrower shall not, without at least thirty (30) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Fifty Thousand Dollars (\$50,000.00) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Hundred Fifty Thousand Dollars (\$250,000.00) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to add any new offices or business locations, including warehouses, containing in excess of Fifty Thousand Dollars (\$50,000.00) of Borrower's assets or property, then Borrower will first receive the written consent of Bank, and the landlord of any such new offices or business locations, including warehouses, shall execute and deliver a landlord consent in form and substance satisfactory to Bank. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Hundred Fifty Thousand Dollars (\$250,000.00) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will first receive the written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance satisfactory to Bank.

**7.3 Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person (including, without limitation, by the formation of any Subsidiary). A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

**7.4 Indebtedness.** Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

**7.5 Encumbrance.** Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, permit any Collateral not to be subject to the first priority security interest granted herein, or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or any Subsidiary's Intellectual Property, except as is otherwise permitted in Section 7.1 hereof and the definition of Permitted Liens herein.

**7.6 Maintenance of Collateral Accounts.** Maintain any Collateral Account except pursuant to the terms of Section 6.6(b) hereof.

**7.7 Distributions; Investments.** (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock; or (b) directly or indirectly make any Investment (including, without limitation, by the formation of any Subsidiary) other than Permitted Investments, or permit any of its Subsidiaries to do so.

**7.8 Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

**7.9 Subordinated Debt.** (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof, provide for earlier or greater principal, interest, or other payments thereon, or adversely affect the subordination thereof to Obligations owed to Bank.

**7.10 Compliance.** Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to (a) meet the minimum funding requirements of ERISA, (b) prevent a Reportable Event or Prohibited Transaction, as defined in ERISA, from occurring, or (c) comply with the Federal Fair Labor Standards Act, the failure of any of the conditions described in clauses (a) through (c) which could reasonably be expected to have a material adverse effect on Borrower's business; or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

## **8. EVENTS OF DEFAULT**

Any one of the following shall constitute an event of default (an "**Event of Default**") under this Agreement:

**8.1 Payment Default.** Borrower fails to (a) make any payment of principal or interest on any Credit Extension when due, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Term Loan Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

### **8.2 Covenant Default.**

(a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6, 6.7, 6.8(b), or 6.12, or violates any covenant in Section 7; or

(b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no

Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in clause (a) above;

**8.3 Material Adverse Change.** A Material Adverse Change occurs;

**8.4 Attachment; Levy; Restraint on Business.**

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary), or (ii) a notice of lien or levy is filed against any of Borrower's assets by any Governmental Authority, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

(b) (i) any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting all or any material part of its business;

**8.5 Insolvency.** (a) Borrower is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and is not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

**8.6 Other Agreements.** There is, under any agreement to which Borrower is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of One Hundred Thousand Dollars (\$100,000.00); or (b) any breach or default by Borrower, the result of which could have a material adverse effect on Borrower's business;

**8.7 Judgments; Penalties.** One or more fines, penalties or final judgments, orders or decrees for the payment of money in an amount, individually or in the aggregate, of at least Two Hundred Fifty Thousand Dollars (\$250,000.00) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower by any Governmental Authority, and the same are not, within ten (10) days after the entry, assessment or issuance thereof, discharged, satisfied, or paid, or after execution thereof, stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the satisfaction, payment, discharge, stay, or bonding of such fine, penalty, judgment, order or decree);

**8.8 Misrepresentations.** Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

**8.9 Subordinated Debt.** Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement; or

**8.10 Governmental Approvals.** Any Governmental Approval shall have been (a) revoked, rescinded, suspended, modified in an adverse manner or not renewed in the ordinary course for a full term or (b) subject to any decision by a Governmental Authority that designates a hearing with respect to any applications for renewal of any of such Governmental Approval or that could result in the Governmental Authority taking any of the actions described in clause (a) above, and such decision or such revocation, rescission, suspension, modification or non-renewal (i) causes, or could reasonably be expected to cause, a Material Adverse Change, or (ii) adversely affects the legal qualifications of Borrower or any of its Subsidiaries to hold such Governmental Approval in any applicable



jurisdiction and such revocation, rescission, suspension, modification or non-renewal could reasonably be expected to affect the status of or legal qualifications of Borrower or any of its Subsidiaries to hold any Governmental Approval in any other jurisdiction.

**9. BANK'S RIGHTS AND REMEDIES**

**9.1 Rights and Remedies.** Upon the occurrence and during the continuance of an Event of Default, Bank may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) demand that Borrower (i) deposit cash with Bank in an amount equal to at least (x) one hundred five percent (105.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in Dollars remaining undrawn, and (y) one hundred ten percent (110.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in a Foreign Currency remaining undrawn (plus, in each case, all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), to secure all of the Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit;

(d) terminate any FX Contracts;

(e) verify the amount of, demand payment of and performance under, and collect any Accounts and General Intangibles, settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, and notify any Person owing Borrower money of Bank's security interest in such funds;

(f) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(g) apply to the Obligations (i) any balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;

(h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit;

(i) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(j) demand and receive possession of Borrower's Books; and

(k) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

**9.2 Power of Attorney.** Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Bank determines reasonable; (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and Bank is under no further obligation to make Credit Extensions hereunder. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

**9.3 Protective Payments.** If Borrower fails to obtain the insurance called for by Section 6.5 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document or which may be required to preserve the Collateral, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

**9.4 Application of Payments and Proceeds Upon Default.** If an Event of Default has occurred and is continuing, Bank shall have the right to apply in any order any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations. Bank shall pay any surplus to Borrower by credit to the Designated Deposit Account or to other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, directly or indirectly, enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

**9.5 Bank's Liability for Collateral.** So long as Bank complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Bank, Bank shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

**9.6 No Waiver; Remedies Cumulative.** Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

**9.7 Demand Waiver.** Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

**10. NOTICES**

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower: Mersana Therapeutics, Inc.  
840 Memorial Drive  
Cambridge, Massachusetts 02139  
Attn: Legal Department  
Email: legal@mersana.com

If to Bank: Silicon Valley Bank  
275 Grove Street, Suite 2-200  
Newton, Massachusetts 02466  
Attn: Lauren Cole  
Email: LCole@svb.com

with a copy to: Morrison & Foerster LLP  
200 Clarendon Street  
Boston, Massachusetts 02116  
Attn: David A. Ephraim, Esquire  
Email: DEphraim@mof.com

**11. CHOICE OF LAW, VENUE and JURY TRIAL WAIVER**

Except as otherwise expressly provided in any of the Loan Documents, Massachusetts law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Boston, Massachusetts; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

**TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.**

This Section 11 shall survive the termination of this Agreement.

## **12. GENERAL PROVISIONS**

**12.1 Termination Prior to Term Loan Maturity Date; Survival.** All covenants, representations and warranties made in this Agreement shall continue in full force until this Agreement has terminated pursuant to its terms and all Obligations have been satisfied. So long as Borrower has satisfied the Obligations (other than inchoate indemnity obligations and, any other obligations which, by their terms, are to survive the termination of this Agreement, and any Obligations under Bank Services Agreements that are cash collateralized in accordance with Section 4.1 of this Agreement), this Agreement may be terminated prior to the Term Loan Maturity Date by Borrower, effective three (3) Business Days after written notice of termination is given to Bank. Those obligations that are expressly specified in this Agreement as surviving this Agreement's termination shall continue to survive notwithstanding this Agreement's termination.

**12.2 Successors and Assigns.** This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents.

**12.3 Indemnification.** Borrower agrees to indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank (each, an "Indemnified Person") harmless against: (i) all obligations, demands, claims, and liabilities (collectively, "Claims") claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (ii) all losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank and Borrower (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person's gross negligence or willful misconduct.

This Section 12.3 shall survive until all statutes of limitation with respect to the Claims, losses, and expenses for which indemnity is given shall have run.

**12.4 Time of Essence.** Time is of the essence for the performance of all Obligations in this Agreement.

**12.5 Severability of Provisions.** Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

**12.6 Correction of Loan Documents.** Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties so long as Bank provides Borrower with written notice of such correction and allows Borrower at least ten (10) days to object to such correction. In the event of such objection, such correction shall not be made except by an amendment signed by both Bank and Borrower.

**12.7 Amendments in Writing; Waiver; Integration.** No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

**12.8 Counterparts.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

**12.9 Confidentiality.** In handling any confidential information, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "**Bank Entities**"); (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, Bank shall use its best efforts to obtain any prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain (other than as a result of its disclosure by Bank in violation of this Agreement) after disclosure to Bank; or (ii) disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use anonymous forms of confidential information for aggregate datasets, for analyses or reporting, and for any other uses not expressly prohibited in writing by Borrower. The provisions of the immediately preceding sentence shall survive termination of this Agreement.

**12.10 Right of Set Off.** Borrower hereby grants to Bank, a lien, security interest and right of set off as security for all Obligations to Bank, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of Bank (including a Bank subsidiary) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Bank may set off the same or any part thereof and apply the same to any liability or obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

**12.11 Electronic Execution of Documents.** The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

**12.12 Captions.** The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

**12.13 Construction of Agreement.** The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

**12.14 Relationship.** The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

**12.15 Third Parties.** Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

### **13. DEFINITIONS**

**13.1 Definitions.** As used in the Loan Documents, the word “shall” is mandatory, the word “may” is permissive, the word “or” is not exclusive, the words “includes” and “including” are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

“**Account**” is any “account” as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to Borrower.

“**Account Debtor**” is any “account debtor” as defined in the Code with such additions to such term as may hereafter be made.

“**Affiliate**” is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person’s senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person’s managers and members.

“**Agreement**” is defined in the preamble hereof.

“**Authorized Signer**” is any individual listed in Borrower’s Borrowing Resolutions who is authorized to execute the Loan Documents, including any Credit Extension request, on behalf of Borrower.

“**Bank**” is defined in the preamble hereof.

“**Bank Entities**” is defined in Section 12.9.

“**Bank Expenses**” are all audit fees and expenses, costs, and expenses (including reasonable attorneys’ fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower.

“**Bank Services**” are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank’s various agreements related thereto (each, a “**Bank Services Agreement**”).

“**Bank Services Agreement**” is defined in the definition of Bank Services.

“**Board**” means Borrower’s board of directors.

“**Borrower**” is defined in the preamble hereof.

“**Borrower’s Books**” are all Borrower’s books and records including ledgers, federal and state tax returns, records regarding Borrower’s assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“**Borrowing Resolutions**” are, with respect to any Person, those resolutions adopted by such Person’s board of directors (and, if required under the terms of such Person’s Operating Documents, stockholders) and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its secretary on behalf of such Person certifying (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that set forth as a part of or attached as an exhibit to such certificate is a true, correct, and complete copy of the

resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents, including any Credit Extension request, on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

“**Business Day**” is any day that is not a Saturday, Sunday or a day on which Bank is closed.

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.; and (c) Bank’s certificates of deposit issued maturing no more than one (1) year after issue.

“**Change in Control**” means (a) at any time, any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the “beneficial owner” (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of forty-nine percent (49.0%) or more of the ordinary voting power for the election of directors of Borrower (determined on a fully diluted basis) other than by the sale of Borrower’s equity securities in a public offering or to venture capital or private equity investors so long as Borrower identifies to Bank the venture capital or private equity investors at least seven (7) Business Days prior to the closing of the transaction and provides to Bank a description of the material terms of the transaction; (b) during any period of twelve (12) consecutive months, a majority of the members of the board of directors or other equivalent governing body of Borrower cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body; or (c) at any time, Borrower shall cease to own and control, of record and beneficially, directly or indirectly, one hundred percent (100.0%) of each class of outstanding capital stock of each Subsidiary of Borrower free and clear of all Liens (except Liens created by this Agreement).

“**Claims**” is defined in Section 12.3.

“**Code**” is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the Commonwealth of Massachusetts; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the Commonwealth of Massachusetts, the term “**Code**” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

“**Collateral**” is any and all properties, rights and assets of Borrower described on Exhibit A.

“**Collateral Account**” is any Deposit Account, Securities Account, or Commodity Account.

“**Commodity Account**” is any “commodity account” as defined in the Code with such additions to such term as may hereafter be made.

“**Compliance Certificate**” is that certain certificate in the form attached hereto as Exhibit B.

“**Contingent Obligation**” is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each

case, directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“**Control Agreement**” is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

“**Copyrights**” are any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“**Credit Extension**” is any Term Loan Advance or any other extension of credit by Bank for Borrower’s benefit.

“**Default Rate**” is defined in Section 2.2(b).

“**Deposit Account**” is any “deposit account” as defined in the Code with such additions to such term as may hereafter be made.

“**Designated Deposit Account**” is the account number ending 283 (last three digits) maintained by Borrower with Bank (provided, however, if no such account number is included, then the Designated Deposit Account shall be any deposit account of Borrower maintained with Bank as chosen by Bank upon consultation with Borrower).

“**Dollars,**” “**dollars**” or use of the sign “**\$**” means only lawful money of the United States and not any other currency, regardless of whether that currency uses the “**\$**” sign to denote its currency or may be readily converted into lawful money of the United States.

“**Dollar Equivalent**” is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

“**Draw Period**” is the period of time commencing upon the Effective Date and continuing through the earlier to occur of (a) August 31, 2020 or (b) an Event of Default.

“**Effective Date**” is defined in the preamble hereof.

“**Equipment**” is all “equipment” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“**ERISA**” is the Employee Retirement Income Security Act of 1974, and its regulations.

“**Event of Default**” is defined in Section 8.

“**Exchange Act**” is the Securities Exchange Act of 1934, as amended.



“**FDA**” shall mean the United States Food and Drug Administration, and any successor thereto.

“**Final Payment**” is a payment (in addition to and not in substitution for the regular monthly payments of principal plus accrued interest) equal to the original principal amount of the Term Loan Advances extended by Bank to Borrower hereunder multiplied by five percent (5.0%) due on the earliest to occur of (a) the Term Loan Maturity Date, (b) repayment of the Term Loan Advances in full, (c) as required by Section 2.1.1(d) or Section 2.1.1(e), or (d) the termination of this Agreement.

“**Financial Covenant Testing Period**” is the period commencing as of the Effective Date, and at all times thereafter when Obligations are outstanding, and terminating upon the occurrence of the Milestone Event.

“**Foreign Currency**” means lawful money of a country other than the United States.

“**Funding Date**” is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

“**FX Contract**” is any foreign exchange contract by and between Borrower and Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

“**GAAP**” is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

“**General Intangibles**” is all “general intangibles” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

“**Good Faith Deposit**” is defined in Section 2.3(f).

“**Governmental Approval**” is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

“**Governmental Authority**” is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

“**Indebtedness**” is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

“**Indemnified Person**” is defined in Section 12.3.

“**Insolvency Proceeding**” is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“**Intellectual Property**” means, with respect to any Person, all of such Person’s right, title, and interest in and to the following:

- (a) its Copyrights, Trademarks and Patents;
- (b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, and operating manuals;
- (c) any and all source code;
- (d) any and all design rights which may be available to such Person;
- (e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and
- (f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

“**Inventory**” is all “inventory” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“**Investment**” is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

“**Key Person**” is each of Borrower’s (a) Chief Executive Officer, who is Anna Protopapas as of the Effective Date, and (b) Chief Financial Officer, who is David Spellman as of the Effective Date.

“**Letter of Credit**” is a standby or commercial letter of credit issued by Bank upon request of Borrower based upon an application, guarantee, indemnity, or similar agreement.

“**Lien**” is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“**Liquidity Ratio**” means the ratio of (a) the aggregate amount of unrestricted and unencumbered cash and Cash Equivalents of Borrower maintained with Bank to (b) aggregate outstanding Obligations of Borrower to Bank.

“**Loan Documents**” are, collectively, this Agreement and any schedules, exhibits, certificates, notices, and any other documents related to this Agreement, the Stock Pledge Agreement, the Perfection Certificate, any Control Agreement, any Bank Services Agreement, any subordination agreement, any note, or notes or guaranties executed by Borrower, and any other present or future agreement by Borrower with or for the benefit of Bank in connection with this Agreement or Bank Services, all as amended, restated, or otherwise modified.

“**Material Adverse Change**” is (a) a material impairment in the perfection or priority of Bank’s Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower; (c) a material impairment of the prospect of repayment of any portion of the Obligations; or (d) Bank determines, based upon information available to it and in its reasonable judgment, that there is a reasonable likelihood that Borrower shall fail to comply with one or more of the financial covenants in Section 6 during the next succeeding financial reporting period.

“**Milestone Event**” means Borrower has provided Bank with evidence satisfactory to Bank in its sole discretion, that Borrower has either (a) received positive efficacy data with respect to Borrower’s phase I(b) clinical trial for XMT-1536, sufficient to (i) submit a new drug application filing for XMT-1536 with the FDA or (ii) progress XMT-1536 to a pivotal study, or (b) signed one (1) or more (but no more than three (3)) binding and enforceable non-exclusive agreements with pharmaceutical companies or other entities which would result in the receipt by Borrower after the Effective Date, of payments within one (1) year of the date of the initial binding and enforceable non-

exclusive agreement, of unrestricted and unencumbered net cash proceeds in the aggregate amount of at least Forty Million Dollars (\$40,000,000.00); provided that, each such binding and enforceable non-exclusive agreement must result in the receipt by Borrower of at least Ten Million Dollars (\$10,000,000.00).

“**Obligations**” are Borrower’s obligations to pay when due any debts, principal, interest, fees, Bank Expenses, the Unused Term Loan Commitment Fee, the Prepayment Fee, Final Payment, and other amounts Borrower owes Bank now or later, whether under this Agreement, the other Loan Documents, or otherwise, including, without limitation, all obligations relating to Bank Services and any interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower’s duties under the Loan Documents.

“**Operating Documents**” are, for any Person, such Person’s formation documents, as certified by the Secretary of State (or equivalent agency) of such Person’s jurisdiction of organization on a date that is no earlier than thirty (30) days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

“**Patents**” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“**Payment/Advance Form**” is that certain form attached hereto as Exhibit C.

“**Payment Date**” is the first (1<sup>st</sup>) calendar day of each calendar month.

“**Perfection Certificate**” is defined in Section 5.1.

“**Permitted Indebtedness**” is:

- (a) Borrower’s Indebtedness to Bank under this Agreement and the other Loan Documents;
- (b) Indebtedness existing on the Effective Date and shown on the Perfection Certificate;
- (c) Subordinated Debt;
- (d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;
- (e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;
- (f) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of Permitted Liens hereunder; and
- (g) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (f) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

“**Permitted Investments**” are:

- (a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date and shown on the Perfection Certificate;
- (b) Investments consisting of Cash Equivalents; and

(c) cash Investments by Borrower in Securities Corp.; provided that no Event of Default has occurred and is continuing or would result from such Investment.

“**Permitted Liens**” are:

(a) Liens existing on the Effective Date and shown on the Perfection Certificate or arising under this Agreement and the other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Borrower maintains adequate reserves on its Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens or capital leases (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than Fifty Thousand Dollars (\$50,000.00) in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment; and

(d) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase.

“**Person**” is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

“**Prepayment Fee**” shall be an additional fee, payable to Bank, with respect to the Term Loan Advances, in an amount equal to:

(a) for a prepayment of the Term Loan Advances made on or prior to May 8, 2020, three percent (3.0%) of the then outstanding principal amount of the Term Loan Advances immediately prior to the date of such prepayment;

(a) for a prepayment of the Term Loan Advances made after May 8, 2020, but on or prior to May 8, 2021, two percent (2.0%) of the then outstanding principal amount of the Term Loan Advances immediately prior to the date of such prepayment

(a) for a prepayment of the Term Loan Advances made after May 8, 2021, but before the Term Loan Maturity Date, one percent (1.0%) of the then outstanding principal amount of the Term Loan Advances immediately prior to the date of such prepayment.

“**Prime Rate**” is the rate of interest per annum from time to time published in the money rates section of The Wall Street Journal or any successor publication thereto as the “prime rate” then in effect; provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement and provided further that if such rate of interest, as set forth from time to time in the money rates section of The Wall Street Journal, becomes unavailable for any reason as determined by Bank, the “Prime Rate” shall mean the rate of interest per annum announced by Bank as its prime rate in effect at its principal office in the State of California (such Bank announced Prime Rate not being intended to be the lowest rate of interest charged by Bank in connection with extensions of credit to debtors); provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“**Registered Organization**” is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“**Requirement of Law**” is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other

Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“**Responsible Officer**” is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of Borrower.

“**Restricted License**” is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower’s interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with the Bank’s right to sell any Collateral.

“**SEC**” shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

“**Securities Account**” is any “securities account” as defined in the Code with such additions to such term as may hereafter be made.

“**Securities Corp.**” is Mersana Securities Corp., a corporation organized under the laws of the Commonwealth of Massachusetts and a Subsidiary of Borrower.

“**Stock Pledge Agreement**” means that certain Stock Pledge Agreement executed by Borrower in favor of Bank dated as of May 8, 2019, as may be amended, modified, supplemented or restated from time to time.

“**Subordinated Debt**” is indebtedness incurred by Borrower subordinated to all of Borrower’s now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank entered into between Bank and the other creditor), on terms acceptable to Bank.

“**Subsidiary**” is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

“**Term Loan Advance**” and “**Term Loan Advances**” are each defined in Section 2.1.1(a).

“**Term Loan Maturity Date**” is February 1, 2023.

“**Trademarks**” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“**Transfer**” is defined in Section 7.1.

“**Unused Term Loan Commitment Fee**” is a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) in an amount equal to (a)(i) Twenty Million Dollars (\$20,000,000.00) minus (ii) the aggregate original principal amount of all Term Loan Advances extended by Bank to Borrower hereunder as of the expiration of the Draw Period, multiplied by (b) three percent (3.0%), due on the earliest to occur of (1) August 31, 2020, (2) repayment of the Term Loan Advances in full, (3) as required pursuant to Section 2.1.1(d) or Section 2.1.1(e), or (4) the termination of this Agreement.

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed as a sealed instrument under the laws of the Commonwealth of Massachusetts as of the Effective Date.

BORROWER:

MERSANA THERAPEUTICS, INC.

By:     /s/ David Spellman      
Name:     David Spellman      
Title     Chief Financial Officer    

BANK:

SILICON VALLEY BANK

By:     /s/ Sam Subilia      
Name:     Sam Subilia      
Title     Director    

Signature Page to Loan and Security Agreement

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**EXHIBIT A – COLLATERAL DESCRIPTION**

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as provided below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, certificates of deposit, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

all Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include any Intellectual Property; provided, however, the Collateral shall include all Accounts and all proceeds of Intellectual Property. If a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Bank's security interest in such Accounts and such other property of Borrower that are proceeds of the Intellectual Property.

Pursuant to the terms of a certain negative pledge arrangement with Bank, Borrower has agreed not to encumber any of its Intellectual Property without Bank's prior written consent.

**EXHIBIT B**  
**COMPLIANCE CERTIFICATE**

TO: SILICON VALLEY BANK  
FROM: MERSANA THERAPEUTICS, INC.

Date:

The undersigned authorized officer of MERSANA THERAPEUTICS, INC. ("Borrower") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"):

(1) Borrower is in complete compliance for the period ending \_\_\_\_\_ with all required covenants except as noted below; (2) there are no Events of Default; (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.8 of the Agreement; and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank.

Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

<u>Reporting Covenants</u>	<u>Required</u>	<u>Complies</u>
10-Q Report	Within 45 days of quarter end	
Compliance Certificate	Monthly within 30 days	Yes No
Board projections	At least annually, FYE within 60 days and contemporaneously with any updates or changes thereto	Yes No
10-K Report and annual audited financial statement	FYE within 90 days	Yes No
Filed 10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes No

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>
Liquidity Ratio	1.50:1.0	___ to 1.0	Yes No





**Schedule 1 to Compliance Certificate**

**Financial Covenants of Borrower**

Dated: \_\_\_\_\_

**I. Liquidity Ratio (Section 6.7)**

Required: 1.50:1.00

Actual:

- A. Aggregate value of the unrestricted and unencumbered cash and Cash Equivalents of Borrower maintained at Bank \$ \_\_\_\_\_
- B. Aggregate outstanding Obligations of Borrower to Bank \$ \_\_\_\_\_
- C. Liquidity Ratio (line A divided by line B) \_\_\_\_\_

Is line C equal to or greater or equal to than 1.50:1:00?

\_\_\_\_\_ No, not in compliance

\_\_\_\_\_ Yes, in compliance

**EXHIBIT C – LOAN PAYMENT/ADVANCE REQUEST FORM**

**Deadline for same day processing is Noon Eastern Time**

Fax To: Date: \_\_\_\_\_

<b>Loan Payment:</b> MERSANA THERAPEUTICS, INC.	
From Account # _____ (Deposit Account #)	To Account # _____ (Loan Account #)
Principal \$ _____	and/or Interest \$ _____
Authorized Signature: _____ Print Name/Title: _____	Phone Number: _____

<b>Loan Advance:</b>	
Complete <i>Outgoing Wire Request</i> section below if all or a portion of the funds from this loan advance are for an outgoing wire.	
From Account # _____ (Loan Account #)	To Account # _____ (Deposit Account #)
Amount of Credit Extension \$ _____	
All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for a Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:	
Authorized Signature: _____ Print Name/Title: _____	Phone Number: _____

<b>Outgoing Wire Request:</b>	
<b>Complete only if all or a portion of funds from the loan advance above is to be wired.</b>	
Deadline for same day processing is noon, Eastern Time	
Beneficiary Name: _____	Amount of Wire: \$ _____
Beneficiary Bank: _____	Account Number: _____
City and State: _____	
Beneficiary Bank Transit (ABA) #: _____	Beneficiary Bank Code (Swift, Sort, Chip, etc.): _____ <b>(For International Wire Only)</b>
Intermediary Bank: _____	Transit (ABA) #: _____
For Further Credit to: _____	
Special Instruction: _____	
<i>By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).</i>	
Authorized Signature: _____	2 <sup>nd</sup> Signature (if required): _____
Print Name/Title: _____	Print Name/Title: _____
Telephone #: _____	Telephone #: _____

**FIRST AMENDMENT  
TO  
LOAN AND SECURITY AGREEMENT**

This First Amendment to Loan and Security Agreement (this “**Amendment**”) is entered into this 21<sup>st</sup> day of June, 2019, by and between **SILICON VALLEY BANK** (“**Bank**”) and **MERSANA THERAPEUTICS, INC.**, a Delaware corporation (“**Borrower**”) whose address is 840 Memorial Drive, Cambridge, Massachusetts 02139.

**RECITALS**

**A.** Bank and Borrower have entered into that certain Loan and Security Agreement dated as of May 8, 2019 (as the same may from time to time be amended, modified, supplemented or restated, the “**Loan Agreement**”).

**B.** Bank and Borrower hereby agree to amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, and subject to the conditions set forth below.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

**1 . Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

**2. Amendments to Loan Agreement.**

**2 . 1 Section 2.3(a) (Commitment Fee).** The Loan Agreement shall be amended by deleting Section 2.3(a) in its entirety and replacing it with the following:

“ (a) Commitment Fee. A non-refundable commitment fee of Two Hundred Thousand Dollars (\$200,000.00) is fully-earned as of the Effective Date, and due and payable as follows: (i) Twenty Thousand Dollars (\$20,000.00) on the Effective Date and (ii) One Hundred Eighty Thousand Dollars (\$180,000.00) on the earliest to occur of (A) January 31, 2020, (B) the occurrence of an Event of Default, (C) the repayment of the Term Loan Advances in full, (D) the Term Loan Maturity Date or (E) the termination of this Agreement (the “**Commitment Fee**”).”

**2 . 2 Section 4.2 (Priority of Security Interest).** The Loan Agreement shall be amended by deleting the words “One Hundred Thousand Dollars (\$100,000.00)” appearing in Section 4.2 thereof and inserting in lieu thereof the words “Two Hundred Fifty Thousand Dollars (\$250,000.00).”

**2 . 3 Section 5.3 (Litigation).** The Loan Agreement shall be amended by deleting the words “One Hundred Thousand Dollars (\$100,000.00)” appearing in Section 5.3

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thereof and inserting in lieu thereof the words “Two Hundred Fifty Thousand Dollars (\$250,000.00).”

**2.4 Section 7.2 (Changes in Business, Management, Control, or Business Locations).** The Loan Agreement shall be amended by deleting the words “Fifty Thousand Dollars (\$50,000.00)” appearing twice in Section 7.2 thereof and in each case inserting in lieu thereof the words “Two Hundred Fifty Thousand Dollars (\$250,000.00).”

**2.5 Section 8.6 (Other Agreements).** The Loan Agreement shall be amended by deleting the words “One Hundred Thousand Dollars (\$100,000.00)” appearing in Section 8.6 thereof and inserting in lieu thereof the words “Two Hundred Fifty Thousand Dollars (\$250,000.00).”

**2.6 Section 13.1 (Definitions).** The Loan Agreement shall be amended by inserting the following new term and its respective definition to appear in Section 13.1 thereof:

“ **“Commitment Fee”** is defined in Section 2.3(a).”

**2.7 Section 13.1 (Definitions).** The definition of “Obligations” appearing in Section 13.1 of the Loan Agreement is amended by inserting the words “the Commitment Fee,” to appear immediately following the words “Bank Expenses,” appearing therein.

### **3. Limitation of Amendments.**

**3.1** The amendments set forth in Section 2 above are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which either party may now have or may have in the future under or in connection with any Loan Document.

**3.2** This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

**4. Integration.** This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Amendment and the Loan Documents merge into this Amendment and the Loan Documents.

**5. Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

**6. Effectiveness.** This Amendment shall be deemed effective as of the due execution and delivery to Bank of this Amendment by each party hereto. For the avoidance of doubt, Borrower shall not be responsible for any Bank Expenses (including attorneys’ fees and expenses)

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in connection with the documentation and negotiation of this Amendment through June 21, 2019.

[Signature page follows.]

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**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

**BANK**

**BORROWER**

SILICON VALLEY BANK

MERSANA THERAPEUTICS, INC.

By: /s/ Lauren Cole

By: /s/ David Spellman

Name: Lauren Cole

Name: David Spellman

Title: Director

Title: Chief Financial Officer

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**Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a)  
and 15d-14(a), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Anna Protopapas, certify that:

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

Mersana Therapeutics, Inc.

/s/ Anna Protopapas

Anna Protopapas  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: August 8, 2019

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**Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a)  
and 15d-14(a), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Brian DeSchuytner, certify that:

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

Mersana Therapeutics, Inc.

/s/ Brian DeSchuytner

Brian DeSchuytner

Senior Vice President, Finance & Product Strategy

(Principal Financial Officer)

Dated: August 8, 2019

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

In connection with the Quarterly Report on Form 10-Q of Mersana Therapeutics, Inc. (the "Company") for the quarter ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the company, hereby certifies, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that to the best of her or his knowledge:

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

Dated: August 8, 2019

/s/ Anna Protopapas  
Anna Protopapas  
President and Chief Executive  
Officer  
(Principal Executive Officer)

Dated: August 8, 2019

/s/ Brian DeSchuytner  
Brian DeSchuytner  
Senior Vice President, Finance &  
Product Strategy  
(Principal Financial Officer)

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