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

Amendment No. 1
to
Form S-1
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

Arcus Biosciences, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

2834
(Primary Standard Industrial Classification Code Number)

47-3898435
(I.R.S. Employer Identification Number)

Arcus Biosciences, Inc.
3928 Point Eden Way
Hayward, CA 94545

(Address, including zip code and telephone number, including area code, of registrant’s principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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 to Section 7(a)(2)(B) of the Securities Act. ☐

CALCULATION OF REGISTRATION FEE

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<th>Title of Each Class of Securities to be Registered</th>
<th>Amount to be Registered (1)</th>
<th>Proposed Maximum Offering Price Per Share</th>
<th>Proposed Maximum Aggregate Offering Price (1)(2)</th>
<th>Amount of Registration Fee (2)(3)</th>
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<td>Common Stock, $0.0001 par value per share</td>
<td>$165,000</td>
<td>$15.00</td>
<td>$122,475.00</td>
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(1) Includes 1,065,000 shares that the underwriters have the option to purchase.
(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.
(3) The Registrant previously paid a registration fee of $12,450 in connection with the initial filing of this Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further...
amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.
The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 5, 2018

PRELIMINARY PROSPECTUS

7,100,000 Shares

Arcus Biosciences, Inc.

Common Stock

This is the initial public offering of our common stock. We are selling 7,100,000 shares of our common stock in this offering. Prior to this offering, there has been no public market for our common stock. We currently expect the initial public offering price to be between $13.00 and $15.00 per share. We have applied to list our common stock on the New York Stock Exchange under the symbol “RCUS.”

We are an “emerging growth company” as defined under the federal securities laws and, as such, have elected to comply with certain reduced public company reporting requirements.

Investing in our common stock involves a high degree of risk. See “Risk Factors” beginning on page 13 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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<th>Per Share</th>
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<td>Public offering price</td>
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<td>Underwriting discounts and commissions (1)</td>
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<td>Proceeds to us, before expenses</td>
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(1) See “Underwriting” for a description of the compensation payable to the underwriters.

Several of our existing stockholders, including a principal stockholder, our Chief Executive Officer and our President, have indicated an interest in purchasing up to an aggregate of approximately $40.0 million in shares of our common stock in this offering at the initial public offering price. However, because indications of interest are not binding agreements or commitments to purchase, the underwriters could determine to sell more, less or no shares to any of these stockholders and any of these stockholders could determine to purchase more, less or no shares in this offering. The underwriters will receive the same underwriting discount on any shares purchased by these stockholders as they will on any other shares sold to the public in this offering.

We have granted the underwriters an option for a period of 30 days to purchase up to 1,065,000 additional shares from us at the public offering price, less the underwriting discounts and commissions.

The underwriters expect to deliver the shares to purchasers on or about , 2018.

Citigroup  Goldman Sachs & Co. LLC  Leerink Partners

Prospectus dated , 2018
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Neither we nor the underwriters have authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses prepared by or on behalf of us or to which we have referred you. We and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus or in any applicable free writing prospectus is current only as of its date, regardless of its time of delivery or any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

Through and including , 2018 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers’ obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Neither we nor the underwriters have done anything that would permit this offering or possession or distribution of this prospectus or any free writing prospectus we may provide to you in connection with this offering in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus and any such free writing prospectus outside of the United States.
PROSPECTUS SUMMARY

This summary highlights certain information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information you should consider in making your investment decision. You should read the entire prospectus carefully before making an investment in our common stock. You should carefully consider, among other things, our consolidated financial statements and the related notes and the sections titled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus. Except as otherwise indicated herein or as the context otherwise requires, references in this prospectus to “Arcus,” “the company,” “we,” “us,” and “our” refer to Arcus Biosciences, Inc.

Arcus Biosciences, Inc.

Company Overview

We are a clinical-stage biopharmaceutical company focused on creating innovative cancer immunotherapies by leveraging underexploited biological opportunities. Specifically, we target well-characterized biological pathways with significant scientific data supporting their importance in regulating the immune response against cancer and for which either there are no molecules in development or those that exist have suboptimal profiles. To exploit these pathways, we have built a robust and highly efficient discovery capability to create and optimize highly differentiated small-molecule immuno-oncology product candidates. Since our inception in 2015, we have built a broad portfolio of small-molecule and antibody product candidates that we plan to develop together as intra-portfolio combinations. We have initiated clinical trials for our two most advanced product candidates, both of which are expected to generate data in 2018, and we expect clinical data from our first intra-portfolio combinations in the first half of 2019. We plan to advance two additional product candidates into clinical trials by the end of 2018. Members of the Arcus team have worked together for more than 10 years discovering innovative small-molecule product candidates while at companies such as Tularik Inc., Amgen, Inc. and Flexus Biosciences, Inc.

Our initial focus is on the ATP-adenosine pathway, a key driver of immunosuppression in the tumor microenvironment. Decades of scientific research have demonstrated that extracellular adenosine, generated by the CD73 enzyme, acts as a powerful inhibitor of immune cell activity. The compelling therapeutic rationale for inhibition of the ATP-adenosine pathway has led several companies to repurpose for oncology existing adenosine A2aR receptor antagonists that were originally designed for the treatment of central nervous system indications. We believe our lead product candidate, AB928, which we designed using our small-molecule discovery capability, is the first adenosine receptor antagonist that effectively blocks the adenosine receptor in the tumor microenvironment and potently inhibits both the adenosine 2a receptor (A2aR) and the adenosine 2b receptor (A2bR). Our in vitro studies have demonstrated that AB928 reverses adenosine-induced immunosuppression and inhibits the A2aR and A2bR receptors more potently and effectively than the other adenosine receptor antagonists in clinical development. In addition to AB928, we have created a small-molecule inhibitor of CD73, AB680, which could represent another powerful approach to inhibiting the ATP-adenosine pathway, and have generated additional potential product candidates against ATP-adenosine and other important immuno-oncology pathways using our internal discovery capability.

As the immuno-oncology market evolves toward the use of combination therapies, a key element of our strategy is to build a broad portfolio of product candidates that target a wide range of immune mechanisms, which will enable us to pursue multiple intra-portfolio combinations. Consistent with this strategy, we are developing antibody drug candidates that are currently considered the foundation for combination therapies in immuno-oncology, or backbone therapy, or that have the potential to be future backbone therapies, such as our in-licensed antibodies targeting the immune checkpoint receptors PD-1 and TIGIT. Our strategy is to create differentiated combination products by combining these antibodies with our internally discovered small-molecule product candidates.
Our Product Portfolio

The following chart summarizes our product pipeline and our upcoming milestones. We currently hold world-wide rights to all of our product candidates other than the rights to AB122 in China and five other countries that are outside of the United States, Europe and Japan. In addition, Taiho Pharmaceutical Co., Ltd. (Taiho) has an option to exclusively license the development and commercialization rights to each of our programs for Japan and certain other territories in Asia (excluding China).

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<th>Lead</th>
<th>Optimization</th>
<th>Preclinical</th>
<th>Phase 1</th>
<th>Phase 2</th>
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<th>Status / Milestone</th>
<th>Target indication</th>
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<td>AB928 (A_2aR, A_2bR Antagonist)</td>
<td>Fine Phase 1 data in Q2’18</td>
<td>Solid tumors</td>
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<td>Small-Molecule CD73 Inhibitor</td>
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<td>AB122 (anti-PD-1 Antibody)</td>
<td>Phase 1 data in cancer patients in Q2’18</td>
<td>Solid tumors</td>
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<td>AB104 (anti-TIGIT Antibody)</td>
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* For more details on the solid tumor types that we plan to pursue in our clinical trials for AB928 + AB122 and AB928 + chemotherapy, please see “Business—Our Clinical Development Strategy for AB928.”

In addition to the above product candidates, we expect to identify a lead oral CD73 inhibitor in 2018. We have initiated several other programs against promising immuno-oncology targets such as arginase, and we expect to select a lead arginase inhibitor in 2018 and submit a regulatory application to initiate a Phase 1 clinical trial for this product candidate in early 2019.

We are rapidly advancing our two lead, internally discovered, small-molecule product candidates, the profiles of which are summarized below.

- **AB928.** Our lead adenosine receptor antagonist, AB928, is an orally bioavailable, highly potent, reversible antagonist of the A2aR and A2bR receptors. We believe that AB928 is the first adenosine receptor antagonist in clinical development to be designed specifically for the biology of the tumor microenvironment and has multiple advantages over other adenosine receptor antagonists in clinical development, including: (i) significantly greater potency under conditions that closely resemble the tumor microenvironment, for example, high concentrations of adenosine and albumin, (ii) inhibition of both the A2aR and A2bR receptors, (iii) low penetration through the blood-brain barrier, (iv) high penetration of tumor tissue and (v) attractive pharmacokinetics, with high oral bioavailability and a human half-life that enables once-daily dosing.

AB928 is currently in a Phase 1 trial in healthy volunteers. This trial will provide us with significant insights into the safety, pharmacokinetic and pharmacodynamic profiles of AB928, which could allow us to initiate the dose-escalation portions of our planned combination trials in cancer patients at a higher dose than would otherwise be possible. We have completed the single-ascending-dose portion of this trial, administering single doses up to 150 mg, which we believe is sufficient to inhibit at least 90% of A2aR activation, and have observed no safety issues to date. We expect to report final safety, pharmacokinetic and pharmacodynamic data from this trial and to submit regulatory applications to initiate clinical trials in cancer patients for AB928 in combination with AB122, our anti-PD-1 antibody, and in combination with chemotherapy in the second quarter of 2018. We are planning to explore AB928 in a variety of solid tumors supported by biological and commercial rationale, as described in more detail in “Business—Our Clinical Development Strategy for AB928.” We are also focused on the
identification of additional molecules that block adenosine 2 receptor signaling and have identified a second dual A2aR/A2bR antagonist (A002926) as well as a selective A2aR antagonist (A003105).

- **AB680.** Our lead CD73 inhibitor, AB680, is a highly potent, reversible and selective inhibitor of the CD73 enzyme and is expected to be the first small-molecule inhibitor of CD73 to enter clinical development. As CD73 plays a critical role in the extracellular generation of adenosine, AB680 may provide a highly effective approach to preventing adenosine-mediated immune suppression. We plan to submit our first regulatory application for AB680 in the middle of 2018 and expect to initiate our first clinical trial for AB680 in the second half of 2018. Similar to AB928, we plan to follow this trial with dose escalation trials which will explore AB680 in combination with other agents in multiple solid tumor types where we believe the ATP-adenosine pathway plays an important role. Based upon its projected pharmacokinetic profile, AB680 has the potential to be administered on the same dosing schedule as our anti-PD-1 antibody, AB122, and various chemotherapeutic agents, which would be attractive from a patient compliance and commercial perspective. We also plan to advance into preclinical development a small-molecule CD73 inhibitor that can be dosed orally, and expect to select an oral development candidate in 2018.

We have in-licensed two antibody drug candidates that represent current or potential backbone therapies, the profiles of which are summarized below:

- **AB122.** Our anti-PD-1 antibody, AB122, is a fully human antibody with similar binding affinity and other characteristics to the marketed anti-PD-1 antibodies, pembrolizumab and nivolumab. AB122 is currently in a Phase 1 dose-escalation trial in cancer patients in Australia. We expect to submit a regulatory application to initiate clinical trials in cancer patients for AB122 in combination with AB928 during the second quarter of 2018 and to report safety, pharmacokinetic and pharmacodynamic data from our ongoing Phase 1 trial of AB122 in cancer patients in the third quarter of 2018. We expect to initiate an expansion cohort to evaluate AB122 as a single agent in tumor types known to be responsive to an anti-PD-1 therapy in the second half of 2018. We also plan to develop AB122 in combination with our other small-molecule and antibody product candidates.

- **AB154.** Our anti-TIGIT antibody, AB154, is a humanized antibody that inhibits a unique immune checkpoint target involved in a pathway that plays both inhibitory and stimulatory roles in the immune system. We plan to submit our first regulatory application for AB154 in the middle of 2018 and expect to initiate a Phase 1 dose escalation trial to evaluate AB154 as a single agent and in combination with AB122 in the second half of 2018. A variety of tumor types associated with high expression of CD155 and TIGIT will be explored.

**Background on the Immuno-Oncology Market**

For decades, it has been understood that the immune system can be harnessed to eradicate and prevent the proliferation of cancer cells. Unfortunately, multiple early clinical trial failures discouraged the biopharmaceutical industry from making a significant investment in immuno-oncology. However, when the immune checkpoint inhibitor ipilimumab, which blocks the function of a receptor called CTLA-4, generated positive Phase 3 data in melanoma in 2010, demonstrating a longer survival rate in patients with very advanced disease, the biopharmaceutical industry’s view of the importance of immuno-oncology changed significantly.

Following the ipilimumab data, biopharmaceutical companies focused their development efforts on another class of immune checkpoint inhibitors that includes anti-PD-1 antibodies, which block the PD-1 receptor found on T cells, B cells and myeloid cells, and anti-PD-L1 antibodies, which block the PD-L1 ligand on cancer cells. Collectively, anti-CTLA-4, anti-PD-1 and anti-PD-L1 antibodies represent the first generation of immune checkpoint inhibitors. According to EvaluatePharma, a life sciences market intelligence firm, by 2022, these antibody products are expected to generate revenue of approximately $30 billion globally.
Despite the success of the first generation of immune checkpoint inhibitors, patient response rates for single-agent therapy are relatively low. For example, the two approved anti-PD-1 antibodies, when administered as single agents, have only demonstrated response rates of approximately 30% in melanoma patients, and the majority of these patients see their disease ultimately progress. The response rates in other tumor types are even lower. In addition, these therapies have not demonstrated meaningful single-agent activity in many of the most prevalent types of cancer, such as breast, prostate, pancreatic, ovarian and colorectal.

To address the limitations of single-agent immuno-oncology therapy, a significant academic and industry effort is now underway to evaluate combinations of anti-PD-1/PD-L1 antibodies with other agents in order to achieve higher response rates and longer overall survival. The challenge remains to identify and develop combinations that will ultimately succeed in important clinical settings. We believe that we are uniquely positioned to address this opportunity by pursuing mechanisms and combinations supported by strong biological rationale derived from existing and evolving scientific data sets.

**Our Focus on Scientifically Validated Immuno-Oncology Pathways**

To exploit the significant opportunity in the immuno-oncology market in the most efficient manner and to maximize the addressable patient population for our portfolio, we focus on the following:

- **Scientifically Validated Pathways.** Academia has spent decades elucidating the biology behind the immune system’s role in cancer, generating a large amount of information on pathways and potential therapeutic targets. However, much of this information has yet to be translated into the discovery of high-quality product candidates. We are focusing on biological pathways for which we can leverage this body of existing scientific knowledge to rapidly generate highly differentiated, small-molecule drug candidates and to identify promising combination therapies and clinical settings in which to pursue them.

- **Broad Range of Mechanisms.** Currently approved immuno-oncology therapeutics target a relatively narrow spectrum of the immune system. We are focused on developing product candidates that act against a broad range of mechanisms that enable tumors to evade eradication by the immune system.

- **Ubiquitously Important Targets.** We focus on targets that are ubiquitous, meaning that they are believed to play an important role in a broad range of human cancer types and settings. For example, CD73, the key enzyme responsible for the generation of extracellular adenosine, has been found to be over-expressed in many tumor types, implying that the generation of extracellular adenosine is a relatively common occurrence in human cancer. As such, we expect to pursue the development of AB928, AB680, and our other product candidates in multiple tumor types, utilizing an adaptive trial design that will allow us to explore several combination settings in parallel, starting with relatively small patient cohorts.

**Our Approach to Building a Broad and Differentiated Portfolio**

To exploit the potential of these scientifically well understood immuno-oncology pathways and targets, we are focusing our internal discovery effort on novel small-molecule product candidates. While all immuno-oncology agents approved to date are large molecules, we believe that both small and large molecule modalities will be critical in addressing the many different immune-mediated pathways that may be dysregulated in a patient’s tumor. As many immuno-oncology pathways are not amenable to intervention by antibodies or protein therapeutics, we expect that small-molecule approaches will allow us to access a significantly greater number of potential targets. In addition, in some cases, small molecules may prove superior to large-molecule approaches against the same target. For example, we have shown in *in vitro* studies that our small-molecule CD73 inhibitors can achieve a greater degree of CD73 inhibition than certain antibodies against this target that are in clinical development.
Our internal discovery effort is designed to create and advance small-molecule product candidates with the ideal pharmacological properties for the tumor micro-environment and the target of interest. Small-molecule drugs against the same biological target can be highly differentiated from each other based on their respective pharmacokinetic, pharmacodynamic and biophysical properties. For example, many small-molecule drugs are potent when tested in buffer solution but lose a significant amount of this potency in physiologically relevant media such as blood or tumor tissue. We rigorously test our molecules in whole blood or other physiologically relevant systems and only advance molecules that retain a high degree of activity when tested under such “real world” conditions. We also design our molecules to have the ideal pharmacological properties for the targeted pathway and the desired clinical effect.

To support our intra-portfolio combinations, we are also developing antibody product candidates that target what we believe are some of the most important immune checkpoint receptors, including PD-1 and TIGIT, and that we expect to be critical components of our future intra-portfolio combinations.

Our Internal Discovery Capability and Team

Our discovery capability and organization have enabled the rapid and efficient generation of small-molecule immuno-oncology drug candidates, which we believe have the potential to be highly differentiated, if approved. In the case of our A2R antagonist program, we identified the first compounds in February 2016, synthesized AB928 in December 2016, and initiated our first clinical trial of AB928 in November 2017, essentially progressing from program initiation to first subject dosed within 21 months. We believe our discovery capability and our expertise and efficiency will allow us to replicate the rapid timeline that we achieved with AB928.

We have assembled a management team with highly relevant experience in immuno-oncology, small-molecule drug discovery and clinical development. Members of our scientific and senior management team, including our founders, Dr. Terry Rosen and Dr. Juan Jaen, have demonstrated their ability to rapidly discover product candidates, most recently at Flexus Biosciences, Inc., which was acquired by Bristol-Myers Squibb in 2015 for its preclinical-stage IDO-1 enzyme inhibitor, now called BMS-986205, approximately 18 months after the company’s formation. Prior to Flexus, several members of our senior management team worked together at Amgen, Inc. and prior to that at Tularik Inc. (which was acquired by Amgen). While we believe that our experienced management team represents an important competitive advantage, the historical results, past performance and/or acquisition of companies with which members of our management team have been affiliated, including Flexus, do not necessarily predict or guarantee similar results for our company.

Since our inception in 2015, we have raised approximately $227 million in equity capital from investors that have significant life sciences experience and that share our vision to create a leading company in the immuno-oncology field, including: GV (formerly Google Ventures), The Column Group, Foresite Capital, Wellington Management Company LLP, EcoR1 Capital, BVF Partners L.P., Decheng Capital, Invus Opportunities, Hillhouse, Aisling Capital, Novartis Institute for BioMedical Research, Inc., Celgene Corporation, Stanford University, Taiho Ventures and DROIA Oncology Ventures. This equity capital includes approximately $22 million in investments made by our founders and management.

Our Strategy

Our objective is to transform the treatment of cancer by creating a broad portfolio of innovative immuno-oncology therapeutics and developing combinations that offer significant improvement over current treatment options. To achieve this objective, we are pursuing the following strategies:

• **Rapidly advance our lead product candidates and combinations through clinical development in multiple tumor types.** We plan to pursue development strategies, such as initiating clinical trials in
healthy volunteers for certain of our product candidates and utilizing adaptive trial designs, that will potentially allow us to expedite the development of our product candidates and to rapidly generate meaningful clinical data.

• **Pursue combinations and tumor types based on strong biological rationales.** We are pursuing therapeutic combinations supported by strong biological rationales that suggest synergy between the agents. We are also selecting tumor types that we believe will be most sensitive to our product candidates’ mechanisms of action, such as those that have high CD73 expression and T cell infiltration in the case of AB928 and AB680.

• **Control, or otherwise secure access to, all the components of our desired therapeutic combinations.** We plan to secure access to product candidates that will be critical components of our intra-portfolio combinations, as we did with our anti-PD-1 and anti-TIGIT antibodies. By having these assets in our portfolio, we can better control the combinations we pursue, as well as capture a greater share of the commercial value of the combination products.

• **Continue to expand our pipeline of novel small-molecule product candidates.** More than 80% of our workforce is dedicated to research and development, and we plan to continue to invest in our discovery capability and to expand our pipeline. By the end of 2018, we expect to have filed at least four regulatory applications to initiate clinical trials in the United States or other countries, including two for product candidates that we discovered and developed in-house.

• **Retain significant economic and commercial rights to our programs in key geographic areas.** We plan to retain significant economic and commercial rights to our portfolio in the United States and certain other regions. We have pursued and will continue to evaluate opportunities to out-license rights to our product candidates in regions in which we are unlikely to pursue development and commercialization on our own, as was the case with our option and license agreement with Taiho for Japan and certain other territories in Asia (excluding China).

**Risks Associated with Our Business**

Our ability to implement our business strategy is subject to numerous risks that you should be aware of before making an investment decision. These risks are described more fully in the section entitled “Risk Factors” immediately following this prospectus summary. These risks include, among others:

• We are an early-stage immuno-oncology company with a very limited operating history. We have incurred net losses since our inception and anticipate that we will continue to incur significant losses for the foreseeable future. We have never generated any revenue from product sales and may never be profitable.

• Even if this offering is successful, we will need to obtain substantial additional funding to complete the development and any commercialization of our product candidates. If we are unable to raise this capital when needed, we may be forced to delay, reduce or eliminate our product development programs or other operations.

• Our product candidates are in the early stages of development. We only recently began clinical trials to test some of our product candidates in humans and, as a company, we have limited experience in this area.

• Clinical drug development is a lengthy, expensive and uncertain process. The results of preclinical studies and early clinical trials are not always predictive of future results. Any product candidate that we advance into clinical trials may not achieve favorable results in later clinical trials, if any, or receive marketing approval.
• We face substantial competition, which may result in others discovering, developing or commercializing products more quickly or marketing them more successfully than us. If their product candidates are shown to be safer or more effective than ours, or if we are not able to differentiate our small molecules from other products which are approved or in development, then our commercial opportunity will be reduced or eliminated.

• Serious adverse events, undesirable side effects or other unexpected properties of our product candidates, or reports of any such occurrences or lack of efficacy by third parties that are developing the same product candidates in other territories, may be identified during development or after approval, which could adversely affect our clinical development programs or otherwise limit the commercial potential of our product candidates.

• We rely on third parties to conduct our clinical trials, manufacture our product candidates and perform some of our research and preclinical studies. If these third parties do not satisfactorily carry out their contractual duties or fail to meet expected deadlines, our development programs, including our clinical trials, may be delayed or subject to increased costs, each of which may have an adverse effect on our business and prospects.

• We are currently party to several in-license agreements under which we acquired rights to use, develop, manufacture and/or commercialize certain of our product candidates. If we breach our obligations under these agreements, we may be required to pay damages, lose our rights to these product candidates or both, which would adversely affect our business and prospects.

• If we are unable to obtain and maintain patent protection for our current or any future product candidates, or if the scope of the patent protection obtained is not sufficiently broad, we may not be able to compete effectively in our markets.

• We expect to expand our development, regulatory and operational capabilities and, as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

Implications of Being an Emerging Growth Company

We qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012 (JOBS Act). An emerging growth company may take advantage of relief from certain reporting requirements and other burdens that are otherwise applicable generally to public companies. These provisions include:

• reduced obligations with respect to financial data, including presenting only two years of audited financial statements in addition to any required unaudited interim financial statements and only two years of selected financial data;

• an exemption from compliance with the auditor attestation requirements of Section 404 of the Sarbanes Oxley Act of 2002 (the Sarbanes Oxley Act);

• not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements;

• reduced disclosure obligations about our executive compensation arrangements in our periodic reports, proxy statements and registration statements; and

• exemptions from the requirements of holding non-binding advisory votes on executive compensation or golden parachute arrangements.

We may take advantage of these provisions for up to five years or such earlier time that we no longer qualify as an emerging growth company. We may choose to take advantage of some but not all of these reduced reporting
burdens. We would cease to be an emerging growth company if we have more than $1.07 billion in annual gross revenue, have more than $700 million in market value of our capital stock held by non-affiliates or issue more than $1.0 billion of non-convertible debt over a three-year period.

In addition, under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to avail ourselves of the extended transition period for complying with new or revised financial accounting standards. As a result of the accounting standards election, we will not be subject to the same implementation timing for new or revised accounting standards as other public companies that are not emerging growth companies which may make comparison of our financials to those of other public companies more difficult. Additionally, because we have taken advantage of certain reduced reporting requirements, the information contained herein may be different from the information you receive from other public companies in which you hold stock.

Corporate Information

We were incorporated in Delaware on April 30, 2015. Our principal executive offices are located at 3928 Point Eden Way, Hayward, CA 94545, and our telephone number is (510) 694-6200. Our website address is www.arcusbio.com. The information on, or that can be accessed through, our website is not part of this prospectus. We have included our website address as an inactive textual reference only.

Arcus Biosciences and the Arcus Biosciences logo are the property of Arcus. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of their respective holders.
<table>
<thead>
<tr>
<th>The Offering</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer</strong></td>
<td>Arcus Biosciences, Inc.</td>
</tr>
<tr>
<td><strong>Shares of common stock we are offering</strong></td>
<td>7,100,000 shares</td>
</tr>
<tr>
<td><strong>Shares of common stock to be outstanding after this offering</strong></td>
<td>41,650,472 shares (42,715,472 shares if the underwriters exercise their option to purchase additional shares in full).</td>
</tr>
<tr>
<td><strong>Underwriters’ option to purchase additional shares</strong></td>
<td>We have granted the underwriters the option, exercisable for 30 days following the date of this prospectus, to purchase up to 1,065,000 additional shares of our common stock.</td>
</tr>
<tr>
<td><strong>Use of proceeds</strong></td>
<td>We estimate that the net proceeds from this offering will be approximately $88.9 million, or $102.8 million if the underwriters exercise their option to purchase additional shares in full, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, assuming an initial public offering price of $14.00 per share, which is the midpoint of the estimated price range set forth on the cover page of this prospectus. The principal purposes of this offering are to increase our financial flexibility and create a public market for our common stock. We intend to use the net proceeds from this offering as follows: (i) approximately $55.0 million to fund the clinical development of AB928 (our dual A2a R/A2b R antagonist) and AB122 (our anti-PD-1 antibody), including potential milestone payments to WuXi Biologics, and (ii) the remaining proceeds to fund the development of other product candidates in our pipeline, including AB680 (our CD73 inhibitor) and AB154 (our anti-TIGHT antibody), our drug discovery and optimization programs, and other general corporate purposes, which may include the hiring of additional personnel, capital expenditures and the costs of operating as a public company. See “Use of Proceeds” on page 67.</td>
</tr>
<tr>
<td><strong>Risk factors</strong></td>
<td>See “Risk Factors” beginning on page 13 and the other information included in this prospectus for a discussion of factors you should consider carefully before deciding to invest in our common stock.</td>
</tr>
<tr>
<td><strong>Proposed NYSE symbol</strong></td>
<td>“RCUS”</td>
</tr>
</tbody>
</table>

The number of shares of common stock to be outstanding after this offering is based on 34,550,472 shares of common stock outstanding as of December 31, 2017, and excludes the following:

- 544,116 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2017 with a weighted-average exercise price of $1.71 per share;
- 1,155,378 shares of common stock issuable upon the exercise of options granted after December 31, 2017 with a weighted-average exercise price of $5.49 per share; and
• 6,139,240 shares of common stock reserved for future issuance under our equity compensation plans, consisting of 1,855,240 shares of common stock that were reserved for issuance under our 2015 Stock Plan as of December 31, 2017, 3,570,000 shares of common stock reserved for issuance under our 2018 Equity Incentive Plan, which will become effective in connection with the completion of this offering and 714,000 shares of common stock reserved for issuance under our 2018 Employee Stock Purchase Plan, which will become effective in connection with the completion of this offering. Our 2018 Equity Incentive Plan and 2018 Employee Stock Purchase Plan also provide for automatic annual increases in the number of shares reserved under these Plans, as more fully described in “Equity Compensation—Equity Plans.” On the date immediately prior to the date of this prospectus, we expect that any remaining shares available for issuance under our 2015 Stock Plan will be added to the shares reserved under our 2018 Equity Incentive Plan in effect following the completion of this offering and we will cease granting awards under our 2015 Stock Plan.

Unless otherwise indicated, all information in this prospectus assumes:

• a 1-for-3.96 reverse stock split of our common stock and preferred stock to be effected prior to the completion of this offering;
• the automatic conversion of all outstanding shares of our preferred stock into an aggregate of 30,459,574 shares of common stock immediately prior to and in connection with the completion of this offering;
• the filing and effectiveness of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws, each of which will occur immediately prior to the completion of this offering;
• no exercise of the underwriters’ option to purchase additional shares; and
• no exercise or cancellation of outstanding options or acceleration of vesting of any restricted stock subsequent to December 31, 2017; however, any such awards issued under our 2015 Stock Plan that expire, terminate or are forfeited will become available for issuance under our 2018 Equity Incentive Plan.

Several of our existing stockholders, including a principal stockholder, our Chief Executive Officer and our President, have indicated an interest in purchasing up to an aggregate of approximately $40.0 million in shares of our common stock in this offering at the initial public offering price. However, because indications of interest are not binding agreements or commitments to purchase, the underwriters could determine to sell more, less or no shares to any of these stockholders and any of these stockholders could determine to purchase more, less or no shares in this offering. The underwriters will receive the same underwriting discount on any shares purchased by these stockholders as they will on any other shares sold to the public in this offering.
The following tables set forth a summary of our historical financial data as of, and for the periods ended on, the dates indicated. The consolidated statements of operations data for the fiscal years ended December 31, 2016 and 2017, and the consolidated balance sheet data as of December 31, 2016 and 2017, are derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. You should read these data together with our financial statements and related notes appearing elsewhere in this prospectus and the information in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our historical results are not necessarily indicative of the results to be expected in the future.

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Collaboration and license revenue</strong></td>
<td>$ —</td>
<td>$ 1,413</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development (1)</td>
<td>14,247</td>
<td>47,218</td>
</tr>
<tr>
<td>General and administrative</td>
<td>3,935</td>
<td>7,636</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>18,182</td>
<td>54,854</td>
</tr>
<tr>
<td><strong>Loss from operations</strong></td>
<td>(18,182)</td>
<td>(53,441)</td>
</tr>
<tr>
<td>Interest and other income, net</td>
<td>212</td>
<td>359</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>$(17,970)</td>
<td>$(53,082)</td>
</tr>
<tr>
<td><strong>Net loss per share, basic and diluted (2)</strong></td>
<td>$(20.80)</td>
<td>$(29.03)</td>
</tr>
<tr>
<td><strong>Weighted-average number of shares used to compute basic and diluted net loss per share</strong></td>
<td>863,983</td>
<td>1,828,262</td>
</tr>
<tr>
<td><strong>Pro forma net loss per share, basic and diluted (unaudited) (2)</strong></td>
<td>$ (2.16)</td>
<td></td>
</tr>
<tr>
<td><strong>Weighted-average number of shares used to compute pro forma basic and diluted net loss per common share (unaudited)</strong></td>
<td>24,554,674</td>
<td></td>
</tr>
</tbody>
</table>

(1) $18.5 million of the 2017 research and development expenses related to licensing payments to WuXi Biologics. Please see Note 6 of our consolidated financial statements for further information on our licensing agreements.

(2) See Note 10 to our audited consolidated financial statements for an explanation of the calculation of our historical and pro forma basic and diluted net loss per share.

### As of December 31, 2017

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>Actual</th>
<th>Pro Forma (1)</th>
<th>Adjusted (2)(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consolidated Balance Sheet Data:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>$175,703</td>
<td>$175,703</td>
<td>$264,645</td>
</tr>
<tr>
<td>Working capital (4)</td>
<td>164,143</td>
<td>164,143</td>
<td>253,085</td>
</tr>
<tr>
<td>Total assets</td>
<td>190,486</td>
<td>190,486</td>
<td>279,428</td>
</tr>
<tr>
<td>Convertible preferred stock</td>
<td>226,196</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(73,234)</td>
<td>(73,234)</td>
<td>(73,234)</td>
</tr>
<tr>
<td>Total stockholders’ (deficit) equity</td>
<td>(72,328)</td>
<td>153,868</td>
<td>242,810</td>
</tr>
</tbody>
</table>

(1) The pro forma column in the consolidated balance sheet data above gives effect to: (i) the automatic conversion of all outstanding shares of our convertible preferred stock into an aggregate of 30,459,574 shares of common stock; and (ii) the filing and effectiveness of our amended and restated certificate of incorporation, each of which will occur immediately prior to the completion of this offering.
The pro forma as adjusted column gives effect to the adjustments described in footnote (1) above and the sale by us of 7,100,000 shares of common stock in this offering at an assumed initial public offering price of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

A $1.00 increase (decrease) in the assumed initial public offering price of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, would increase (decrease) each of pro forma as adjusted cash, cash equivalents and short-term investments, working capital, total assets and stockholders’ (deficit) equity by $6.6 million, assuming the number of shares we are offering, as set forth on the cover page of this prospectus, remains the same, after deducting estimated underwriting discounts and commissions. We may also increase or decrease the number of shares we are offering. An increase (decrease) of 1,000,000 in the number of shares we are offering would increase (decrease) each of pro forma as adjusted cash, cash equivalents and short-term investments, working capital, total assets and total stockholders’ (deficit) equity by approximately $13.0 million, assuming the initial public offering price per share remains the same. The pro forma as adjusted information is illustrative only, and we will adjust this information based on the actual initial public offering price, number of shares offered and other terms of this offering determined at pricing.

We define working capital as current assets less current liabilities. See our audited consolidated financial statements for further details regarding our current assets and current liabilities.
RISK FACTORS

Investing in our common stock is speculative and involves a high degree of risk. Before investing in our common stock, you should consider carefully the risks described below, together with the other information contained in this prospectus, including our consolidated financial statements and the related notes appearing at the end of this prospectus. If any of the following risks occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment. This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including the risks described below. See “Information Regarding Forward-Looking Statements.”

Risks Related to our Limited Operating History, Financial Position and Capital Requirements

We are an early-stage immuno-oncology company with a very limited operating history. We have incurred losses since our inception and anticipate that we will continue to incur significant losses for the foreseeable future. We have never generated any revenue from product sales and may never be profitable.

We are an early-stage immuno-oncology company with a very limited operating history that may make it difficult to evaluate the success of our business to date and to assess our future viability. Our operations have been limited to organizing and staffing our company, business planning, raising capital, identifying potential product candidates, establishing licensing arrangements and/or acquiring any necessary technology, and undertaking research and preclinical studies and clinical trials of our product candidates. All of our product candidates are in early development, and none have been approved for commercial sale. We have never generated any revenue from product sales and have incurred net losses each year since we commenced operations. For the years ended December 31, 2016 and 2017, our net losses were $18.0 million and $53.1 million, respectively. As of December 31, 2017, we had an accumulated deficit of $73.2 million. We expect that it will be several years, if ever, before we have a product candidate ready for commercialization. We expect to incur increasing levels of operating losses over the next several years and for the foreseeable future as we advance our product candidates. Our prior losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders’ deficit and working capital.

To become and remain profitable, we must develop and eventually commercialize a product with significant market potential. This will require us to be successful in a range of challenging activities, including completing preclinical studies and clinical trials of our product candidates, obtaining marketing approval for these product candidates, manufacturing, marketing and selling those products for which we may obtain marketing approval and satisfying any post-marketing requirements. We may never succeed in these activities and, even if we succeed in commercializing one or more of our product candidates, we may never generate revenue that are significant or large enough to achieve profitability. In addition, as a young business, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown challenges. If we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis and we will continue to incur substantial research and development and other expenditures to develop and market additional product candidates. Our failure to become and remain profitable would decrease the value of the company and could impair our ability to raise capital, maintain our research and development efforts, expand our business or continue our operations. A decline in the value of our company could also cause you to lose all or part of your investment.

Even if this offering is successful, we will need to obtain substantial additional funding to complete the development and any commercialization of our product candidates. If we are unable to raise this capital when needed, we may be forced to delay, reduce or eliminate our product development programs or other operations.

Since our inception, we have used substantial amounts of cash to fund our operations and expect our expenses to increase substantially during the next few years. The development of biopharmaceutical product candidates is
capital intensive. As our product candidates enter and advance through preclinical studies and clinical trials, we will need substantial additional funds to expand our clinical, regulatory, quality and manufacturing capabilities. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to marketing, sales, manufacturing and distribution. Furthermore, upon the completion of this offering, we expect to incur additional costs associated with operating as a public company.

As of December 31, 2017, we had $175.7 million in cash, cash equivalents and short-term investments. Based on our current operating plan, we believe that our existing cash, cash equivalents and short-term investments will be sufficient to fund our anticipated level of operations through at least the next 12 months without the proceeds from this offering. With the expected net proceeds from this offering, we believe that our cash, cash equivalents and short-term investments will be sufficient to fund the clinical development of AB928 and AB122, including cohort expansion studies, into 2020. Accordingly, the expected net proceeds from this offering will not be sufficient for us to fund any of our product candidates through regulatory approval, and we will need to raise substantial additional capital to complete the development and commercialization of our product candidates.

We have based these estimates on assumptions that may prove to be incorrect or require adjustment as a result of business decisions, and we could utilize our available capital resources sooner than we currently expect. Our future capital requirements will depend on many factors, including:

- the scope, rate of progress and costs of our drug discovery, preclinical development activities, laboratory testing and clinical trials for our product candidates;
- the number and scope of clinical programs we decide to pursue;
- the scope and costs of manufacturing development and commercial manufacturing activities;
- the timing and amount of milestone payments, if any, we receive from Taiho Pharmaceuticals Co., Ltd. (Taiho) under our option and license agreement (the Taiho Agreement);
- the extent to which we acquire or in-license other product candidates and technologies;
- the cost, timing and outcome of regulatory review of our product candidates;
- the cost and timing of establishing sales and marketing capabilities, if any of our product candidates receive marketing approval;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
- our ability to establish and maintain collaborations on favorable terms, if at all;
- our efforts to enhance operational systems and our ability to attract, hire and retain qualified personnel, including personnel to support the development of our product candidates;
- the costs associated with being a public company; and
- the cost associated with commercializing our product candidates, if they receive marketing approval.

Identifying potential product candidates and conducting preclinical studies and clinical trials is a time consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain marketing approval. In addition, our product candidates, if approved, may not achieve product sales or commercial success. We do not expect to have any products commercially available for sale for many years, if at all. 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.
Our quarterly and annual operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control and may be difficult to predict, including the following:

- the timing and success or failure of clinical trials for our product candidates or competing product candidates, or any other change in the competitive landscape of our industry, including consolidation among our competitors or partners;
- our ability to successfully recruit and retain subjects for clinical trials, and any delays caused by difficulties in such efforts;
- our ability to obtain marketing approval for our product candidates, and the timing and scope of any such approvals we may receive;
- the timing and cost of, and level of investment in, research and development activities relating to our product candidates, which may change from time to time;
- the cost of manufacturing our product candidates, which may vary depending on the quantity of production and the terms of our agreements with manufacturers;
- our ability to attract, hire and retain qualified personnel;
- expenditures that we will or may incur to develop additional product candidates;
- the level of demand for our product candidates should they receive approval, which may vary significantly;
- the risk/benefit profile, cost and reimbursement policies with respect to our product candidates, if approved, and existing and potential future therapeutics that compete with our product candidates;
- the changing and volatile U.S. and global economic environments; and
- future accounting pronouncements or changes in our accounting policies.

The cumulative effects of these factors could result in large fluctuations and unpredictability in our quarterly and annual operating results. As a result, comparing our operating results on a period-to-period basis may not be meaningful. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our revenue or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur even when we have met any previously publicly stated guidance we may provide.

**Raising additional capital may cause dilution to our stockholders, including purchasers of common stock in this offering, restrict our operations or require us to relinquish rights to our technologies or product candidates.**

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing, 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 collaborations, strategic alliances 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 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 product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Risks Related to the Discovery and Development of our Product Candidates

Our product candidates are in the early stages of development. We only recently began clinical trials to test some of our product candidates in humans and, as a company, we have limited experience in this area.

We are early in our development efforts and most of our operations to date have been limited to drug discovery and preclinical studies. Our two lead product candidates entered Phase 1 clinical trials in November 2017 and we plan to advance two additional product candidates into Phase 1 clinical trials by the end of 2018. As a result, we will need to expand our clinical operations, quality and regulatory capabilities to support these activities.

To date, we have not had any interactions with the FDA regarding our product candidates or an investigational new drug application (IND) to authorize us to conduct clinical trials in the United States. Our ongoing Phase 1 clinical trials are being conducted outside the United States. Because of our lack of interaction with the FDA, we may not learn of certain information or data that the FDA may request until after we begin such interactions or, without such interaction, submit our IND in the future, which may necessitate conducting additional preclinical studies or generating such information at significant time and expense, including under a clinical hold imposed on the IND. Even if we conducted the additional studies or generated the additional information requested, the FDA could disagree that we have satisfied their requirements, all of which will cause significant delays to our programs.

In part because of our limited infrastructure, experience conducting clinical trials as a company and regulatory interactions, we cannot be certain that our clinical trials will be completed on time, that our planned clinical trials will be initiated on time, if at all, that our planned development programs would be acceptable to the FDA or other comparable foreign regulatory authorities, or that, if approval is obtained, such product candidates can be successfully commercialized.

Our ability to generate product revenue, which we do not expect will occur for many years, if ever, will depend heavily on our ability to successfully complete the above activities and any other activities required for the successful development and eventual commercialization of one or more of our product candidates. The success of our product candidates will further depend on factors such as:

- successful completion of preclinical studies;
- approval of IND or other regulatory applications for our planned clinical trials or future clinical trials;
- successful enrollment in, and completion of, clinical trials;
- receipt of marketing approvals from applicable regulatory authorities;
- establishing manufacturing capabilities or arrangements with third party manufacturers for clinical supply and, if and when approved, for commercial supply;
- establishing sales, marketing and distribution capabilities and launching commercial sales of our products, if and when approved, whether alone or in combination with others;
- acceptance of our products, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies;
If we do not achieve one or more of these factors in a timely manner, we could experience significant delays or an inability to successfully commercialize our product candidates, which would materially harm our business.

Clinical drug development is a lengthy, expensive and uncertain process. The results of preclinical studies and early clinical trials are not always predictive of future results. Any product candidate that we advance into clinical trials may not achieve favorable results in later clinical trials, if any, or receive marketing approval.

The research and development of drugs and biological products is an extremely risky industry. Only a small percentage of product candidates that enter the development process ever receive marketing approval. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive, can take many years to complete and its outcome is uncertain.

The results of preclinical and early clinical trials of our product candidates and other products with the same mechanism of action may not be predictive of the results of later-stage clinical trials. Clinical trial failure may result from a multitude of factors including flaws in study design, dose selection, placebo effect, patient enrollment criteria and failure to demonstrate favorable safety or efficacy traits. As such, failure in clinical trials can occur at any stage of testing. A number of companies in the biopharmaceutical industry have suffered setbacks in the advancement of clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier trials. Based upon negative or inconclusive results, we may decide, or regulators may require us, to conduct additional clinical trials or preclinical studies. In addition, data obtained from clinical trials are susceptible to varying interpretations, and regulators may not interpret our data as favorably as we do, which may further delay, limit or prevent marketing approval. Furthermore, as more product candidates within a particular class of drugs proceed through clinical development to regulatory review and approval, the amount and type of clinical data that may be required by regulatory authorities may increase or change.

We currently have two product candidates in clinical development and their risk of failure is high. We are unable to predict if these product candidates or any of our future product candidates that advance into clinical trials will prove safe or effective in humans or will obtain marketing approval. If we are unable to complete preclinical or clinical trials of current or future product candidates, due to safety concerns, or if the results of these trials are not satisfactory to convince regulatory authorities of their safety or efficacy, we will not be able to obtain marketing approval for commercialization. Even if we are able to obtain marketing approvals for any of our product candidates, those approvals may be for indications that are not as broad as desired or may contain other limitations that would adversely affect our ability to generate revenue from sales of those products. Moreover, if we are not able to differentiate our product against other approved products within the same class of drugs, or if any of the other circumstances described above occur, our business would be materially harmed and our ability to generate revenue from that class of drugs would be severely impaired.
A key element of our strategy is the development of intra-portfolio combinations. If we are not successful in discovering, developing and commercializing product candidates that take advantage of different mechanisms of action to achieve superior outcomes relative to the use of single agents or other combination therapies, our ability to achieve our strategic objectives would be impaired.

A key element of our strategy is to build a broad portfolio of product candidates that will allow for the development of intra-portfolio combinations. We believe that by developing or licensing these product candidates, we can control the combinations we pursue and, if and when approved, maximize the commercial potential of these combinations.

However, these combinations have not been tested before and may fail to demonstrate synergistic activity against immunological targets, may fail to achieve superior outcomes relative to the use of single agents or other combination therapies, may exacerbate adverse events associated with one of the product candidates when used as monotherapy, or may fail to demonstrate sufficient safety or efficacy traits in clinical trials to enable us to complete those clinical trials or obtain marketing approval for the combination therapy. We expect that AB122 will form the backbone of many of our intra-portfolio combinations. In the event that AB122, which is currently in a Phase 1 trial, were to fail to demonstrate sufficient safety and efficacy, we would need to identify alternatives for accessing an anti-PD-1 antibody. In the event we are unable to do so, or are unable to do so on commercially reasonable terms, our business and prospects would be materially harmed. All of our product candidates are targeting mechanisms that other companies are pursuing as either monotherapy or combination products. Please see “Business—Competition” for a discussion of our competitors. As such, even if we are successful in developing combination therapies, competition from other product candidates in the same class which are either already approved or further along in development than ours may prevent us from realizing the commercial potential of our combination therapies and prevent us from achieving our strategic objectives.

Our intra-portfolio combination strategy relies on discovering, developing and commercializing highly differentiated small molecules. If we are not able to differentiate our small molecules from other products which are approved or in development, our business prospects would be materially adversely affected.

Our combination therapy strategy relies on discovering and developing differentiated small molecules with ideal pharmacologic properties for the targeted pathway to complement our antibody product candidates, which we believe will form the backbone of our combination therapies. We conduct in our laboratories those activities that we consider to be critical for creating a development candidate with optimal properties. These activities include medicinal chemistry, assay development, assessment of compound potency and selectivity, in vitro and in vivo pharmacokinetic profile evaluation, in vivo pharmacology and exploratory safety evaluation, among others. As such, we have invested heavily in these internal capabilities and over 80% of our current workforce is dedicated to research and development. If the small molecules that we discover and design do not have ideal pharmacologic properties, or are not differentiated from other product candidates in development, either through their efficacy or toxicity profile, our product development activities, business and prospects would be materially harmed.

Serious adverse events, undesirable side effects or other unexpected properties of our product candidates may be identified during development or after approval, which could lead to the discontinuation of our clinical development programs, refusal by regulatory authorities to approve our product candidates or, if discovered following marketing approval, revocation of marketing authorizations or limitations on the use of our product candidates thereby limiting the commercial potential of such product candidate.

To date, we have only tested AB928 in healthy volunteers and AB122 in a limited number of oncology subjects. As we continue our development of these product candidates and initiate clinical trials of our additional product candidates, serious adverse events, undesirable side effects or unexpected characteristics may emerge causing us to abandon these product candidates or limit their development to more narrow uses or subpopulations in which the serious adverse events, undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective.
Even if our product candidates initially show promise in these early clinical trials, the side effects of drugs are frequently only detectable after they are tested in large, Phase 3 clinical trials or, in some cases, after they are made available to patients on a commercial scale after approval. Sometimes, it can be difficult to determine if the serious adverse or unexpected side effects were caused by the product candidate or another factor, especially in oncology subjects who may suffer from other medical conditions and be taking other medications. If serious adverse or unexpected side effects are identified during development and are determined to be attributed to our product candidate, we may be required to develop a Risk Evaluation and Mitigation Strategy (REMS) to mitigate those serious safety risks, which could impose significant distribution and use restrictions on our products.

Drug-related side effects could also affect subject recruitment or the ability of enrolled subjects to complete the trial or result in potential product liability claims. Any of these occurrences may harm our business, financial condition and prospects significantly.

In addition, if one or more of our product candidates receives marketing approval, and we or others later identify undesirable side effects caused by such products, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw approvals of such product;
- regulatory authorities may require additional warnings on the label;
- we may be required to create a medication guide outlining the risks of such side effects for distribution to patients;
- we could be sued and held liable for harm caused to patients; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the particular product candidate, if approved, and could significantly harm our business, results of operations and prospects.

**Lack of efficacy, adverse events or undesirable side effects may emerge in clinical trials conducted by third parties investigating the same product candidates as us in different territories, which could adversely affect our development program.**

Lack of efficacy, adverse events or undesirable side effects may emerge in clinical trials conducted by third parties investigating the same product candidates as us in different territories. For example, we and Harbin Gloria Pharmaceuticals Co. Ltd. (Gloria Pharmaceuticals) each licensed our rights to the same anti-PD-1 antibody (which we refer to as AB122) from WuXi Biologics (Cayman) Inc. (WuXi Biologics). Gloria Pharmaceuticals refers to this antibody as GLS-010 and is conducting clinical trials with GLS-010 in China. We have no control over their clinical trials or development program, and lack of efficacy, adverse events or undesirable side effects experienced by subjects in their clinical trials could adversely affect our development of AB122 or even the viability of AB122 as a product candidate. We may be required to report Gloria Pharmaceuticals’ adverse events or unexpected side effects to the FDA or comparable foreign regulatory authorities, which could, among other things, order us to cease further development of AB122. We may face similar risks if Taiho exercises its option to license development rights to any of our programs under the Taiho Agreement.

**Enrollment and retention of subjects in clinical trials is expensive and time consuming, can be made more difficult or rendered impossible by competing treatments or clinical trials of competing product candidates in the same or other indications, and could result in significant delays and additional costs in our product development activities, or in the failure of such activities.**

We may encounter delays in enrolling, or be unable to enroll and maintain, a sufficient number of subjects to complete any of our clinical trials. Patient enrollment and retention in clinical trials is a significant factor in the
timing of clinical trials and depends on many factors, including the size of the patient population required for analysis of the trial’s primary endpoints, the nature of the trial protocol, our ability to recruit clinical trial investigators with the appropriate competencies and experience, the existing body of safety and efficacy data with respect to the product candidate, the number and nature of competing products or product candidates and ongoing clinical trials of competing product candidates for the same indication, the proximity of subjects to clinical trial sites, the eligibility criteria for the clinical trial and our ability to obtain and maintain subject consents.

For example, enrollment of oncology subjects in our AB122 clinical trial may be hampered by nivolumab from Bristol-Myers Squibb and pembrolizumab from Merck, both of which are approved and on the market. Subjects may opt to be treated with an approved product with substantially more safety and efficacy data as is currently available for our anti-PD-1 antibody product candidate. Bristol-Myers Squibb and Merck may also be conducting clinical trials of these products in additional indications, and some of those clinical sites may also participate in our clinical trials, which could reduce the number of subjects available for our clinical trials at those sites.

Furthermore, any negative results that we may report in clinical trials of our product candidates may make it difficult or impossible to recruit and retain subjects in other clinical trials of that same product candidate. Delays in patient enrollment may result in increased costs or may affect the timing or outcome of the planned clinical trials, which could prevent completion of these trials and adversely affect our ability to advance the development of our product candidates. Failures in planned subject enrollment or retention may result in increased costs or program delays and could render further development impossible.

**Certain of our product candidates may require companion diagnostics in certain indications. Failure to successfully develop, validate and obtain regulatory clearance or approval for such tests could harm our product development strategy or prevent us from realizing the full commercial potential of our product candidates.**

Certain of our product candidates may require companion diagnostics to identify appropriate patients for those product candidates in certain indications. Companion diagnostics are subject to regulation by the FDA and comparable foreign regulatory authorities as a medical device and may require separate regulatory authorization prior to commercialization. We may rely on third parties for the design, development, testing and manufacturing of these companion diagnostics, the application for and receipt of any required regulatory authorization, and the commercial supply of these companion diagnostics. If these parties are unable to successfully develop companion diagnostics for these product candidates, or experience delays in doing so, the development of our product candidates may be adversely affected and we may not be able to obtain marketing authorization for these product candidates. Furthermore, our ability to market and sell, as well as the commercial success, of any of our product candidates that require a companion diagnostic will be tied to, and dependent upon, the receipt of required regulatory authorization and the continued ability of such third parties to make the companion diagnostic commercially available on reasonable terms in the relevant geographies. Any failure to develop, validate, obtain and maintain marketing authorization for a companion diagnostic and supply such companion diagnostic will harm our business, results of operations and financial condition.

**The design or execution of our ongoing and future clinical trials may not support marketing approval.**

The design or execution of a clinical trial can determine whether its results will support marketing approval, and flaws in the design or execution of a clinical trial may not become apparent until the clinical trial is well advanced. In some instances, there can be significant variability in safety or efficacy results between different trials with the same product candidate due to numerous factors, including differences in trial protocols, size and type of the patient populations, variable adherence to the dosing regimen or other protocol requirements and the rate of dropout among clinical trial participants. We do not know whether any clinical trials we conduct will demonstrate consistent or adequate efficacy and safety to obtain marketing approval to market our product candidates.
Further, the FDA and comparable foreign regulatory authorities have substantial discretion in the approval process and in determining when or whether marketing approval will be obtained for any of our product candidates. Our product candidates may not be approved even if they achieve their primary endpoints in future Phase 3 clinical trials or registrational trials. The FDA or comparable foreign regulatory authorities may disagree with our trial designs and our interpretation of data from preclinical studies or clinical trials. In addition, any of these regulatory authorities may change requirements for the approval of a product candidate even after reviewing and providing comments or advice on a protocol for a pivotal Phase 3 or registrational clinical trial that has the potential to result in FDA or other comparable foreign regulatory authorities’ approval. In addition, any of these regulatory authorities may also approve a product candidate for fewer or more limited indications than we request or may grant approval contingent on the performance of costly post-marketing clinical trials. The FDA or comparable foreign regulatory authorities may not approve the labeling claims that we believe would be necessary or desirable for the successful commercialization of our product candidates, if approved.

Both of our current clinical trials are being conducted outside the United States, and the FDA may not accept data from trials conducted in foreign locations.

Both of our current clinical trials are being conducted outside the United States. Although the FDA may accept data from clinical trials conducted outside the United States, acceptance of these data is subject to certain conditions imposed by the FDA. For example, the clinical trial must be well designed and conducted and performed by qualified investigators in accordance with ethical principles. The trial population must also adequately represent the U.S. population, and the data must be applicable to the U.S. population and U.S. medical practice in ways that the FDA deems clinically meaningful. In general, the patient population for any clinical trials conducted outside of the United States must be representative of the population for whom we intend to label the product in the United States. In addition, while these clinical trials are subject to the applicable local laws, FDA acceptance of the data will be dependent upon its determination that the trials also complied with all applicable U.S. laws and regulations. We cannot assure you that the FDA will accept data from trials conducted outside of the United States. If the FDA does not accept the data from such clinical trials, it would likely result in the need for additional trials, which would be costly and time-consuming and delay or permanently halt our development of our product candidates.

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

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

Any termination or suspension of, or delays in the commencement or completion of, our planned clinical trials could result in increased costs to us, delay or limit our ability to generate revenue and adversely affect our commercial prospects.

Before we can initiate clinical trials in the United States for our product candidates, we must submit the results of preclinical testing to the FDA along with other information, including information about product candidate chemistry, manufacturing and controls (CMC) and our proposed clinical trial protocol, as part of an IND. We do
not know whether our planned trials will begin on time or be completed on schedule, if at all. The commencement and completion of clinical trials can be delayed for a number of reasons, including delays related to:

• the FDA placing the clinical trial on hold;
• subjects failing to enroll or remain in our trial at the rate we expect;
• subjects choosing an alternative treatment or other product candidates, or participating in competing clinical trials;
• lack of adequate funding to continue the clinical trial;
• subjects experiencing severe or unexpected drug-related adverse effects;
• any interruptions or delays in the supply of our product candidates for our clinical trials;
• a facility manufacturing any of our product candidates or any of their components being ordered by the FDA or comparable foreign regulatory authorities to temporarily or permanently shut down due to violations of good manufacturing practice (cGMP) regulations or other applicable requirements, or infections or cross-contaminations of product candidates in the manufacturing process;
• any changes to our manufacturing process that may be necessary or desired;
• any failure or delay in reaching an agreement with contract research organizations (CROs) and clinical trial sites;
• third-party clinical investigators losing the licenses or permits necessary to perform our clinical trials, not performing our clinical trials on our anticipated schedule or consistent with the clinical trial protocol, good clinical practices (GCP) or regulatory requirements or other third parties not performing data collection or analysis in a timely or accurate manner;
• third-party contractors becoming debarred or suspended or otherwise penalized by the FDA or other comparable foreign regulatory authorities for violations of applicable regulatory requirements, in which case we may need to find a substitute contractor, and we may not be able to use some or all of the data produced by such contractors in support of our marketing applications;
• one or more Institutional Review Boards (IRBs) refusing to approve, suspending or terminating the trial at an investigational site, precluding enrollment of additional subjects, or withdrawing its approval of the trial; or
• changes in regulatory requirements and policies, which may require us to amend clinical trial protocols to comply with these changes and resubmit our clinical trial protocols to IRBs for reexamination.

Any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and jeopardize the commercial prospects of our product candidates and our ability to commence product sales and generate revenue.

In addition, many of the factors that cause, or lead to, termination or suspension of, or a delay in the commencement or completion of, clinical trials may also ultimately lead to the denial of regulatory approval of a product candidate. For example, if we make manufacturing or formulation changes to our product candidates, we may need to conduct additional studies to bridge our modified product candidates to earlier versions. Further, if one or more clinical trials are delayed, our competitors may be able to bring products to market before we do, and the commercial viability of our product candidates could be significantly reduced. Any of these occurrences may harm our business, financial condition and prospects significantly. Any termination of any clinical trial of our product candidates will harm our commercial prospects and our ability to generate revenue.
We may not be successful in our efforts to identify or discover additional product candidates in the future.

Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for a number of reasons, including:

- our inability to design such product candidates with the pharmacological properties that we desire or attractive pharmacokinetics; or
- potential product candidates may, on further study, be shown to have harmful side effects or other characteristics that indicate that they are unlikely to be medicines that will receive marketing approval and achieve market acceptance.

Research programs to identify new product candidates require substantial technical, financial and human resources. If we are unable to identify suitable compounds for preclinical and clinical development, we will not be able to obtain product revenue in future periods, which likely would result in significant harm to our financial position and adversely impact our stock price.

If we do not achieve our product development goals in the time frames we announce and expect, the commercialization of our product candidates may be delayed and as a result our share price may decline.

Drug development is inherently risky and uncertain. We cannot be certain that we will be able to:

- complete IND-enabling preclinical studies or develop manufacturing processes and associated analytical methods that meet cGMP requirements in time to initiate clinical trials in the timeframes we announce;
- obtain sufficient clinical supply of our product candidates to support our ongoing or planned clinical trials;
- initiate our clinical trials within the timeframes we announce;
- enroll and maintain a sufficient number of subjects to complete any of our clinical trials; or
- analyze the data collected from any completed clinical trials in the timeframes we announce.

The actual timing of our development milestones can vary significantly compared to our estimates, in some cases for reasons beyond our control. If we are unable to achieve our goals within the timeframes we announce, the commercialization of our product candidates may be delayed and, as a result, the stock price of our common stock could fall and you may lose all of your investment.

Even if any of our product candidates receive marketing approval, they may fail to achieve the degree of market acceptance by physicians, patients, hospitals, cancer treatment centers, healthcare payors and others in the medical community necessary for commercial success.

If any of our product candidates receive marketing approval, they may nonetheless fail to gain sufficient market acceptance by physicians, patients, healthcare payors and others in the medical community. For example, current cancer treatments like chemotherapy and radiation therapy are well established in the medical community, and physicians may continue to rely on these treatments. Most of our product candidates currently target mechanisms for which there are no currently approved products. If our product candidates do not achieve an adequate level of acceptance, we may not generate significant product revenue and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

- efficacy and potential advantages compared to alternative treatments;
- our ability to offer our medicines for sale at competitive prices;
- convenience and ease of administration compared to alternative treatments;
• the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
• the strength of marketing and distribution support;
• sufficient third-party coverage or reimbursement; and
• the prevalence and severity of any side effects.

Risks Related to Manufacturing, Commercialization and Reliance on Third Parties

We rely on third parties to conduct our clinical trials and perform some of our research and preclinical studies. If these third parties do not satisfactorily carry out their contractual duties or fail to meet expected deadlines, our development programs may be delayed or subject to increased costs, each of which may have an adverse effect on our business and prospects.

We do not have the ability to conduct all aspects of our preclinical testing or clinical trials ourselves. As a result, we are and expect to remain dependent on third parties to conduct our ongoing Phase 1 clinical trials and any future clinical trials of our product candidates. The timing of the initiation and completion of these trials will therefore be partially controlled by such third parties and may result in delays to our development programs. Specifically, we expect CROs, clinical investigators, and consultants to play a significant role in the conduct of these trials and the subsequent collection and analysis of data. However, we will not be able to control all aspects of their activities. Nevertheless, we are responsible for ensuring that each of our trials is conducted in accordance with the applicable protocol and legal, regulatory and scientific standards, and our reliance on the CROs and other third parties does not relieve us of our regulatory responsibilities. We and our CROs are required to comply with GCP requirements, which are regulations and guidelines enforced by the FDA, the Competent Authorities of the Member States of the European Economic Area, Australian Therapeutic Goods Administration and comparable foreign regulatory authorities for all of our product candidates in clinical development. Regulatory authorities enforce these GCP requirements through periodic inspections of trial sponsors, clinical trial investigators and clinical trial sites. If we or any of our CROs or clinical trial sites fail to comply with applicable GCP requirements, the data generated in our clinical trials may be deemed unreliable, and the FDA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. In addition, our clinical trials must be conducted with product produced under cGMP regulations. Our failure to comply with these regulations may require us to stop and/or repeat clinical trials, which would delay the marketing approval process.

There is no guarantee that any such CROs, clinical trial investigators or other third parties on which we rely will devote adequate time and resources to our development activities or perform as contractually required. If any of these third parties fail to meet expected deadlines, adhere to our clinical protocols or meet regulatory requirements, otherwise performs in a substandard manner, or terminates its engagement with us, the timelines for our development programs may be extended or delayed or our development activities may be suspended or terminated. If any of our clinical trial sites terminates for any reason, we may experience the loss of follow-up information on subjects enrolled in such clinical trials unless we are able to transfer those subjects to another qualified clinical trial site, which may be difficult or impossible. In addition, clinical trial investigators for our clinical trials may serve as scientific advisors or consultants to us from time to time and may receive cash or equity compensation in connection with such services. If these relationships and any related compensation result in perceived or actual conflicts of interest, or the FDA or comparable foreign regulatory authorities concludes that the financial relationship may have affected the interpretation of the trial, the integrity of the data generated at the applicable clinical trial site may be questioned and the utility of the clinical trial itself may be jeopardized, which could result in the delay or rejection of any marketing application we submit by the FDA or any comparable foreign regulatory authority. Any such delay or rejection could prevent us from commercializing our product candidates.

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

**We contract with third parties for the manufacturing and supply of product candidates for use in preclinical testing and clinical trials, which supply may become limited or interrupted or may not be of satisfactory quality and quantity.**

We do not have any manufacturing facilities. We produce in our laboratory relatively small quantities of compounds for evaluation in our research programs. We rely, and expect to continue to rely, on third parties for the manufacture of our product candidates for preclinical and clinical testing, as well as for commercial manufacture if any of our product candidates are approved. We currently have limited manufacturing arrangements and expect that each of our product candidates will only be covered by single source suppliers for the foreseeable future. This reliance increases the risk that we will not have sufficient quantities of our product candidates or products, if approved, or such quantities at an acceptable cost or quality, which could delay, prevent or impair our development or commercialization efforts.

Furthermore, all entities involved in the preparation of therapeutics for clinical trials or commercial sale, including our existing contract manufacturers for our product candidates, are subject to extensive regulation. Components of a finished therapeutic product approved for commercial sale or used in clinical trials must be manufactured in accordance with cGMP requirements. These regulations govern manufacturing processes and procedures, including record keeping, and the implementation and operation of quality systems to control and assure the quality of investigational products and products approved for sale. Poor control of production processes can lead to the introduction of contaminants, or to inadvertent changes in the properties or stability of our product candidates that may not be detectable in final product testing. We or our contract manufacturers must supply all necessary documentation in support of a New Drug Application (NDA) or Biologics Licensing Application (BLA) on a timely basis and must adhere to the FDA’s Good Laboratory Practice regulations and cGMP regulations enforced by the FDA through its facilities inspection program. Comparable foreign regulatory authorities may require compliance with similar requirements. The facilities and quality systems of our third-party contractor manufacturers must pass a pre-approval inspection for compliance with the applicable regulations as a condition of marketing approval of our product candidates. We do not control the manufacturing process of, and are completely dependent on, our contract manufacturing partners for compliance with cGMP regulations.

In the event that any of our manufacturers fails to comply with such requirements or to perform its obligations to us in relation to quality, timing or otherwise, or if our supply of components or other materials becomes limited or interrupted for other reasons, we may be forced to manufacture the materials ourselves, for which we currently do not have the capabilities or resources, or enter into an agreement with another third party, which we may not be able to do on commercially reasonable terms, if at all. In particular, any replacement of our manufacturers could require significant effort and expertise because there may be a limited number of qualified replacements. In some cases, the technical skills or technology required to manufacture our product candidates may be unique or proprietary to the original manufacturer and we may have difficulty transferring such skills or technology to another third party and a feasible alternative may not exist. These factors would increase our reliance on such manufacturer or require us to obtain a license from such manufacturer in order to have another third party manufacture our product candidates. If we are required to change manufacturers for any reason, we will be required to verify that the new manufacturer maintains facilities and procedures that comply with quality standards and with all applicable regulations and guidelines. The delays associated with the verification of a new manufacturer could negatively affect our ability to develop product candidates in a timely manner or within budget.
Our or a third party’s failure to execute on our manufacturing requirements, to do so on commercially reasonable terms and comply with cGMP could adversely affect our business in a number of ways, including:

- an inability to initiate or continue clinical trials of our product candidates under development;
- delay in submitting regulatory applications, or receiving marketing approvals, for our product candidates;
- loss of the cooperation of an existing or future collaborator, including option exercises by Taiho under the Taiho Agreement;
- subjecting third-party manufacturing facilities or our manufacturing facilities to additional inspections by regulatory authorities;
- requirements to cease development or to recall batches of our product candidates; and
- in the event of approval to market and commercialize our product candidates, an inability to meet commercial demands for our product or any other future product candidates.

We, or our third-party manufacturers, may be unable to successfully scale-up manufacturing of our product candidates in sufficient quality and quantity, which would delay or prevent us from conducting clinical trials and developing our product candidates.

In order to conduct clinical trials of our product candidates, we will need to manufacture them in large quantities. We, or our manufacturing partners, may be unable to successfully increase the manufacturing capacity for any of our product candidates in a timely or cost-effective manner, or at all. In addition, quality issues may arise during scale-up activities. If we or our manufacturing partners are unable to successfully scale up the manufacture of our product candidates in sufficient quality and quantity, the development, testing and clinical trials of that product candidate may be delayed or become infeasible, and marketing approval or commercial launch of any resulting product may be delayed or not obtained, which could significantly harm our business.

Changes in methods of product candidate manufacturing or formulation may result in additional costs or delay.

As product candidates progress through preclinical to late stage clinical trials to marketing approval and commercialization, it is common that various aspects of the development program, such as manufacturing methods and formulation, are altered along the way in an effort to optimize yield, manufacturing batch size, minimize costs and achieve consistent quality and results. Such changes carry the risk that they will not achieve these intended objectives. Any of these changes could cause our product candidates to perform differently and affect the results of planned clinical trials or other future clinical trials conducted with the altered materials. This could delay completion of clinical trials, require the conduct of bridging clinical trials or the repetition of one or more clinical trials, increase clinical trial costs, delay approval of our product candidates and jeopardize our ability to commercialize our product candidates and generate revenue.

The manufacture of biologics is complex and our third-party manufacturers may encounter difficulties in production. If any of our third-party manufacturers encounter such difficulties, our ability to provide supply of our product candidates for clinical trials or our products for patients, if approved, could be delayed or prevented.

Manufacturing biologics, especially in large quantities, is often complex and may require the use of innovative technologies to handle living cells. Each lot of an approved biologic must undergo thorough testing for identity, strength, quality, purity and potency. Manufacturing biologics requires facilities specifically designed for and validated for this purpose, and sophisticated quality assurance and quality control procedures are necessary. Slight deviations anywhere in the manufacturing process, including filling, labeling, packaging, storage and shipping and quality control and testing, may result in lot failures, product recalls or spoilage. When changes are
made to the manufacturing process, we may be required to provide preclinical and clinical data showing the comparable identity, strength, quality, purity or potency of the products before and after such changes. If microbial, viral or other contaminations are discovered at the facilities of our manufacturer, such facilities may need to be closed for an extended period of time to investigate and remedy the contamination, which could delay clinical trials and adversely harm our business. The use of biologically derived ingredients can also lead to allegations of harm, including infections or allergic reactions, or closure of product facilities due to possible contamination.

In addition, there are risks associated with large scale manufacturing for clinical trials or commercial scale including, among others, cost overruns, potential problems with process scale-up, process reproducibility, stability issues, compliance with good manufacturing practices, lot consistency and timely availability of raw materials. Even if we obtain marketing approval for any of our product candidates, there is no assurance that our manufacturers will be able to manufacture the approved product to specifications acceptable to the FDA or other comparable foreign regulatory authorities, to produce it in sufficient quantities to meet the requirements for the potential commercial launch of the product or to meet potential future demand. If our manufacturers are unable to produce sufficient quantities for clinical trials or for commercialization, our development and commercialization efforts would be impaired, which would have an adverse effect on our business, financial condition, results of operations and growth prospects.

*Any product candidates for which we intend to seek approval as biologic products may face competition sooner than anticipated.*

The Affordable Care Act includes a subtitle called the Biologics Price Competition and Innovation Act of 2009 (BPCIA), which created an abbreviated approval pathway for biological products that are biosimilar to or interchangeable with an FDA-licensed reference biological product. Under the BPCIA, an application for a biosimilar product may not be submitted to the FDA until four years following the date that the reference product was first licensed by the FDA. In addition, the approval of a biosimilar product may not be made effective by the FDA until twelve years from the date on which the reference product was first licensed. During this twelve-year period of exclusivity, another company may still market a competing version of the reference product if the FDA approves a full BLA for the competing product containing the sponsor’s own preclinical data and data from adequate and well-controlled clinical trials to demonstrate the safety, purity and potency of its product. The law is complex and is still being interpreted and implemented by the FDA. As a result, its ultimate impact, implementation and meaning are subject to uncertainty. While the processes to implement the BPCIA have not yet been fully adopted by the FDA, any such processes could have a material adverse effect on the future commercial prospects for our biological products.

AB122 and AB154 are biological products and we may develop additional biological products in the future. We believe that any of our current and future product candidates approved as a biological product under a BLA should qualify for the twelve-year period of exclusivity. However, there is a risk that this exclusivity could be shortened due to Congressional action or otherwise, or that the FDA will not consider our product candidates to be reference products for competing products, potentially creating the opportunity for generic competition sooner than anticipated. Other aspects of the BPCIA, some of which may impact the BPCIA exclusivity provisions, have also been the subject of recent litigation. Moreover, the extent to which a biosimilar, once approved, could be substituted for any one of our reference products in a way that is similar to traditional generic substitution for non-biological products will depend on a number of marketplace and regulatory factors that are still developing.

*Even if we receive marketing approval, we may not be able to successfully commercialize our product candidates due to unfavorable pricing regulations or third-party coverage and reimbursement policies, which could make it difficult for us to sell our product candidates profitably.*

Obtaining coverage and reimbursement approval for a product from a government or other third-party payor is a time-consuming and costly process that could require us to provide supporting scientific, clinical and cost
effectiveness data for the use of our products to the payor. There may be significant delays in obtaining such coverage and reimbursement for newly approved products, and coverage may be more limited than the purposes for which the product is approved by the FDA or comparable foreign regulatory authorities. Moreover, eligibility for coverage and reimbursement does not imply that a product will be paid for in all cases or at a rate that covers our costs, including research, development, intellectual property, manufacture, sale and distribution expenses. Interim reimbursement levels for new products, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the product and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost products and may be incorporated into existing payments for other services. Net prices for products may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors, by any future laws limiting drug prices and by any future relaxation of laws that presently restrict imports of product from countries where they may be sold at lower prices than in the United States.

There is significant uncertainty related to the insurance coverage and reimbursement of newly approved products. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting reimbursement policies, but also have their own methods and approval process apart from Medicare coverage and reimbursement determinations.

Coverage and reimbursement by a third-party payor may depend upon a number of factors, including the third-party payor’s determination that use of a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

We cannot be sure that reimbursement will be available for any product that we commercialize and, if coverage and reimbursement are available, what the level of reimbursement will be. Obtaining reimbursement for our products may be particularly difficult because of the higher prices often associated with branded therapeutics and therapeutics administered under the supervision of a physician. Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

Reimbursement may impact the demand for, and the price of, any product for which we obtain marketing approval. Assuming we obtain coverage for a given product by a third-party payor, the resulting reimbursement payment rates may not be adequate or may require co-payments that patients find unacceptably high. Patients who are prescribed medications for the treatment of their conditions, and their prescribing physicians, generally rely on third-party payors to reimburse all or part of the costs associated with those medications. Patients are unlikely to use our products unless coverage is provided and reimbursement is adequate to cover all or a significant portion of the cost of our products. Therefore, coverage and adequate reimbursement is critical to new product acceptance. Coverage decisions may depend upon clinical and economic standards that disfavor new products when more established or lower cost therapeutic alternatives are already available or subsequently become available.

We expect to experience pricing pressures in connection with the sale of any of our product candidates due to the trend toward managed healthcare, the increasing influence of health maintenance organizations, and additional legislative changes. The downward pressure on healthcare costs in general, particularly prescription medicines, medical devices and surgical procedures and other treatments, has become very intense. As a result, increasingly
high barriers are being erected to the successful commercialization of new products. Further, the adoption and implementation of any future governmental cost containment or other health reform initiative may result in additional downward pressure on the price that we may receive for any approved product.

Outside of the United States, many countries require approval of the sale price of a product before it can be marketed and the pricing review period only begins after marketing or product licensing approval is granted. To obtain reimbursement or pricing approval in some of these countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a product candidate in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenue, if any, we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if such product candidates obtain marketing approval.

*If the market opportunities for any product that we or our strategic partners develop are smaller than we believe they are, our revenue may be adversely affected and our business may suffer.*

We are focused on the development of treatments for cancer. Our projections of addressable patient populations that have the potential to benefit from treatment with our product candidates are based on estimates. If any of our estimates are inaccurate, the market opportunities for any of our product candidates could be significantly diminished and have an adverse material impact on our business.

*Our employees, clinical trial investigators, CROs, consultants, vendors and any potential commercial partners may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements and insider trading.*

We are exposed to the risk of fraud or other misconduct by our employees, clinical trial investigators, CROs, consultants, vendors and any potential commercial partners. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to us that violates: (i) FDA laws and regulations or those of comparable foreign regulatory authorities, including those laws that require the reporting of true, complete and accurate information, (ii) manufacturing standards, (iii) federal and state health and data privacy, security, fraud and abuse, government price reporting, transparency reporting requirements, and other healthcare laws and regulations in the United States and abroad, or (iv) laws that require the true, complete and accurate reporting of financial information or data. Such misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and cause serious harm to our reputation. We intend to adopt a code of conduct applicable to all of our employees prior to completion of this offering, as well as a disclosure program and other applicable policies and procedures, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

*Our reliance on third parties requires us to share our trade secrets, which increases the possibility that a competitor will discover them or that our trade secrets will be misappropriated or disclosed.*

Because we rely on third parties to research and develop and to manufacture our product candidates, we must share trade secrets with them. We seek to protect our proprietary technology in part by entering into confidentiality agreements and, if applicable, material transfer agreements, consulting agreements or other similar agreements with our advisors, employees, third-party contractors and consultants prior to beginning
research or disclosing proprietary information. These agreements typically limit the rights of the third parties to use or disclose our confidential information, including our trade secrets. Despite the contractual provisions employed when working with third parties, the need to share trade secrets and other confidential information increases the risk that such trade secrets become known by our competitors, are inadvertently incorporated into the technology of others, or are disclosed or used in violation of these agreements. Given that our proprietary position is based, in part, on our know-how and trade secrets, a competitor’s independent discovery of our trade secrets or other unauthorized use or disclosure would impair our competitive position and may have a material adverse effect on our business.

In addition, these agreements typically restrict the ability of our advisors, employees, third-party contractors and consultants to publish data potentially relating to our trade secrets, although our agreements may contain certain limited publication rights. For example, any academic institution that we may collaborate with will likely expect to be granted rights to publish data arising out of such collaboration and any joint research and development programs may require us to share trade secrets under the terms of our research and development or similar agreements. Despite our efforts to protect our trade secrets, our competitors may discover our trade secrets, either through breach of our agreements with third parties, independent development or publication of information by any of our third-party collaborators. A competitor’s discovery of our trade secrets would impair our competitive position and have an adverse impact on our business.

If any of our product candidates are approved for marketing and commercialization and we are unable to establish sales and marketing capabilities or enter into agreements with third parties to sell and market our product candidates, we will be unable to successfully commercialize our product candidates if and when they are approved.

We have no sales, marketing or distribution capabilities or experience. To achieve commercial success for any approved product for which we retain sales and marketing responsibilities, we must either develop a sales and marketing organization, which would be expensive and time consuming, or outsource these functions to other third parties. In the future, we may choose to build a focused sales and marketing infrastructure to sell, or participate in sales activities with our collaborators for, some of our product candidates if and when they are approved.

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

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

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

If we enter into arrangements with third parties to perform sales, marketing and distribution services, our product revenue or the profitability of these product revenue to us are likely to be lower than if we were to market and sell any medicines that we develop ourselves. In addition, we may not be successful in entering into
arrangements with third parties to sell and market our product candidates or may be unable to do so on terms that are favorable to us. In entering into third-party marketing or distribution arrangements, any revenue we receive will depend upon the efforts of the third parties and we cannot assure you that such third parties will establish adequate sales and distribution capabilities or devote the necessary resources and attention to sell and market our medicines effectively. If we do not establish sales and marketing capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

Even if we obtain FDA approval of any of our product candidates, we may never obtain approval or commercialize such products outside of the United States, which would limit our ability to realize their full market potential.

In order to market any products outside of the United States, we must establish and comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not mean that regulatory approval will be obtained in any other country. Approval procedures vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking foreign regulatory approvals could result in significant delays, difficulties and costs for us and may require additional preclinical studies or clinical trials which would be costly and time consuming. Regulatory requirements can vary widely from country to country and could delay or prevent the introduction of our products in those countries. Satisfying these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. In addition, our failure to obtain regulatory approval in any country may delay or have negative effects on the process for regulatory approval in other countries. We do not have any product candidates approved for sale in any jurisdiction, including international markets, and we do not have experience in obtaining regulatory approval in international markets. If we fail to comply with regulatory requirements in international markets or to obtain and maintain required approvals, our ability to realize the full market potential of our products will be harmed.

Risks Related to our In-Licenses and Other Strategic Agreements

We are currently party to several in-license agreements under which we acquired rights to use, develop, manufacture and/or commercialize certain of our product candidates. If we breach our obligations under these agreements, we may be required to pay damages, lose our rights to these product candidates or both, which would adversely affect our business and prospects.

We rely, in part, on license and other strategic agreements, which subject us to various obligations, including diligence obligations with respect to development and commercialization activities, payment obligations for achievement of certain milestones and royalties on product sales, negative covenants and other material obligations. If we fail to comply with the obligations under our license agreements or use the intellectual property licensed to us in an unauthorized manner, we may be required to pay damages and our licensors may have the right to terminate the license. If our license agreements are terminated, we may not be able to develop, manufacture, market or sell the products covered by our agreements and those being tested or approved in combination with such products. Such an occurrence could materially adversely affect the value of the product candidate being developed under any such agreement and any other product candidates being developed or tested in combination. For example, we intend to test many of our small-molecule product candidates with AB122, which we in-licensed from WuXi Biologics. In the event we breach our license agreement with WuXi Biologics, and WuXi Biologics terminates our license agreement, we would be unable to test those combinations, or we would have to negotiate a new or reinstated agreement, which may not be available to us on equally favorable terms, or at all.

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

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

**We may not realize the benefits of any acquisitions, in-license or other collaborations or strategic alliances that we enter into.**

We have entered into in-license agreements with multiple licensors and an option agreement to out-license certain of our product candidates in select markets and in the future may seek and form strategic alliances, create joint ventures or collaborations, or enter into acquisitions or additional licensing arrangements with third parties that we believe will complement or augment our development and commercialization efforts with respect to our product candidates and any future product candidates that we may develop.

These transactions can entail numerous operational and financial risks, including exposure to unknown liabilities, disruption of our business and diversion of our management’s time and attention in order to manage a collaboration or develop acquired products, product candidates or technologies, incurring substantial debt or dilutive issuances of equity securities to pay transaction consideration or costs, higher than expected collaboration, acquisition or integration costs, write-downs of assets or goodwill or impairment charges, increased amortization expenses, difficulty and cost in facilitating the collaboration or combining the operations and personnel of any acquired business, impairment of relationships with key suppliers, manufacturers or customers of any acquired business due to changes in management and ownership and the inability to retain key employees of any acquired business. As a result, if we enter into collaboration agreements, strategic partnerships or license our products, we may not be able to realize the benefit of such transactions if we are unable to successfully integrate them with our existing operations and company culture, which could delay our timelines or otherwise adversely affect our business.

We also cannot be certain that, following a strategic transaction or license, we will achieve the revenue or specific net income that justifies such transaction or such other benefits that led us to enter into the arrangement. For example, the Taiho Agreement provides us with non-dilutive capital to fund our operations and a strategic development and commercialization partner for our product candidates in Japan and certain other territories in Asia (excluding China). If Taiho does not exercise any of its options to our development programs, our capital requirements relating to our development programs will significantly increase and we may need to seek a new partner in order to develop and commercialize our product candidates in the territories optioned by Taiho. Failure to realize the benefits of any collaborations or strategic alliances may further cause us to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any planned sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to fund and undertake development or commercialization activities on our own, we will need to obtain additional expertise and additional capital, which may not be available to us on acceptable terms or at all. If we fail to enter into collaborations and do not have sufficient funds or expertise to undertake the necessary development and commercialization activities, we may not be able to further develop our product candidates or bring them to market and generate product sales revenue, which would harm our business prospects, financial condition and results of operations.
We may wish to acquire rights to future assets through in-licensing or may attempt to form collaborations in the future with respect to our product candidates, but may not be able to do so, which may cause us to alter or delay our development and commercialization plans.

The development and potential commercialization of our product candidates will require substantial additional capital to fund expenses. We have entered into an option and license agreement with Taiho for the potential development and commercialization of our product candidates in Japan and certain other territories in Asia (excluding China). We may, in the future, decide to collaborate with other biopharmaceutical companies for the development and potential commercialization of those product candidates in other countries or territories of the world. We will face significant competition in seeking appropriate collaborators. We may not be successful in our efforts to establish a strategic partnership or other alternative arrangements for our product candidates because they may be deemed to be at too early of a stage of development for collaborative effort and third parties may not view our product candidates as having the requisite potential to demonstrate safety and efficacy. If and when we collaborate with a third party for development and commercialization of a product candidate, we can expect to relinquish some or all of the control over the future success of that product candidate to the third party. Our ability to reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator’s resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator’s evaluation of a number of factors. Those factors may include the following:

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

The collaborator may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our product candidate. We may also be restricted under any license agreements from entering into agreements on certain terms or at all with potential collaborators. Collaborations are complex and time-consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators and changes to the strategies of the combined company. As a result, we may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all. If we are unable to do so, we may have to curtail the development of such product candidate, reduce or delay one or more of our other development programs, delay the potential commercialization or reduce the scope of any planned sales or marketing activities for such product candidate, or increase our expenditures and undertake development, manufacturing or commercialization activities at our own expense. If we elect to increase our expenditures to fund development, manufacturing or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we may not be able to further develop our product candidates or bring them to market and generate product revenue.

Managing our obligations under our in-license agreements and our option agreement may divert management time and attention, causing delays or disruptions to our business.

We have entered into and may in the future enter into in-license agreements with multiple licensors and a strategic option agreement, which subject us to various obligations, including diligence obligations, reporting and notification obligations, payment obligations for achievement of certain milestone as well as other material
obligations. We may need to devote substantial time and attention to ensuring that we successfully integrate these transactions into our existing operations and are compliant with our obligations under these agreements, which may divert management’s time and attention away from our research and development programs or other day-to-day activities.

Our in-license and strategic agreements are also complex and certain provisions in those agreements may be susceptible to multiple interpretations. In the event of any disagreement about the interpretation of these provisions, our management may need to devote a disproportionate amount of its attention to resolving these disagreements. Such disruptions may cause delays in our research and development programs and other business objectives.

Our operating activities may be restricted by certain covenants in our license and other strategic agreements, which could limit our development and commercial opportunities.

In connection with certain of our acquisitions, in-license or other collaborations or strategic alliances, we may agree to and be bound by negative covenants which may limit our development and commercial opportunities. For example, pursuant to our in-license of anti-PD-1 antibodies from WuXi Biologics, we made certain covenants to not commercialize any anti-PD-1 antibody licensed or obtained by us after the date of the license agreement with WuXi Biologics other than anti-PD-1 antibodies licensed from WuXi Biologics, subject to certain exceptions as set forth in our license agreement with WuXi Biologics. Furthermore, we agreed in our license agreement that WuXi Biologics would be our exclusive manufacturer of anti-PD-1 antibodies licensed thereunder until a certain number of years has elapsed following commercialization of such an anti-PD-1 antibody and that we would utilize WuXi Biologics as our exclusive provider of CMC development services for our biologic product candidates for three years from the date of our license agreement, subject to certain exceptions in each case. These exclusivity provisions may inhibit our development efforts, prevent us from forming strategic collaborations to develop and potentially commercialize any other anti-PD-1 antibody product candidates and may materially harm our business, financial condition, results of operations and prospects.

Risks Related to Intellectual Property

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

Our success depends in large part on our ability to obtain and maintain patent protection in the United States and other countries with respect to our product candidates and research programs. We seek to protect our proprietary position by filing patent applications in the United States and abroad related to our novel discoveries and technologies that are important to our business. Our pending and future patent applications may not result in patents being issued which protect our product candidates or their intended uses or which effectively prevent others from commercializing competitive technologies, products or product candidates.

Obtaining and enforcing patents is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications, or maintain and/or enforce patents that may issue based on our patent applications, at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development results before it is too late to obtain patent protection. Although we enter into non-disclosure and confidentiality agreements with parties who have access to patentable aspects of our research and development output, such as our employees, corporate collaborators, outside scientific collaborators, contract research organizations, contract manufacturers, consultants, advisors and other third parties, any of these parties may breach these agreements and disclose such results before a patent application is filed, thereby jeopardizing our ability to seek patent protection.

The patent position of biopharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation, resulting in court decisions,
including Supreme Court decisions, that have increased uncertainties as to the ability to enforce patent rights in the future. In addition, the laws of foreign countries may not protect our rights to the same extent as the laws of the United States, or vice versa.

Further, we may not be aware of all third-party intellectual property rights potentially relating to our product candidates or their intended uses, and as a result the impact of such third-party intellectual property rights upon the patentability of our own patents and patent applications, as well as the impact of such third-party intellectual property upon our freedom to operate, is highly uncertain. Patent applications in the United States and other jurisdictions are typically not published until 18 months after filing or, in some cases, not at all. Therefore, we cannot know with certainty whether we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Our patents or pending patent applications may be challenged in the courts or patent offices in the United States and abroad. For example, we may be subject to a third party pre-issuance submission of prior art to the U.S. Patent and Trademark Office, or become involved in post-grant review procedures, oppositions, derivations, reexaminations, or inter partes review proceedings, in the United States or elsewhere, challenging our patent rights or the patent rights of others. An adverse determination in any such challenges may result in loss of exclusivity or in patent claims being narrowed, invalidated, or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. In addition, given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized.

We may not identify relevant third-party patents or may incorrectly interpret the relevance, scope or expiration of a third party patent which might adversely affect our ability to develop and market our products.

We cannot guarantee that any of our patent searches or analyses, including the identification of relevant patents, the scope of patent claims or the expiration of relevant patents, are complete or thorough, nor can we be certain that we have identified each and every third party patent and pending application in the United States and abroad that is relevant to or necessary for the commercialization of our product candidates in any jurisdiction.

The scope of a patent claim is determined by an interpretation of the law, the written disclosure in a patent and the patent’s prosecution history. Our interpretation of the relevance or the scope of a patent or a pending application may be incorrect, which may negatively impact our ability to market our products. We may incorrectly determine that our products are not covered by a third party patent or may incorrectly predict whether a third party’s pending application will issue with claims of relevant scope. Our determination of the expiration date of any patent in the United States or abroad that we consider relevant may be incorrect, which may negatively impact our ability to develop and market our product candidates. Our failure to identify and correctly interpret relevant patents may negatively impact our ability to develop and market our products.

In the future, we may need to obtain additional licenses of third-party technology that may not be available to us or are available only on commercially unreasonable terms, and which may cause us to operate our business in a more costly or otherwise adverse manner that was not anticipated.

From time to time we may be required to license technology from additional third parties to further develop or commercialize our product candidates. Should we be required to obtain licenses to any third-party technology, including any such patents required to manufacture, use or sell our product candidates, such licenses may not be available to us on commercially reasonable terms, or at all. The inability to obtain any third-party license required to develop or commercialize any of our product candidates could cause us to abandon any related efforts, which could seriously harm our business and operations.
We cannot ensure that patent rights relating to inventions described and claimed in our pending patent applications will issue or that patents based on our patent applications will not be challenged and rendered invalid and/or unenforceable.

We have pending U.S. and foreign patent applications in our portfolio, however, we cannot predict:

- if and when patents may issue based on our patent applications;
- the scope of protection of any patent issuing based on our patent applications;
- whether the claims of any patent issuing based on our patent applications will provide protection against competitors,
- whether or not third parties will find ways to invalidate or circumvent our patent rights;
- whether or not others will obtain patents claiming aspects similar to those covered by our patents and patent applications;
- whether we will need to initiate litigation or administrative proceedings to enforce and/or defend our patent rights which will be costly whether we win or lose; and/or
- whether the patent applications that we own or in-license will result in issued patents with claims that cover our product candidates or uses thereof in the United States or in other foreign countries.

We cannot be certain that the claims in our pending patent applications directed to our product candidates and/or technologies will be considered patentable by the U.S. Patent and Trademark Office (USPTO) or by patent offices in foreign countries. One aspect of the determination of patentability of our inventions depends on the scope and content of the “prior art,” information that was or is deemed available to a person of skill in the relevant art prior to the priority date of the claimed invention. There may be prior art of which we are not aware that may affect the patentability of our patent claims or, if issued, affect the validity or enforceability of a patent claim. Even if the patents do issue based on our patent applications, third parties may challenge the validity, enforceability or scope thereof, which may result in such patents being narrowed, invalidated or held unenforceable. Furthermore, even if they are unchallenged, patents in our portfolio may not adequately exclude third parties from practicing relevant technology or prevent others from designing around our claims. If the breadth or strength of our intellectual property position with respect to our product candidates is threatened, it could dissuade companies from collaborating with us to develop and threaten our ability to commercialize our product candidates. In the event of litigation or administrative proceedings, we cannot be certain that the claims in any of our issued patents will be considered valid by courts in the United States or foreign countries.

Intellectual property rights do not necessarily address all potential threats to our competitive advantage.

The degree of future protection afforded by our intellectual property rights is uncertain because intellectual property rights have limitations, and may not adequately protect our business or permit us to maintain our competitive advantage. For example:

- others may be able to make product candidates that are similar to ours but that are not covered by the claims of the patents that we own or have exclusively licensed;
- we or our licensors or future collaborators might not have been the first to make the inventions covered by the issued patent or pending patent application that we own or have exclusively licensed;
- we or our licensors or future collaborators might not have been the first to file patent applications covering certain of our inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights;
- it is possible that our pending patent applications will not lead to issued patents;
issued patents that we own or have exclusively licensed may be held invalid or unenforceable, as a result of legal challenges by our competitors;

• our competitors might conduct research and development activities in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets;

• we may not develop additional proprietary technologies that are patentable; and

• the patents of others may have an adverse effect on our business.

Should any of these events occur, they could significantly harm our business, results of operations and prospects.

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

Our commercial success depends, in part, on our ability to develop, manufacture, market and sell our product candidates without infringing the intellectual property and other proprietary rights of third parties. Third parties may allege that we have infringed or misappropriated their intellectual property. Litigation or other legal proceedings relating to intellectual property claims, with or without merit, is unpredictable and generally expensive and time consuming and, even if resolved in our favor, is likely to divert significant resources from our core business, including distracting our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the market price of our common stock. Such litigation or proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources and more mature and developed intellectual property portfolios. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace.

There is a substantial amount of intellectual property litigation in the biotechnology and pharmaceutical industries, and we may become party to, or threatened with, litigation or other adversarial proceedings regarding intellectual property rights with respect to our products candidates. Third parties may assert infringement claims against us based on existing or future intellectual property rights. For example, we are aware of certain patents owned or exclusively licensed by Bristol-Myers Squibb (BMS) having claims directed broadly to treating cancer with anti-PD-1 antibodies (the BMS Patents), which expire in 2023 and 2024. The BMS Patents are currently the subject of litigation between BMS and several other parties. If the validity of the BMS Patents is upheld following all such challenges, and if we receive regulatory approval for AB122 prior to expiration of the BMS Patents, then we may need to delay our commercialization of AB122 or we may need to obtain a license from BMS, which license may not be available on commercially reasonable terms, or at all. The pharmaceutical and biotechnology industries have produced a significant number of patents, and it may not always be clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we were sued for patent infringement, we would need to demonstrate that our product candidates, products or methods either do not infringe the patent claims of the relevant patent or that the patent claims are invalid or unenforceable, and we may not be able to do this. Proving invalidity may be difficult. For example, in the United States, proving invalidity in court requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. Even if we are successful in these proceedings, we may incur substantial costs and the time and attention of our management and scientific personnel could be diverted in pursuing these proceedings, which could have a material adverse effect on our business and operations. In addition, we may not have sufficient resources to bring these actions to a successful conclusion.
If we are found to infringe a third party’s intellectual property rights, we could be forced, including by court order, to cease developing, manufacturing or commercializing the infringing product candidate or product. Alternatively, we may be required to obtain a license from such third party in order to use the infringing technology and continue developing, manufacturing or marketing the infringing product candidate. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. In addition, we could be found liable for monetary damages, including treble damages and attorneys’ fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could materially harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

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

Competitors may infringe our patents, trademarks, copyrights or other intellectual property. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming and divert the time and attention of our management and scientific personnel. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their patents, in addition to counterclaims asserting that our patents are invalid or unenforceable, or both. In any patent infringement proceeding, there is a risk that a court will decide that a patent of ours is invalid or unenforceable, in whole or in part, and that we do not have the right to stop the other party from using the invention at issue. There is also a risk that, even if the validity of such patents is upheld, the court will construe the patent’s claims narrowly or decide that we do not have the right to stop the other party from using the invention at issue on the grounds that our patent claims do not cover the invention. An adverse outcome in a litigation or proceeding involving our patents could limit our ability to assert our patents against those parties or other competitors, and may curtail or preclude our ability to exclude third parties from making and selling similar or competitive products. Any of these occurrences could adversely affect our competitive business position, business prospects and financial condition. Similarly, if we assert trademark infringement claims, a court may determine that the marks we have asserted are invalid or unenforceable, or that the party against whom we have asserted trademark infringement has superior rights to the marks in question. In this case, we could ultimately be forced to cease use of such trademarks.

Even if we establish infringement, the court may decide not to grant an injunction against further infringing activity and instead award only monetary damages, which may or may not be an adequate remedy. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of shares of our common stock. Moreover, we cannot assure you that we will have sufficient financial or other resources to file and pursue such infringement claims, which typically last for years before they are concluded. Even if we ultimately prevail in such claims, the monetary cost of such litigation and the diversion of the attention of our management and scientific personnel could outweigh any benefit we receive as a result of the proceedings.

Because of the expense and uncertainty of litigation, we may not be in a position to enforce our intellectual property rights against third parties.

Because of the expense and uncertainty of litigation, we may conclude that even if a third party is infringing our issued patent, any patents that may be issued as a result of our pending or future patent applications or other intellectual property rights, the risk-adjusted cost of bringing and enforcing such a claim or action may be too high or not in the best interest of our company or our stockholders. In such cases, we may decide that the more
prudent course of action is to simply monitor the situation or initiate or seek some other non-litigious action or solution.

We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties.

We could in the future be subject to claims that we or our employees have inadvertently or otherwise used or disclosed alleged trade secrets or other confidential information of former employers or competitors. Although we try to ensure that our employees and consultants do not use the intellectual property, proprietary information, know-how or trade secrets of others in their work for us, we may become subject to claims that we caused an employee to breach the terms of his or her non-competition or non-solicitation agreement, or that we or these individuals have, inadvertently or otherwise, used or disclosed the alleged trade secrets or other proprietary information of a former employer or competitor.

While we may litigate to defend ourselves against these claims, even if we are successful, litigation could result in substantial costs and could be a distraction to management. If our defenses to these claims fail, in addition to requiring us to pay monetary damages, a court could prohibit us from using technologies or features that are essential to our product candidates, if such technologies or features are found to incorporate or be derived from the trade secrets or other proprietary information of the former employers. Moreover, any such litigation or the threat thereof may adversely affect our reputation, our ability to form strategic alliances or sublicense our rights to collaborators, engage with scientific advisors or hire employees or consultants, each of which would have an adverse effect on our business, results of operations and financial condition.

We may not be able to protect our intellectual property rights throughout the world.

Patents are of national or regional effect, and filing, prosecuting and defending patents on all of our product candidates throughout the world would be prohibitively expensive. As such, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States, or from selling or importing products made using our inventions in and into the United States or other jurisdictions. Further, the legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to pharmaceuticals or biologics, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. In addition, certain developing countries, including China and India, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In those countries, we and our licensors may have limited remedies if patents are infringed or if we or our licensors are compelled to grant a license to a third party, which could materially diminish the value of those patents. This could limit our potential revenue opportunities. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

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

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involves both technological and legal complexity and is therefore costly, time consuming and inherently uncertain. Changes in either the patent laws or interpretation of the patent laws in the United States could increase the uncertainties and costs. Recent patent reform legislation in the United States and other countries, including the Leahy-Smith America Invents Act (the Leahy-Smith Act), signed into law on September 16, 2011, could increase those uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted, redefine prior art and provide more
efficient and cost-effective avenues for competitors to challenge the validity of patents. These include allowing third-party submission of prior art to the USPTO during patent prosecution and additional procedures to attack the validity of a patent by USPTO administered post-grant proceedings, including post-grant review, inter partes review, and derivation proceedings. After March 2013, under the Leahy-Smith Act, the United States transitioned to a first inventor to file system in which, assuming that the other statutory requirements are met, the first inventor to file a patent application will be entitled to the patent on an invention regardless of whether a third party was the first to invent the claimed invention. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

Periodic maintenance fees, renewal fees, annuities fees and various other governmental fees on patents and/or patent applications are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent and/or patent application. The USPTO and various foreign governmental patent agencies also require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our product candidates, our competitive position would be adversely affected.

We may rely on trade secret and proprietary know-how which can be difficult to trace and enforce and, if we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

In addition to seeking patents for some of our technology and product candidates, we may also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. Elements of our product candidate, including processes for their preparation and manufacture, may involve proprietary know-how, information, or technology that is not covered by patents, and thus for these aspects we may consider trade secrets and know-how to be our primary intellectual property. Any disclosure, either intentional or unintentional, by our employees, the employees of third parties with whom we share our facilities or third party consultants and vendors that we engage to perform research, clinical trials or manufacturing activities, or misappropriation by third parties (such as through a cybersecurity breach) of our trade secrets or proprietary information could enable competitors to duplicate or surpass our technological achievements, thus eroding our competitive position in our market.

Trade secrets and know-how can be difficult to protect. We require our employees to enter into written employment agreements containing provisions of confidentiality and obligations to assign to us any inventions
generated in the course of their employment. We and any third parties with whom we share facilities enter into written agreements that include confidentiality and intellectual property obligations to protect each party’s property, potential trade secrets, proprietary know-how, and information. We further seek to protect our potential trade secrets, proprietary know-how, and information in part, by entering into non-disclosure and confidentiality agreements with parties who are given access to them, such as our corporate collaborators, outside scientific collaborators, contract research organizations, contract manufacturers, consultants, advisors and other third parties. With our consultants, contractors, and outside scientific collaborators, these agreements typically include invention assignment obligations. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor or other third party, we would have no right to prevent them from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor or other third party, our competitive position would be harmed.

We may become subject to claims challenging the inventorship or ownership of our patents and other intellectual property.

We may be subject to claims that former employees, collaborators or other third parties have an interest in our patents or other intellectual property as an inventor or co-inventor. The failure to name the proper inventors on a patent application can result in the patents issuing thereon being unenforceable. Inventorship disputes may arise from conflicting views regarding the contributions of different individuals named as inventors, the effects of foreign laws where foreign nationals are involved in the development of the subject matter of the patent, conflicting obligations of third parties involved in developing our product candidates or as a result of questions regarding co-ownership of potential joint inventions. Litigation may be necessary to resolve these and other claims challenging inventorship and/or ownership. Alternatively, or additionally, we may enter into agreements to clarify the scope of our rights in such intellectual property. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on our business. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

Patent terms may be inadequate to protect our competitive position on our product candidates for an adequate amount of time.

Patent rights are of limited duration. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such product candidates are commercialized. Even if patents covering our product candidates are obtained, once the patent life has expired for a product, we may be open to competition from biosimilar or generic products. A patent term extension based on regulatory delay may be available in the United States. However, only a single patent can be extended for each marketing approval, and any patent can be extended only once, for a single product. Moreover, the scope of protection during the period of the patent term extension does not extend to the full scope of the claim, but instead only to the scope of the product as approved. Laws governing analogous patent term extensions in foreign jurisdictions vary widely, as do laws governing the ability to obtain multiple patents from a single patent family. Additionally, we may not receive an extension if we fail to apply within applicable deadlines, fail to apply prior to expiration of relevant patents or otherwise fail to satisfy applicable requirements. If we are unable to obtain patent term extension or restoration, or the term of any such extension is less than we request, the period during which we will have the right to exclusively market our product will be shortened and our competitors may obtain approval of competing products following our patent expiration, and our revenue could be reduced, possibly materially.
Risks Related to our Business Operations

We are highly dependent on the services of our founders, Terry Rosen, Ph.D., who serves as our Chief Executive Officer, and Juan Jaen, Ph.D., who serves as our President.

We are highly dependent on the services of our founders, Terry Rosen, Ph.D., who serves as our Chief Executive Officer, and Juan Jaen, Ph.D., who serves as our President. Although we have entered into employment agreements with them, they are not for a specific term and each of them may terminate their employment with us at any time, though we are not aware of any present intention of either of these individuals to leave us. We maintain “key person” insurance on each of them, but not for any of our other executives or employees.

Drs. Rosen and Jaen have significant experience identifying and developing biopharmaceuticals. Drs. Rosen and Jaen were previously the founders of Flexus Biosciences, Inc., which was acquired by Bristol-Myers Squibb approximately 18 months after it was founded to access its IDO-1 enzyme inhibitor. Previously, Dr. Rosen was Vice President of Therapeutic Discovery at Amgen, overseeing large and small-molecule drug discovery efforts, and Dr. Jaen was Senior Vice President, Drug Discovery and Chief Scientific Officer at ChemoCentryx, having built a track record of efficiently moving quality product candidates from discovery into clinical development across a wide range of therapeutic areas, including oncology. We believe that their drug discovery and development experience, and overall biopharmaceutical company management experience, would be difficult to replace. However, the historical results, past performance and/or acquisitions of companies with which they were affiliated, including Flexus, do not necessarily predict or guarantee similar results for our company.

Drs. Rosen and Jaen have certain other business and personal commitments outside of serving as the Chief Executive Officer and President of Arcus, including serving on the boards of other companies and foundations. Drs. Rosen and Jaen are defendants in an ongoing litigation with Incyte Corporation related to their previous company, Flexus Biosciences, Inc., alleging misappropriation of trade secrets, which litigation our founders believe has no merit. While such litigation involves no claims against our company, our founders may be required to focus time on the defense of such litigation, and any adverse developments in the litigation could affect our company’s reputation.

We expect to expand our development, regulatory and operational capabilities and, as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

As of February 1, 2018, we had 83 full-time employees. As we advance our research and development programs, we expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of clinical development, quality, regulatory affairs and, if any of our product candidates receives marketing approval, sales, marketing and distribution. To manage our anticipated future growth, we must:

- identify, recruit integrate, maintain and motivate additional qualified personnel;
- manage our development efforts effectively, including the initiation and conduct of clinical trials for our product candidates, both as monotherapy and in combination with other intra-portfolio product candidates; and
- improve our operational, financial and management controls, reporting systems and procedures.

Our future financial performance and our ability to develop, manufacture and commercialize our product candidates will depend, in part, on our ability to effectively manage any future growth, and our management may also have to divert financial and other resources, and a disproportionate amount of its attention away from day-to-day activities in order to devote a substantial amount of time, to managing these growth activities.

We currently rely, and for the foreseeable future will continue to rely, in substantial part on certain third party contract organizations, advisors and consultants to provide certain services, including assuming substantial
responsibilities for the conduct of our clinical trials and the manufacture of our product candidates. We cannot assure you that the services of such third party contract organizations, advisors and consultants will continue to be available to us on a timely basis when needed, or that we can find qualified replacements. In addition, if we are unable to effectively manage our outsourced activities or if the quality or accuracy of the services provided by our vendors or consultants is compromised for any reason, our clinical trials may be extended, delayed or terminated, and we may not be able to obtain marketing approval of our product candidates or otherwise advance our business. We cannot assure you that we will be able to properly manage our existing vendors or consultants or find other competent outside vendors and consultants on economically reasonable terms, or at all.

If we are not able to effectively expand our organization by hiring new employees and expanding our groups of consultants and contractors, we may not be able to successfully implement the tasks necessary to further develop and commercialize our product candidates and, accordingly, may not achieve our research, development and commercialization goals.

Our future success depends on our ability to retain key employees, consultants and advisors and to attract, retain and motivate qualified personnel.

Our industry has experienced a high rate of turnover in recent years. Our ability to compete in the highly competitive biopharmaceuticals industry depends upon our ability to attract, retain and motivate highly skilled and experienced personnel with scientific, medical, regulatory, manufacturing and management skills and experience. We conduct our operations in the San Francisco Bay Area, a region that is home to many other biopharmaceutical companies as well as many academic and research institutions, resulting in fierce competition for qualified personnel. We may not be able to attract or retain qualified personnel in the future due to the intense competition for a limited number of qualified personnel among biopharmaceutical companies. Many of the other biopharmaceutical companies against which we compete have greater financial and other resources, different risk profiles and a longer history in the industry than we do. Our competitors may provide higher compensation, more diverse opportunities and/or better opportunities for career advancement. Any or all of these competing factors may limit our ability to continue to attract and retain high quality personnel, which could negatively affect our ability to successfully develop and commercialize our product candidates and to grow our business and operations as currently contemplated.

Our future growth may depend, in part, on our ability to operate in foreign markets, where we would be subject to additional regulatory burdens and other risks and uncertainties.

Our future profitability may depend, in part, on our ability to commercialize our product candidates in foreign markets for which we may rely on collaboration with third parties. We are not permitted to market or promote any of our product candidates before we receive marketing approval from the applicable regulatory authority in that foreign market, and we may never receive such marketing approval for any of our product candidates. To obtain marketing approval in many foreign countries, we must comply with numerous and varying regulatory requirements of such countries regarding safety and efficacy and governing, among other things, clinical trials and commercial sales, pricing and distribution of our product candidates, and we cannot predict success in these jurisdictions. If we obtain approval of our product candidates and ultimately commercialize our product candidates in foreign markets, we would be subject to additional risks and uncertainties, including:

- our customers’ ability to obtain reimbursement for our product candidates in foreign markets;
- our inability to directly control commercial activities because we are relying on third parties;
- the burden of complying with complex and changing foreign regulatory, tax, accounting and legal requirements;
- different medical practices and customs in foreign countries affecting acceptance in the marketplace;
- import or export licensing requirements.

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• longer accounts receivable collection times;
• longer lead times for shipping;
• language barriers for technical training;
• reduced protection of intellectual property rights in some foreign countries;
• the existence of additional potentially relevant third-party intellectual property rights;
• foreign currency exchange rate fluctuations; and
• the interpretation of contractual provisions governed by foreign laws in the event of a contract dispute.

Foreign sales of our product candidates could also be adversely affected by the imposition of governmental controls, political and economic instability, trade restrictions and changes in tariffs.

We face substantial competition, which may result in others discovering, developing or commercializing products more quickly or marketing them more successfully than us. If their product candidates are shown to be safer or more effective than ours, then our commercial opportunity will be reduced or eliminated.

The development and commercialization of new products is highly competitive. We compete in the segments of the pharmaceutical, biotechnology and other related markets that develop immunotherapies for the treatment of cancer. Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient, or are less expensive than any products that we may develop or that would render any products that we may develop obsolete or non-competitive. Our competitors also may obtain marketing approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market.

Other products in the same class as some of our product candidates have already been approved or are further along in development. With respect to our dual adenosine receptor antagonist, AB928, we are aware of several other companies that are developing selective adenosine receptor antagonists, including AstraZeneca/MedImmune, Corvus, iTEOS, Merck and Novartis. For our small-molecule CD73 inhibitor, AB680, we are aware of several pharmaceutical companies developing antibodies against this target, including AstraZeneca/MedImmune, Bristol-Myers Squibb, Corvus, Innate Pharma, Merck and Surface Oncology. Regarding our anti-PD-1 antibody, AB122, multiple large pharmaceutical companies have already received regulatory approvals for their anti-PD-1/PD-L1 antibodies, including AstraZeneca, Bristol-Myers Squibb, Merck, Pfizer in partnership with Merck Kgaa, and Roche/Genentech and there are also many other anti-PD-1 and anti-PD-L1 antibodies in clinical development. With respect to our anti-TIGIT antibody, AB154, we are aware of several pharmaceutical companies developing antibodies against this target including Bristol-Myers Squibb, Genentech, Merck and OncoMed. As more product candidates within a particular class of drugs proceed through clinical development to regulatory review and approval, the amount and type of clinical data that may be required by regulatory authorities may increase or change. Consequently, the results of our clinical trials for product candidates in those class will likely need to show a risk benefit profile that is competitive with or more favorable than those products and product candidates in order to obtain marketing approval or, if approved, a product label that is favorable for commercialization. If the risk benefit profile is not competitive with those products or product candidates, we may have developed a product that is not commercially viable, that we are not able to sell profitably or that is unable to achieve favorable pricing or reimbursement. In such circumstances, our future product revenue and financial condition would be materially and adversely affected.

Many of our competitors, such as large pharmaceutical and biotechnology companies like AstraZeneca/MedImmune, Bristol-Myers Squibb, Merck, Novartis and Roche/Genentech, have longer operating histories and significantly greater financial resources and expertise in research and development, manufacturing, preclinical studies, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do.
Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller and other early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and subject enrollment for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

The key competitive factors affecting the success of all of our programs are likely to be their efficacy, safety, convenience, and availability of reimbursement. If we are not successful in developing, commercializing and achieving higher levels of reimbursement than our competitors, we will not be able to compete against them and our business would be materially harmed.

The development and commercialization of AB122 may face strong competition from other anti-PD-1 antibodies that have already received marketing approval by larger companies with substantial resources and more experience developing, manufacturing and commercializing biologic compounds.

As discussed above, some companies, such as AstraZeneca, Bristol-Myers Squibb, Merck, Pfizer in partnership with Merck Kgaa and Roche/Genentech, have anti-PD-1/PD-L1 antibodies that are approved and on the market, and other companies are developing anti-PD-1/PD-L1 antibodies for various oncology indications that are further along in development than AB122. This competitive environment could limit our development opportunities for AB122 or compromise our ability to successfully enroll our ongoing and future clinical trials with AB122 by limiting the availability of clinical trial investigators, sites and/or subjects which could slow, delay or limit the progress of AB122’s development. As a result of these or other problems and risks, we may never receive marketing approval for AB122, may not realize the full commercial potential of AB122 as monotherapy or in combination with our other product candidates, may never recoup our financial investment or may never generate significant value or revenue from this asset.

Our internal information technology systems, or those of our third-party CROs or other contractors or consultants, may fail or suffer security breaches, loss or leakage of data, and other disruptions, which could result in a material disruption of our product candidates’ development programs, compromise sensitive information related to our business or prevent us from accessing critical information, potentially exposing us to liability or otherwise adversely affecting our business.

We are increasingly dependent upon information technology systems, infrastructure and data to operate our business. In the ordinary course of business, we collect, store and transmit confidential information (including but not limited to intellectual property, proprietary business information and personal information). It is critical that we do so in a secure manner to maintain the confidentiality and integrity of such confidential information. We also have outsourced elements of our operations to third parties, and as a result we manage a number of third party contractors who have access to our confidential information.

Despite the implementation of security measures, given their size and complexity and the increasing amounts of confidential information that they maintain, our internal information technology systems and those of our third-party CROs and other contractors and consultants are potentially vulnerable to breakdown or other damage or interruption from service interruptions, system malfunction, natural disasters, terrorism, war and telecommunication and electrical failures, as well as security breaches from inadvertent or intentional actions by our employees, contractors, consultants, business partners, and/or other third parties, or from cyber-attacks by malicious third parties (including the deployment of harmful malware, ransomware, denial-of-service attacks, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information), which may compromise our system infrastructure or lead to data leakage. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and reputational damage and the further development and commercialization of our drug candidates could be delayed.
While we have not experienced any such system failure, accident or security breach to date, we cannot assure you that our data protection efforts and our investment in information technology will prevent significant breakdowns, data leakages, breaches in our systems or other cyber incidents that could have a material adverse effect upon our reputation, business, operations or financial condition. For example, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our programs and the development of our product candidates could be delayed. In addition, the loss of clinical trial data for our product candidates could result in delays in our marketing approval efforts and significantly increase our costs to recover or reproduce the data. Furthermore, significant disruptions of our internal information technology systems or security breaches could result in the loss, misappropriation, and/or unauthorized access, use, or disclosure of, or the prevention of access to, confidential information (including trade secrets or other intellectual property, proprietary business information, and personal information), which could result in financial, legal, business, and reputational harm to us. For example, any such event that leads to unauthorized access, use, or disclosure of personal information, including personal information regarding our clinical trial subjects or employees, could harm our reputation directly, compel us to comply with federal and/or state breach notification laws and foreign law equivalents, subject us to mandatory corrective action, and otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information, which could result in significant legal and financial exposure and reputational damages that could potentially have an adverse effect on our business.

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

Our headquarters and main research facility are located in the San Francisco Bay Area, which in the past has experienced severe earthquakes and fires. If these earthquakes, fires, other natural disasters, terrorism and similar unforeseen events beyond our control prevented us from using all or a significant portion of our headquarters or research facility, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. We do not have a disaster recovery or business continuity plan in place and may incur substantial expenses as a result of the absence or limited nature of our internal or third party service provider disaster recovery and business continuity plans, which, particularly when taken together with our lack of earthquake insurance, could have a material adverse effect on our business. Furthermore, integral parties in our supply chain are operating from single sites, increasing their vulnerability to natural disasters or other sudden, unforeseen and severe adverse events. If such an event were to affect our supply chain, it could have a material adverse effect on our ability to conduct our clinical trials, our development plans and business.

Unfavorable global economic conditions could adversely affect our business, financial condition or results of operations.

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets. We currently conduct both of our clinical trials outside of the United States and unfavorable economic conditions resulting in the weakening of the U.S. dollar would make those clinical trials more costly to operate. Furthermore, the most recent global financial crisis caused extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn could result in a variety of risks to our business, including a reduced ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy could also strain our suppliers, possibly resulting in supply disruption. Any of the foregoing could harm our business and we cannot anticipate all of the ways in which the current economic climate and financial market conditions could adversely impact our business.

We conduct clinical development operations through our Australian wholly-owned subsidiary. If we lose our ability to operate in Australia, our business and results of operations may suffer.

In September 2017, we formed a wholly-owned Australian subsidiary, Arcus Biosciences Australia Pty Ltd, to develop our product candidates in Australia. Due to the geographical distance and lack of employees currently in
Australia, as well as our lack of experience operating in Australia, we may not be able to efficiently or successfully monitor any clinical trials we conduct in Australia nor the development of our product candidates in Australia.

**Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.**

We have incurred substantial losses during our history and do not expect to become profitable in the near future, and we may never achieve profitability. Unused losses for the tax year ended December 31, 2017 and prior tax years will carry forward to offset future taxable income, if any, until such unused losses expire. Unused losses generated after December 31, 2017, under new tax legislation will not expire and may be carried forward indefinitely but will be only deductible to the extent of 80% of current year taxable income in any given year. In addition, both our current and our future unused losses may be subject to limitation under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if we undergo an “ownership change,” generally defined as a greater than 50 percentage point change (by value) in its equity ownership by certain stockholders over a three-year period. As a result, if we earn net taxable income our pre-2018 net operating loss carryforwards may expire prior to being used, our net operating loss carryforwards generated in 2018 and thereafter will be subject to a percentage limitation and, if we undergo an ownership change, our ability to use all of our pre-change net operating loss carryforwards (NOLs) and other pre-change tax attributes (such as research tax credits) to offset its post-change income or taxes may be limited. As a result, if we earn net taxable income, our ability to use our pre-change NOLs to offset such taxable income may be subject to limitations. Similar provisions of state tax law may also apply to limit our use of accumulated state tax attributes. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. As a result, even if we attain profitability, we may be unable to use all or a material portion of our NOLs and other tax attributes, which could adversely affect our future cash flows.

**U.S. federal income tax reform could adversely affect us.**

On December 22, 2017, President Trump signed into law new legislation that significantly revises the Internal Revenue Code of 1986, as amended. The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. We do not expect this tax legislation to have a material impact to our current projection of minimal cash taxes for the near future. However, we continue to examine the impact that this tax legislation may have on our business in the longer term. Accordingly, notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law. The impact of this tax legislation on holders of our common stock is also uncertain and could be adverse. We urge prospective investors to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

**Risks Related to Our Industry**

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

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

- delay or termination of clinical trials;
- decreased demand for any product candidates or products that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial subjects;
- initiation of investigations by regulators;
- significant costs to defend the related litigation and diversion of management’s time and our resources;
- substantial monetary awards to study subjects or patients;
- product recalls, withdrawals or labeling, marketing or promotional restrictions;
- loss of revenue; and
- the inability to commercialize any products that we may develop.

Although we maintain product liability insurance coverage, it may not be adequate to cover all liabilities that we may incur. We anticipate that we will need to increase our insurance coverage as our product candidates advance through clinical trials and if we successfully commercialize any products. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

Our industry is highly regulated by the FDA and comparable foreign regulatory agencies. We must comply with extensive, strictly enforced regulatory requirements to develop, obtain, and maintain marketing approval for any of our product candidates.

Securing FDA or comparable foreign regulatory approval requires the submission of extensive preclinical and clinical data and supporting information for each therapeutic indication to establish the product candidate’s safety and efficacy for its intended use. It takes years to complete the testing of a new drug or biologic and development delays and/or failure can occur at any stage of testing. Any of our present and future clinical trials may be delayed, halted, not authorized, or approval of any of our products may be delayed or may not be obtained due to any of the following:

- any preclinical study or clinical trial may fail to produce safety and efficacy results satisfactory to the FDA or comparable foreign regulatory authorities;
- preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent marketing approval;
- negative or inconclusive results from a preclinical study or clinical trial or adverse events during a clinical trial could cause a preclinical study or clinical trial to be repeated or a development program to be terminated, even if other studies relating to the development program are ongoing or have been completed and were successful;
- the FDA or comparable foreign regulatory authorities can place a clinical hold on a trial if, among other reasons, it finds that subjects enrolled in the trial are or would be exposed to an unreasonable and significant risk of illness or injury;
- the facilities that we utilize, or the processes or facilities of third party vendors, including without limitation the contract manufacturers who will be manufacturing drug substance and drug product for us or any potential collaborators, may not satisfactorily complete inspections by the FDA or comparable foreign regulatory authorities; and
we may encounter delays or rejections based on changes in FDA policies or the policies of comparable foreign regulatory authorities during the period in which we develop a product candidate or the period required for review of any final marketing approval before we are able to market any product candidate.

In addition, information generated during the clinical trial process is susceptible to varying interpretations that could delay, limit, or prevent marketing approval at any stage of the approval process. Moreover, early positive preclinical or clinical trial results may not be replicated in later clinical trials. As more product candidates within a particular class of drugs proceed through clinical development to regulatory review and approval, the amount and type of clinical data that may be required by regulatory authorities may increase or change. Failure to demonstrate adequately the quality, safety and efficacy of any of our product candidates would delay or prevent marketing approval of the applicable product candidate. We cannot assure you that if clinical trials are completed, either we or our potential collaborators will submit applications for required authorizations to manufacture or market potential products or that any such application will be reviewed and approved by appropriate regulatory authorities in a timely manner, if at all.

Even if we receive marketing approval for a product candidate, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense and subject us to restrictions, withdrawal from the market, or penalties if we fail to comply with applicable regulatory requirements or if we experience unanticipated problems with our product candidates, when and if approved.

Once marketing approval has been granted by the FDA and comparable foreign regulatory authorities, the approved product and those entities within the product’s supply chain are subject to continual review by the applicable regulatory authorities. Any marketing approval that we receive for our product candidates may be subject to limitations on the indicated uses for which the product may be marketed or contain requirements for potentially costly post-marketing follow-up trials or surveillance to monitor the safety and efficacy of the product. In addition, if the FDA and comparable foreign regulatory authorities approve any of our product candidates, we will be subject to extensive and ongoing regulatory requirements with regard to labeling, packaging, adverse event reporting, storage, distribution, advertising, promotion, recordkeeping and submission of safety and other post-market information. Manufacturers of our products and manufacturers’ facilities are required to comply with cGMP regulations, which include requirements related to quality control and quality assurance as well as the corresponding maintenance of records and documentation.

Further, regulatory authorities must approve these manufacturing facilities before they can be used to manufacture our products, and these facilities are subject to continual review and periodic inspections by the FDA and other comparable foreign regulatory authorities for compliance with cGMP regulations. Accordingly, we and others with whom we work must continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control. We will also be required to report certain adverse reactions and production problems, if any, to the FDA and other comparable regulatory authorities and to comply with requirements concerning advertising and promotion for our products. If we, any future collaboration partner or a regulatory authority discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory authority may impose restrictions on that product, the collaboration partner, the manufacturer or us, including requiring withdrawal of the product from the market or suspension of manufacturing.

The FDA as well as other comparable regulatory authorities closely regulate the post-approval marketing and promotion of therapeutic products to ensure they are marketed only for the approved indications and in accordance with the provisions of the approved labeling and regulatory requirements. The FDA and other comparable regulatory authorities also impose stringent restrictions on communications regarding off-label use and if we do not restrict the marketing of our products only to their approved indications, we may be subject to enforcement action for off-label marketing. If we, our product candidates or the manufacturing facilities for our
product candidates are not found to be in compliance with regulatory requirements of the FDA and comparable foreign regulatory authorities, we could be subject to administrative or judicially imposed sanctions, including:

- warning letters or untitled letters;
- mandated modifications to promotional materials or the required provision of corrective information to healthcare practitioners;
- restrictions imposed on the product or its manufacturers or manufacturing processes;
- restrictions imposed on the labeling or marketing of the product;
- restrictions imposed on product distribution or use;
- requirements for post-marketing clinical trials;
- suspension of any ongoing clinical trials;
- suspension of or withdrawal of marketing approval;
- voluntary or mandatory product recalls and publicity requirements;
- refusal to approve pending applications for marketing approval of new products or supplements to approved applications filed by us;
- restrictions on operations, including costly new manufacturing requirements;
- seizure or detention of our products;
- refusal to permit the import or export of our products;
- required entry into a consent decree, which can include imposition of various fines (including restitution or disgorgement of profits or revenue), reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- civil or criminal penalties; or
- injunctions.

Widely publicized events concerning the safety risk of certain products have resulted in their withdrawal from the market, revisions to product labeling that further limit use of the products and the imposition by the FDA of REMS to ensure that the benefits of the product outweigh its risks. In addition, because of the serious public health risks of high profile adverse safety events with certain products, the FDA may require, as a condition of approval, costly REMS programs.

The regulatory requirements and policies may change and additional government regulations may be enacted for which we may also be required to comply. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or in other countries. If we or any future collaboration partner are not able to maintain regulatory compliance, we or such collaboration partner, as applicable, will not be permitted to market our future products and our business will suffer.

In the European Union, various penalties and sanctions exist in different EU Member States for non-compliance with the EU marketing authorization procedure. The European Commission may also impose financial penalties on the holders of marketing authorizations if they fail to comply with certain obligations in connection with the authorizations. If we or our potential collaborators fail to comply with applicable EU, or other foreign jurisdictions, regulatory requirements, we may be subject to, among other things, fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.
Failure to comply with health and data protection laws and regulations could lead to government enforcement actions (which could include civil or criminal penalties), private litigation, and/or adverse publicity and could negatively affect our operating results and business.

We and any potential collaborators may be subject to federal, state, and foreign data protection laws and regulations (i.e., laws and regulations that address privacy and data security). In the United States, numerous federal and state laws and regulations, including federal health information privacy laws, state data breach notification laws, state health information privacy laws, and federal and state consumer protection laws (e.g., Section 5 of the FTC Act), that govern the collection, use, disclosure, and protection of health-related and other personal information could apply to our operations or the operations of our collaborators. In addition, we may obtain health information from third parties (including research institutions from which we obtain clinical trial data) that are subject to privacy and security requirements under federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) as amended by the Health Information Technology for Economic and Clinical Health Act of 2009 (HITECH). Depending on the facts and circumstances, we could be subject to criminal penalties if we knowingly obtain, use, or disclose individually identifiable health information maintained by a HIPAA-covered entity in a manner that is not authorized or permitted by HIPAA.

International data protection laws, including Directive 95/46/EC (EU Data Protection Directive) and EU Member State implementing legislation, may also apply to health-related and other personal information obtained outside of the United States. The EU Data Protection Directive and the national implementing legislation of the individual EU Member States impose strict obligations on the ability to process health-related and other personal information of EU data subjects, including in relation to collection, analysis and transfer. These include several requirements relating to the consent of the individuals to whom the personal data relates, the information provided to the individuals, notification of data processing obligations to the competent national data protection authorities and the security and confidentiality of the personal data. The EU Data Protection Directive prohibits the transfer of personal data to countries outside of the European Economic Area (EEA) such as the United States, which are not considered by the European Commission to provide an adequate level of data protection. Switzerland has adopted similar restrictions. Although there are legal mechanisms to allow for the transfer of personal data from the EEA and Switzerland to the United States, uncertainty about compliance with EU data protection laws remains and data protection authorities from the different EU Member States may interpret the EU Data Protection Directive and national laws differently, and guidance on implementation and compliance practices are often updated or otherwise revised, which adds to the complexity of processing personal data in the European Union.

Regulation 2016/679 (EU Data Protection Regulation) will replace the EU Data Protection Directive in May 2018. The EU Data Protection Regulation will introduce new data protection requirements in the European Union, as well as substantial fines for breaches of the data protection rules. The EU Data Protection Regulation will increase our responsibility and liability in relation to personal data that we process, and we may be required to put in place additional mechanisms to ensure compliance with the new EU data protection rules.

Failure to comply with U.S. and international data protection laws and regulations could result in government enforcement actions (which could include civil or criminal penalties), private litigation, and/or adverse publicity and could negatively affect our operating results and business. Moreover, clinical trial subjects about whom we or our potential collaborators obtain information, as well as the providers who share this information with us, may contractually limit our ability to use and disclose the information. Claims that we have violated individuals’ privacy rights, failed to comply with data protection laws, or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.
Changes in healthcare law and implementing regulations, as well as changes in healthcare policy, may impact our business in ways that we cannot currently predict, and may have a significant adverse effect on our business and results of operations.

In the United States and some foreign jurisdictions, there have been, and continue to be, several legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of product candidates, restrict or regulate post-approval activities, and affect our ability to profitably sell any product candidates for which we obtain marketing approval. Among policy makers and payors in the United States and elsewhere, including in the European Union, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the Affordable Care Act, substantially changed the way healthcare is financed by both the government and private insurers, and significantly impacts the U.S. pharmaceutical industry. The Affordable Care Act, among other things: (i) introduced a new average manufacturer price definition for drugs and biologics that are inhaled, infused, instilled, implanted or injected and not generally dispensed through retail community pharmacies; (ii) increased the minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and expanded rebate liability from fee-for-service Medicaid utilization to include the utilization of Medicaid managed care organizations as well; (iii) established a branded prescription drug fee that pharmaceutical manufacturers of branded prescription drugs must pay to the federal government; (iv) expanded the list of covered entities eligible to participate in the 340B drug pricing program by adding new entities to the program; (v) established a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer’s outpatient drugs to be covered under Medicare Part D; (vi) extended manufacturers’ Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations; (vii) expanded eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for individuals with income at or below 133% of the federal poverty level, thereby potentially increasing manufacturers’ Medicaid rebate liability; (viii) created a licensure framework for follow on biologic products; and (ix) established a Center for Medicare Innovation at the Centers for Medicare and Medicaid Services (CMS) to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending that began on January 1, 2011.

Since its enactment, there have been judicial and Congressional challenges to certain aspects of the Affordable Care Act, as well as recent efforts by the Trump administration to repeal or replace certain aspects of the Affordable Care Act. Since January 2017, President Trump has signed two Executive Orders designed to delay the implementation of certain provisions of the Affordable Care Act or otherwise circumvent some of the requirements for health insurance mandated by the Affordable Care Act. The Trump administration has also announced that it will discontinue the payment of cost-sharing reduction (CSR) payments to insurance companies until Congress approves the appropriation of funds for the CSR payments. The loss of the CSR payments is expected to increase premiums on certain policies issued by qualified health plans under the Affordable Care Act. A bipartisan bill to appropriate funds for CSR payments has been introduced in the Senate, but the future of that bill is uncertain. In addition, CMS has recently proposed regulations that would give states greater flexibility in setting benchmarks for insurers in the individual and small group marketplaces, which may have the effect of relaxing the essential health benefits required under the Affordable Care Act for plans sold through such marketplaces. Furthermore, each chamber of Congress has put forth multiple bills designed to repeal or replace and replace portions of the Affordable Care Act. While Congress has not passed repeal legislation, the newly enacted federal income tax law includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the Affordable Care Act on certain individuals who fail to maintain

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qualifying health coverage for all or part of a year that is commonly referred to as the “individual mandate.” Congress may consider other legislation to repeal and replace elements of the Affordable Care Act. We continue to evaluate the effect that the Affordable Care Act and its possible repeal and replacement has on our business. It is uncertain the extent to which any such changes may impact our business or financial condition.

Other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. These changes include aggregate reductions to Medicare payments to providers of up to 2% per fiscal year pursuant to the Budget Control Act of 2011 and subsequent laws, which began in 2013 and will remain in effect through 2025 unless additional Congressional action is taken. New laws may result in additional reductions in Medicare and other healthcare funding, which may materially adversely affect customer demand and affordability for our products and, accordingly, the results of our financial operations. Additional changes that may affect our business include the expansion of new programs such as Medicare payment for performance initiatives for physicians under the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) which will first affect physician payment in 2019. At this time, it is unclear how the introduction of the Medicare quality payment program will impact overall physician reimbursement.

Also, there has been heightened governmental scrutiny recently over the manner in which drug manufacturers set prices for their marketed products, which have resulted in several Congressional inquiries and proposed bills, as well as state efforts, designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drug products. Individual states in the United States have become increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures. For example, in September 2017, the California State Assembly approved SB17, which requires pharmaceutical companies to notify health insurers and government health plans at least 60 days before any scheduled increases in the prices of their products if they exceed 16% over a two-year period, and further requiring pharmaceutical companies to explain the reasons for such increase. Effective in 2016, Vermont passed a law requiring certain manufacturer identified by the state to justify their price increases.

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

In the European Union, coverage and reimbursement status of any product candidates for which we obtain regulatory approval are provided for by the national laws of EU Member States. The requirements may differ across the EU Member States. Also at national level, actions have been taken to enact transparency laws regarding payments between pharmaceutical companies and health care professionals.

We will be subject to applicable fraud and abuse, transparency, government price reporting, and other healthcare laws and regulations. If we are unable to comply, or have not fully complied, with such laws, we could face substantial penalties.

Healthcare providers, physicians and third-party payors will play a primary role in the recommendation and prescription of any future product candidates we may develop and any product candidates for which we obtain marketing approval. Our arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may affect the business or financial arrangements and relationships through which we would market, sell and distribute our products. Even though we do not and will not control referrals of healthcare services or bill directly to Medicare, Medicaid or other
third-party payors, federal and state healthcare laws and regulations pertaining to fraud and abuse and patients’ rights are and will be applicable to our business. The laws that may affect our ability to operate include, but are not limited to:

- the federal Anti-Kickback Statute, which prohibits any person or entity from, among other things, knowingly and willfully soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, order or recommendation of an item or service reimbursable, in whole or in part, under a federal healthcare program, such as the Medicare and Medicaid programs. The term “remuneration” has been broadly interpreted to include anything of value. The Anti-Kickback Statute has also been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers, and formulary managers on the other hand. There are a number of statutory exceptions and regulatory safe harbors protecting some common activities from prosecution;

- federal civil and criminal false claims laws and civil monetary penalty laws, such as the False Claims Act (FCA) which imposes significant penalties and can be enforced by private citizens through civil qui tam actions, prohibits individuals or entities from, among other things, knowingly presenting, or causing to be presented, false, fictitious or fraudulent claims for payment of federal funds, and knowingly making, using or causing to be made or used a false record or statement material to a false or fraudulent claim to avoid, decrease or conceal an obligation to pay money to the federal government. For example, pharmaceutical companies have been prosecuted under the FCA in connection with their alleged off-label promotion of drugs, purportedly concealing price concessions in the pricing information submitted to the government for government price reporting purposes, and allegedly providing free product to customers with the expectation that the customers would bill federal health care programs for the product. In addition, a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the FCA. As a result of a modification made by the Fraud Enforcement and Recovery Act of 2009, a claim includes “any request or demand” for money or property presented to the U.S. government. In addition, manufacturers can be held liable under the FCA even when they do not submit claims directly to government payors if they are deemed to “cause” the submission of false or fraudulent claims. Criminal prosecution is also possible for making or presenting a false, fictitious or fraudulent claim to the federal government. Government enforcement agencies and private whistleblowers have investigated pharmaceutical companies for or asserted liability under the FCA for a variety of alleged promotional and marketing activities, such as providing free product to customers with the expectation that the customers would bill federal health programs for the product, providing consulting fees and other benefits to physicians to induce them to prescribe products, engaging in promotion for “off-label” uses, and submitting inflated best price information to the Medicaid Rebate Program;

- HIPAA, among other things, imposes criminal liability for executing or attempting to execute a scheme to defraud any healthcare benefit program, including private third-party payors, knowingly and willfully embezzling or stealing from a healthcare benefit program, willfully obstructing a criminal investigation of a healthcare offense, and creates federal criminal laws that prohibit knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement or representation, or making or using any false writing or document knowing the same to contain any materially false, fictitious or fraudulent statement or entry in connection with the delivery of or payment for healthcare benefits, items or services;

- HIPAA, as amended by HITECH and its implementing regulations, which imposes privacy, security and breach reporting obligations with respect to individually identifiable health information upon entities subject to the law, such as health plans, healthcare clearinghouses and healthcare providers and their respective business associates that perform services for them that involve individually identifiable health information. HITECH also created new tiers of civil monetary penalties, amended HIPAA to make civil and criminal penalties directly applicable to business associates, and gave state attorneys
general new authority to file civil actions for damages or injunctions in U.S. federal courts to enforce the federal HIPAA laws and seek attorneys’ fees and costs associated with pursuing federal civil actions;

• federal and state consumer protection and unfair competition laws, which broadly regulate marketplace activities and activities that potentially harm consumers;

• the federal transparency requirements under the Physician Payments Sunshine Act, created under the Affordable Care Act, which requires, among other things, certain manufacturers of drugs, devices, biologics and medical supplies reimbursed under Medicare, Medicaid, or the Children’s Health Insurance Program to report to the Department of Health and Human Services information related to payments and other transfers of value provided to physicians and teaching hospitals and physician ownership and investment interests, including such ownership and investment interests interests held by a physician’s immediate family members;

• state and foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws, that may impose similar or more prohibitive restrictions, and may apply to items or services reimbursed by any non-governmental third-party payors, including private insurers; and

• state and foreign laws that require pharmaceutical companies to implement compliance programs, comply with the pharmaceutical industry’s voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government, or to track and report gifts, compensation and other remuneration provided to physicians and other health care providers, and other federal, state and foreign laws that govern the privacy and security of health information or personally identifiable information in certain circumstances, including state health information privacy and data breach notification laws which govern the collection, use, disclosure, and protection of health-related and other personal information, many of which differ from each other in significant ways and often are not pre-empted by HIPAA, thus requiring additional compliance efforts.

We have entered into consulting and scientific advisory board arrangements with physicians and other healthcare providers, including some who could influence the use of our product candidates, if approved. Because of the complex and far-reaching nature of these laws, regulatory agencies may view these transactions as prohibited arrangements that must be restructured, or discontinued, or for which we could be subject to other significant penalties. We could be adversely affected if regulatory agencies interpret our financial relationships with providers who may influence the ordering of and use our product candidates, if approved, to be in violation of applicable laws.

The scope and enforcement of each of these laws is uncertain and subject to rapid change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. Federal and state enforcement bodies have recently increased their scrutiny of interactions between healthcare companies and healthcare providers, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Responding to investigations can be time-and resource-consuming and can divert management’s attention from the business. Any such investigation or settlement could increase our costs or otherwise have an adverse effect on our business.

Ensuring that our business arrangements with third parties comply with applicable healthcare laws and regulations will likely be costly. If our operations are found to be in violation of any of these laws or any other current or future governmental laws and regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, disgorgement, individual imprisonment, exclusion from government funded healthcare programs, such as Medicare and Medicaid, contractual damages, reputational harm, diminished profits and future earnings, additional reporting obligations and oversight if we become subject to a corporate integrity agreement or other agreement to resolve allegations of non-compliance with these laws, and the curtailment or restructuring of our operations, any of which could substantially disrupt our operations. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found to be
We are subject to certain U.S. and foreign anti-corruption, anti-money laundering, export control, sanctions, and other trade laws and regulations. We can face serious consequences for violations.

U.S. and foreign anti-corruption, anti-money laundering, export control, sanctions, and other trade laws and regulations (collectively, Trade Laws) prohibit, among other things, companies and their employees, agents, clinical research organizations, legal counsel, accountants, consultants, contractors, and other partners from authorizing, promising, offering, providing, soliciting, or receiving directly or indirectly, corrupt or improper payments or anything else of value to or from recipients in the public or private sector. Violations of Trade Laws can result in substantial criminal fines and civil penalties, imprisonment, the loss of trade privileges, debarment, tax reassessments, breach of contract and fraud litigation, reputational harm, and other consequences. We have direct or indirect interactions with officials and employees of government agencies or government-affiliated hospitals, universities, and other organizations. We also expect our non-U.S. activities to increase over time. We expect to rely on third parties for research, preclinical studies, and clinical trials and/or to obtain necessary permits, licenses, patent registrations, and other marketing approvals. We can be held liable for the corrupt or other illegal activities of our personnel, agents, or partners, even if we do not explicitly authorize or have prior knowledge of such activities.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.

We, and the third parties with whom we share our facilities, are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Each of our operations involve the use of hazardous and flammable materials, including chemicals and biological and radioactive materials. Each of our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. We could be held liable for any resulting damages in the event of contamination or injury resulting from the use of hazardous materials by us or the third parties with whom we share our facilities, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties.

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

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research and development. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Risks Related to our Common Stock and this Offering

There has been no prior public market for our common stock, the stock price of our common stock may be volatile or may decline regardless of our operating performance and you may not be able to resell your shares at or above the initial public offering price.

There has been no public market for our common stock prior to this offering. The initial public offering price for our common stock will be determined through negotiations between the underwriters and us and may vary from
the market price of our common stock following this offering. If you purchase shares of our common stock in this offering, you may not be able to resell those shares at or above the initial public offering price. An active or liquid market in our common stock may not develop upon the completion of this offering or, if it does develop, it may not be sustainable. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- overall performance of the equity markets;
- our operating performance and the performance of other similar companies;
- results from our ongoing clinical trials and future clinical trials with our current and future product candidates or of our competitors;
- changes in our projected operating results that we provide to the public, our failure to meet these projections or changes in recommendations by securities analysts that elect to follow our common stock;
- regulatory or legal developments in the United States and other countries;
- the level of expenses related to future product candidates or clinical development programs;
- our failure to achieve product development goals in the timeframe we announce;
- announcements of acquisitions, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;
- the economy as a whole and market conditions in our industry;
- trading activity by a limited number of stockholders who together beneficially own a majority of our outstanding common stock;
- the expiration of market standoff or contractual lock-up agreements;
- the size of our market float; and
- any other factors discussed in this prospectus.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many immuno-oncology companies. Stock prices of many immuno-oncology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business.

Substantial amounts of our outstanding shares may be sold into the market when lock-up or market standoff periods end. If there are substantial sales of shares of our common stock, the price of our common stock could decline.

The price of our common stock could decline if there are substantial sales of our common stock, particularly sales by our directors, executive officers and significant stockholders, or if there is a large number of shares of our common stock available for sale and the market perceives that sales will occur. After this offering, we will have 41,650,472 outstanding shares of our common stock, based on the number of shares outstanding as of December 31, 2017. All of the shares of common stock sold in this offering will be available for sale in the public market. Substantially all of our outstanding shares of common stock are currently restricted from resale as a result of market standoff and “lock-up” agreements, as more fully described in “Shares Eligible for Future Sale.” These shares will become available to be sold 181 days after the date of this prospectus. Shares held by directors, executive officers and other affiliates will be subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended (Securities Act), and various vesting agreements.
After our initial public offering, certain of our stockholders will have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders, subject to market standoff and lockup agreements. We also intend to register shares of common stock that we have issued and may issue under our employee equity incentive plans. Once we register these shares, they will be able to be sold freely in the public market upon issuance, subject to existing market standoff or lock-up agreements.

Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and Leerink Partners LLC may, in their discretion, permit our stockholders to sell shares prior to the expiration of the restrictive provisions contained in those lock-up agreements.

The market price of the shares of our common stock could decline as a result of the sale of a substantial number of our shares of common stock in the public market or the perception in the market that the holders of a large number of shares intend to sell their shares.

If you purchase shares of our common stock in this offering, you will experience substantial and immediate dilution.

If you purchase shares of our common stock in this offering, you will experience substantial and immediate dilution in the pro forma net tangible book value per share of $4.42 per share as of December 31, 2017, based on an assumed initial public offering price of our common stock of $14.00 per share, the midpoint of the price range on the cover page of this prospectus, because the price that you pay will be substantially greater than the pro forma net tangible book value per share of the common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of our capital stock. You will experience additional dilution upon exercise of options to purchase common stock under our equity incentive plans, upon vesting of options to purchase common stock under our equity incentive plans, if we issue restricted stock to our employees under our equity incentive plans or if we otherwise issue additional shares of our common stock.

We will have broad discretion in the use of the net proceeds of this offering and may not use them effectively or in ways that increase the value of our share price.

We cannot specify with any certainty the particular uses of the net proceeds that we will receive from this offering, but we currently expect such uses will include advancing our clinical product candidates into later-stage clinical trials and combination trials, advancing our research product candidates into clinical development, supporting our ongoing drug discovery efforts and supporting our growing infrastructure and needs in operating as a public company. We will have broad discretion in the application of the net proceeds, including working capital and other general corporate purposes, and you and other stockholders may disagree with how we spend or invest these proceeds. The failure by our management to apply these funds effectively could adversely affect our business and financial condition. Pending their use, we may invest the net proceeds from our initial public offering in a manner that does not produce income or that loses value. These investments may not yield a favorable return to our investors.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on our company. If no or only very few securities analysts commence coverage of us, or if industry analysts cease coverage of us, the trading price for our common stock would be negatively affected. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease
coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline.

Requirements associated with being a public company will increase our costs significantly, as well as divert significant company resources and management attention.

After the completion of this offering, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (Exchange Act), or the other rules and regulations of the Securities and Exchange Commission (SEC) or any securities exchange relating to public companies. Compliance with the various reporting and other requirements applicable to public companies requires considerable time and attention of management. We cannot assure you that we will satisfy our obligations as a public company on a timely basis.

In addition, as a public company, it may be more difficult or more costly for us to obtain certain types of insurance, including directors’ and officers’ liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified personnel to serve on our board of directors, our board committees or as executive officers.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could result in sanctions or other penalties that would harm our business.

After the completion of this offering, we will be subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the New York Stock Exchange. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. Commencing with our fiscal year ending the year after this offering is completed, we must perform system and process design evaluation and testing of the effectiveness of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting in our Form 10-K filing for that year, as required by Section 404 of the Sarbanes-Oxley Act. This will require that we incur substantial additional professional fees and internal costs to expand our accounting and finance functions and that we expend significant management efforts. Prior to this offering, we have never been required to test our internal controls within a specified period and, as a result, we may experience difficulty in meeting these reporting requirements in a timely manner.

We may discover weaknesses in our system of internal financial and accounting controls and procedures that could result in a material misstatement of our consolidated financial statements. Our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls over financial reporting, we may not be able to produce timely and accurate financial statements. If that were to happen, our investors could lose confidence in our reported financial information, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Upon the completion of this offering, we will become subject to the periodic reporting requirements of the Exchange Act. We designed our disclosure controls and procedures to reasonably assure that information we
must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. For example, our directors or executive officers could inadvertently fail to disclose a new relationship or arrangement causing us to fail to make any related party transaction disclosures. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

**Future changes in financial accounting standards or practices may cause adverse and unexpected revenue fluctuations and adversely affect our reported results of operations.**

Future changes in financial accounting standards may cause adverse, unexpected revenue fluctuations and affect our reported financial position or results of operations. Financial accounting standards in the United States are constantly under review and new pronouncements and varying interpretations of pronouncements have occurred with frequency in the past and are expected to occur again in the future. As a result we may be required to make changes in our accounting policies. Those changes could affect our financial condition and results of operations or the way in which such financial condition and results of operations are reported. Compliance with new accounting standards may also result in additional expenses. As a result, we intend to invest all reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from business activities to compliance activities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recently Adopted Accounting Standards.”

In particular, in May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As an “emerging growth company” the JOBS Act allows us to delay adoption of new or revised accounting standards applicable to public companies until such pronouncements are made applicable to private companies. We have elected to use this extended transition period under the JOBS Act with respect to ASU 2014-09, which will result in ASU 2014-09 becoming applicable to us on January 1, 2019.

**We are an “emerging growth company,” and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.**

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, as amended (the JOBS Act) and we intend to take advantage of some of the exemptions from reporting requirements that are applicable to other public companies that are not emerging growth companies, including:

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

In addition, as an “emerging growth company” the JOBS Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We have elected to use this extended transition period under the JOBS Act. As a result, our consolidated financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies, which may make comparison of our financials to those of other public companies more difficult.

We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least $1.07 billion or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

We do not intend to pay dividends for the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Consequently, stockholders must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Participation in this offering by certain of our existing owners would reduce the available public float for our shares.

Several of our existing stockholders, including a principal stockholder, our Chief Executive Officer and our President, have indicated an interest in purchasing up to an aggregate of approximately $40.0 million of our common stock in this offering, at the initial public offering price. However, because indications of interest are not binding agreements or commitments to purchase, the underwriters could determine to sell more, less or no shares to any of these stockholders and any of these stockholders could determine to purchase more, less or no shares in this offering. To the extent these existing stockholders purchase any shares in this offering, such purchase could reduce the available public float for our shares because such stockholders may be restricted from selling the shares by restrictions under applicable securities laws. As a result, any purchase of shares by such stockholders in this offering may reduce the liquidity of our common stock relative to what it would have been had these shares been purchased by investors that were not existing stockholders.

The concentration of our stock ownership will likely limit your ability to influence corporate matters, including the ability to influence the outcome of director elections and other matters requiring stockholder approval.

Based upon shares outstanding as of February 1, 2018, prior to this offering, our executive officers, directors and the holders of more than 5% of our outstanding common stock, in the aggregate, beneficially owned approximately 57.0% of our common stock, and upon the completion of this offering, that same group, in the aggregate, will beneficially own approximately 46.8% of our common stock, assuming no purchases of shares in this offering by any members of this group, no exercise by the underwriters of their option to purchase additional
shares, no exercise of outstanding options or warrants and after giving effect to the issuance of shares in this offering. As a result, these stockholders, acting together, will have significant influence over all matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. Corporate actions might be taken even if other stockholders, including those who purchase shares in this offering, oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

**Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect at the completion of this offering could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.**

Following the completion of this offering, our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect at the completion of this offering will contain provisions that may make the acquisition of our company more difficult, including the following:

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by a majority vote of our entire board of directors, the chairman of our board of directors or our chief executive officer, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66 2/3 % of the voting power of all of the then-outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the management of our business or our amended and restated bylaws, which may inhibit the ability of an acquiror to effect such amendments to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders’ meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror’s own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time. A Delaware corporation may opt out of this provision by express provision in its original certificate of incorporation or by amendment to its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out of this provision.
These and other provisions in our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law could make it more difficult for stockholders or potential acquirors to obtain control of our board of directors or initiate actions that are opposed by our then-current board of directors, including delay or impede a merger, tender offer or proxy contest involving our company. The existence of these provisions could negatively affect the price of our common stock and limit opportunities for you to realize value in a corporate transaction.

For information regarding these and other provisions, see “Description of Capital Stock.”

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation will provide that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our certificate of incorporation or our bylaws or any action asserting a claim against us that is governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees and may discourage these types of lawsuits. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.
INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus are forward-looking statements, including statements about:

- our expectations regarding the uses of the net proceeds from this offering;
- our expectations regarding the timing and achievement of our product candidate development activities and ongoing and planned clinical trials;
- our expectations for reporting data from clinical trials in certain timeframes;
- our ability to develop intra-portfolio combinations and highly-differentiated small-molecule candidates, including our ability to create small-molecule product candidates with ideal pharmacological properties and desired clinical effects;
- our expectations regarding the efficiency and speed with which we can create and advance small-molecule product candidates and develop our product candidates and combination therapies;
- our reliance on third parties to conduct our ongoing and future clinical trials and third-party manufacturers to manufacture and supply our product candidates;
- our expectations regarding the nature of the immuno-oncology pathways we are targeting, the size of the potential patient population and the potential market size;
- our ability to obtain and maintain control of our combination products and maximize the commercial potential of our product candidates;
- our ability to obtain and maintain regulatory approvals of our product candidates, the potential market opportunities for commercializing our product candidates;
- our ability to retain and recruit key personnel, estimates of our expenses, future revenue, capital requirements and our needs for additional financing;
- our ability to develop, acquire and advance product candidates into, and successfully complete, clinical trials;
- our initiation, timing, progress and results of future research and development programs, preclinical studies and clinical trials;
- our ability to obtain and maintain intellectual property rights covering our product candidates; and
- our expectations regarding the composition of our board of directors, developments and projections relating to our competitors and our industry, and our expectations regarding the time during which we will be an emerging growth company under the JOBS Act.

The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “design,” “intend,” “expect,” “could,” “plan,” “potential,” “predict,” “seek,” “should,” “would” or the negative version of these words and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short- and long-term business operations and objectives and financial needs.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in “Risk Factors.” Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.
You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, advancements, discoveries, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, except as required by law, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

You should read this prospectus and the documents that we reference in this prospectus and have filed with the Securities and Exchange Commission as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.
MARKET, INDUSTRY AND OTHER DATA

This prospectus contains estimates, projections and other information concerning our industry, our business and the markets for certain cancers, including data regarding the estimated size of those markets and the incidence and prevalence of certain medical conditions. Information based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties, and actual events or circumstances may differ materially from events and circumstances that are assumed in this information. Unless otherwise expressly stated, we obtained this industry, business, market and other data from reports, research surveys, studies and similar data prepared by third parties, industry, medical and general publications, government data and similar sources.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock and we do not currently intend to pay any cash dividends on our capital stock for the foreseeable future. We currently intend to retain all available funds and any future earnings to support operations and to finance the growth and development of our business. Any future determination to pay dividends will be made at the discretion of our board of directors subject to applicable laws and will depend upon, among other factors, our results of operations, financial condition, contractual restrictions and capital requirements. Our future ability to pay cash dividends on our capital stock may also be limited by the terms of any future debt or preferred securities or future credit facility.
USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $88.9 million, or $102.8 million if the underwriters exercise their option to purchase additional shares in full, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, assuming an initial public offering price of $14.00 per share, which is the midpoint of the estimated price range set forth on the cover page of this prospectus. Each $1.00 increase (decrease) in the assumed initial public offering price of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, would increase (decrease) the net proceeds to us from this offering by $6.6 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions. An increase (decrease) of 1,000,000 shares in the number of shares offered by us, as set forth on the cover page of this prospectus, would increase (decrease) our net proceeds from this offering by $13.0 million, assuming no change in the assumed initial public offering price per share and after deducting estimated underwriting discounts and commissions.

The principal purposes of this offering are to increase our financial flexibility and create a public market for our common stock. We intend to use the net proceeds from this offering as follows:

- approximately $55.0 million to fund the clinical development of AB928 (our dual A2a R/A2b R antagonist) and AB122 (our anti-PD-1 antibody), including potential milestone payments to WuXi Biologics; and
- the remaining proceeds to fund the development of other product candidates in our pipeline, including AB680 (our CD73 inhibitor) and AB154 (our anti-TIGIT antibody), our drug discovery and optimization programs, and other general corporate purposes, which may include the hiring of additional personnel, capital expenditures and the costs of operating as a public company.

With the expected net proceeds from this offering, we believe that our current cash, cash equivalents and short-term investments will be sufficient to fund the clinical development of AB928 and AB122, including our cohort expansion studies, into 2020. Accordingly, the expected net proceeds from this offering will not be sufficient for us to fund any of our product candidates through regulatory approval, and we will need to raise substantial additional capital to complete the development and commercialization of our product candidates.

This expected use of the net proceeds from this offering represents our intentions based upon our current plans and business conditions. As of the date of this prospectus, we cannot predict with certainty all of the particular uses for the net proceeds to be received upon the completion of this offering or the amounts that we will actually spend on the uses set forth above. The amounts and timing of our actual expenditures and the extent of our preclinical, clinical and future development activities may vary significantly depending on numerous factors, including the progress of our development efforts, the status of and results from our ongoing and planned clinical trials, our ability to take advantage of expedited programs or to obtain regulatory approval for product candidates, the timing and costs associated with the manufacture and supply of product candidates for clinical development or commercialization and any unforeseen cash needs. As a result, our management will retain broad discretion over the allocation of the net proceeds from this offering.

Pending our use of the net proceeds from this offering, we plan to invest the net proceeds in a variety of capital preservation investments, including short-term interest-bearing investment-grade securities, certificates of deposit or government securities.
The following table sets forth our cash, cash equivalents and short-term investments and capitalization as of December 31, 2017:

- on an actual basis;
- on a pro forma basis to reflect: (i) the automatic conversion of all outstanding shares of our preferred stock into an aggregate of 30,459,574 shares of common stock; and (ii) the filing and effectiveness of our amended restated certificate of incorporation, each of which will occur immediately prior to the completion of this offering; and
- on a pro forma as adjusted basis to give effect to (i) the pro forma adjustments set forth above and (ii) the sale and issuance of 7,100,000 shares of our common stock by us in this offering, based upon the receipt by us of the estimated net proceeds from this offering at the assumed initial public offering price of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this information together with our consolidated financial statements and related notes appearing elsewhere in this prospectus and the information set forth in “Selected Consolidated Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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<th>(in thousands, except for share and per share data)</th>
<th>Actual</th>
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<th>Pro Forma As Adjusted (1)</th>
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<td>Stockholders’ (deficit) equity:</td>
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<td>Accumulated deficit</td>
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<td>Total capitalization</td>
<td>$153,868</td>
<td>$153,868</td>
<td>$242,810</td>
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(1) Each $1.00 increase (decrease) in the assumed initial offering price of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, would increase (decrease) each of cash, cash equivalents and short-term investments, additional paid-in capital, total stockholders’ (deficit) equity and total capitalization by approximately $6.6 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions. We may also increase or decrease the number of shares we are offering. Each increase (decrease) of 1,000,000 shares in the number of shares offered by us would increase (decrease) each of cash, cash equivalents and short-term investments, additional paid-in capital, total stockholders’ (deficit) equity and total capitalization by approximately $13.0 million, assuming that the initial public offering price to the public remains the same, and after deducting the estimated underwriting discounts and commissions. The pro forma as adjusted information discussed above is illustrative only and will adjust based on the actual initial price to the public and other terms of this offering determined at pricing.
The number of shares of common stock to be outstanding after this offering is based on 34,550,472 shares of common stock outstanding as of December 31, 2017, and excludes the following:

- 544,116 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2017 with a weighted-average exercise price of $1.71 per share;
- 1,155,378 shares of common stock issuable upon the exercise of options granted after December 31, 2017 with a weighted-average exercise price of $5.49 per share; and
- 6,139,240 shares of common stock reserved for future issuance under our equity compensation plans, consisting of 1,855,240 shares of common stock that were reserved for issuance under our 2015 Stock Plan as of December 31, 2017, 3,570,000 shares of common stock reserved for issuance under our 2018 Equity Incentive Plan, which will become effective in connection with the completion of this offering, and 714,000 shares of common stock reserved for issuance under our 2018 Employee Stock Purchase Plan, which will become effective in connection with the completion of this offering. Our 2018 Equity Incentive Plan and 2018 Employee Stock Purchase Plan also provide for automatic annual increases in the number of shares reserved under these Plans, as more fully described in “Equity Compensation—Equity Plans.” On the date immediately prior to the date of this prospectus, we expect that any remaining shares available for issuance under our 2015 Stock Plan will be added to the shares reserved under our 2018 Equity Incentive Plan in effect following the completion of this offering and we will cease granting awards under our 2015 Stock Plan.
DILUTION

If you invest in our common stock in this offering, your ownership interest will be immediately diluted to the extent of the difference between the assumed initial public offering price per share and the pro forma as adjusted net tangible book value per share of our common stock after this offering.

Historical net tangible book value (deficit) per share represents our total tangible assets less our liabilities and preferred stock that is not included in equity divided by the total number of shares outstanding. As of December 31, 2017, our historical net tangible book value (deficit) was approximately $(73.6) million, or $(18.00) per share. Our pro forma net tangible book value as of December 31, 2017, was approximately $152.6 million, or $4.42 per share, after giving effect to the automatic conversion of all outstanding shares of our preferred stock into an aggregate of 30,459,574 shares of common stock immediately prior to the completion of this offering.

After giving further effect to receipt of the net proceeds of our sale of 7,100,000 shares of common stock at an assumed initial public offering price of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma as adjusted net tangible book value as of December 31, 2017 would have been approximately $242.8 million, or $5.83 per share. This represents an immediate increase in pro forma as adjusted net tangible book value of $1.41 per share to our existing stockholders and an immediate dilution of $8.17 per share to investors purchasing common stock in this offering.

The following table illustrates this dilution to new investors on a per share basis:

<table>
<thead>
<tr>
<th>Description</th>
<th>Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed initial public offering price per share</td>
<td>$14.00</td>
</tr>
<tr>
<td>Pro forma net tangible book value per share as of December 31, 2017</td>
<td>$4.42</td>
</tr>
<tr>
<td>Increase in pro forma net tangible book value per share attributable to new investors in this offering</td>
<td>1.41</td>
</tr>
<tr>
<td>Pro forma as adjusted net tangible book value per share immediately after this offering</td>
<td>5.83</td>
</tr>
<tr>
<td>Dilution per share to new investors in this offering</td>
<td>$8.17</td>
</tr>
</tbody>
</table>

If the underwriters’ option to purchase additional shares in this offering is exercised in full, the pro forma as adjusted net tangible book value would be $6.01 per share, the increase in the pro forma net tangible book value per share for existing stockholders would be $1.59 per share and the dilution to new investors participating in this offering would be $7.99 per share.

Each $1.00 increase (decrease) in the assumed initial public offering price of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, would increase (decrease) the pro forma as adjusted net tangible book value, by $0.16 per share and the dilution per share to new investors by $0.84 per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We may also increase or decrease the number of shares we are offering. An increase (decrease) of 1,000,000 shares in the number of shares we are offering would increase (decrease) our pro forma as adjusted net tangible book value by approximately $13.0 million, or $0.17 per share, and the pro forma dilution per share to investors in this offering by $(0.17) per share, assuming that the assumed initial public offering price remains the same, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. The pro forma information discussed above is illustrative only and will change based on the actual initial public offering price, number of shares and other terms of this offering determined at pricing.
The table below summarizes, as of December 31, 2017, on the pro forma basis described above, the number of shares of our common stock, the total consideration, and the average price per share (i) paid to us by our existing stockholders and (ii) to be paid by new investors participating in this offering at an assumed initial public offering price of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

<table>
<thead>
<tr>
<th>Shares Purchased</th>
<th>Total Consideration</th>
<th>Average Price Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Existing stockholders</td>
<td>34,550,472</td>
<td>83%</td>
</tr>
<tr>
<td>New investors</td>
<td>7,100,000</td>
<td>17%</td>
</tr>
<tr>
<td>Total</td>
<td>41,650,472</td>
<td>100%</td>
</tr>
</tbody>
</table>

In addition, if the underwriters’ option to purchase additional shares is exercised in full, the number of shares held by existing stockholders will be reduced to 81% of the total number of shares of common stock to be outstanding upon completion of this offering, and the number of shares of common stock held by new investors participating in this offering will be further increased to 19% of the total number of shares of common stock to be outstanding upon completion of the offering.

Each $1.00 increase (decrease) in the assumed initial public offering price of $14.00 per share would increase (decrease) total consideration paid by new investors by $6.6 million and increase (decrease) the percent of total consideration paid by new investors by 2%, assuming the number of shares we are offering, as set forth on the cover page of this prospectus, remains the same, after deducting estimated underwriting discounts and commissions. We may also increase or decrease the number of shares we are offering. An increase (decrease) of 1,000,000 in the number of shares offered by us would increase (decrease) total consideration paid by new investors by $13.0 million, assuming that the assumed initial price to the public remains the same, and after deducting the estimated underwriting discounts and commissions.

Several of our existing stockholders, including a principal stockholder, our Chief Executive Officer and our President, have indicated an interest in purchasing up to an aggregate of approximately $40.0 million in shares of our common stock in this offering at the initial public offering price. However, because indications of interest are not binding agreements or commitments to purchase, the underwriters could determine to sell more, less or no shares to any of these stockholders and any of these stockholders could determine to purchase more, less or no shares in this offering. The foregoing discussion and table do not reflect any potential purchases by these stockholders.

The number of shares of common stock to be outstanding after this offering is based on 34,550,472 shares of common stock outstanding as of December 31, 2017, and excludes the following:

- 544,116 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2017 with a weighted-average exercise price of $1.71 per share;
- 1,155,378 shares of common stock issuable upon the exercise of options granted after December 31, 2017 with a weighted-average exercise price of $5.49 per share; and
- 6,139,240 shares of common stock reserved for future issuance under our equity compensation plans, consisting of 1,855,240 shares of common stock that were reserved for issuance under our 2015 Stock Plan as of December 31, 2017, 3,570,000 shares of common stock reserved for issuance under our 2018 Equity Incentive Plan, which will become effective in connection with the completion of this offering, and 714,000 shares of common stock reserved for issuance under our 2018 Employee Stock Purchase Plan, which will become effective in connection with the completion of this offering. Our 2018 Equity
Incentive Plan and 2018 Employee Stock Purchase Plan also provide for automatic annual increases in the number of shares reserved under these Plans, as more fully described in “Equity Compensation—Equity Plans.” On the date immediately prior to the date of this prospectus, we expect that any remaining shares available for issuance under our 2015 Stock Plan will be added to the shares reserved under our 2018 Equity Incentive Plan in effect following the completion of this offering and we will cease granting awards under our 2015 Stock Plan.

To the extent that any outstanding options are exercised or new awards are granted under our equity compensation plans, new investors will experience further dilution.
SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included elsewhere in this prospectus.

The consolidated statements of operations data for the years ended December 31, 2016 and 2017, and the consolidated balance sheet data as of December 31, 2016 and 2017, are derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future. The selected consolidated financial data in this section are not intended to replace our consolidated financial statements and the related notes, and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this prospectus.

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Collaboration and license revenue</strong></td>
<td>$ —</td>
<td>$ 1,413</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development (1)</td>
<td>14,247</td>
<td>47,218</td>
</tr>
<tr>
<td>General and administrative</td>
<td>3,935</td>
<td>7,636</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>18,182</td>
<td>54,854</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(18,182)</td>
<td>(53,441)</td>
</tr>
<tr>
<td>Interest and other income, net</td>
<td>212</td>
<td>359</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>$(17,970)</td>
<td>$(53,082)</td>
</tr>
<tr>
<td><strong>Net loss per share, basic and diluted (2)</strong></td>
<td>$(20.80)</td>
<td>$(29.03)</td>
</tr>
<tr>
<td><strong>Weighted-average number of shares used to compute basic and diluted net loss per common share</strong></td>
<td>863,983</td>
<td>1,828,262</td>
</tr>
<tr>
<td><strong>W</strong>&lt;sup&gt;(2)&lt;/sup&gt; <strong>Pro forma net loss per share, basic and diluted (unaudited)</strong></td>
<td>$(2.16)</td>
<td></td>
</tr>
<tr>
<td><strong>W</strong>&lt;sup&gt;(2)&lt;/sup&gt; <strong>Weighted-average number of shares used to compute pro forma basic and diluted net loss per share (unaudited)</strong></td>
<td>24,554,674</td>
<td></td>
</tr>
</tbody>
</table>

(1) $18.5 million of the 2017 research and development expenses related to licensing payments to WuXi Biologics. Please see Note 6 of our consolidated financial statements for further information on our licensing agreements.

(2) See Note 10 to our audited consolidated financial statements for an explanation of the calculation of our historical and pro forma basic and diluted net loss per share.

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash, cash equivalents and short-term investments</strong></td>
<td>$ 98,896</td>
<td>$ 175,703</td>
</tr>
<tr>
<td>Working capital (1)</td>
<td>94,145</td>
<td>164,143</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>109,702</td>
<td>190,486</td>
</tr>
<tr>
<td><strong>Convertible preferred stock</strong></td>
<td>119,454</td>
<td>226,196</td>
</tr>
<tr>
<td><strong>Accumulated deficit</strong></td>
<td>19,994</td>
<td>72,328</td>
</tr>
<tr>
<td><strong>Total stockholders’ deficit</strong></td>
<td>(19,994)</td>
<td>(72,328)</td>
</tr>
</tbody>
</table>

(1) We define working capital as current assets less current liabilities. See our audited consolidated financial statements for further details regarding our current assets and current liabilities.
You should read the following discussion and analysis of our financial condition and results of operations together with the section of this prospectus entitled “Selected Consolidated Financial Data” and our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion and other parts of this prospectus contain forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, expectations, and intentions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section of this prospectus entitled “Risk Factors.”

Overview

We are a clinical-stage biopharmaceutical company focused on creating innovative cancer immunotherapies by leveraging underexploited biological opportunities. Specifically, we target well-characterized biological pathways with significant scientific data supporting their importance in regulating the immune response against cancer and for which either there are no molecules in development or those that exist have suboptimal profiles. To exploit these pathways, we have built a robust and highly efficient discovery capability to create and optimize highly differentiated small-molecule immuno-oncology product candidates. Since our inception in 2015, we have built a broad portfolio of small-molecule and antibody product candidates that we plan to develop together as intra-portfolio combinations. We have initiated clinical trials for our two most advanced product candidates, both of which are expected to generate data in 2018, and we expect clinical data from our first intra-portfolio combinations in the first half of 2019. We plan to advance two additional product candidates into clinical trials by the end of 2018.

Members of the Arcus team have worked together for more than 10 years discovering innovative small-molecule product candidates while at companies such as Tularik Inc., Amgen, Inc. and Flexus Biosciences, Inc.

Financial Overview

Since commencing operations in 2015, we have devoted substantially all of our efforts and financial resources to building our research and development capabilities and establishing our corporate infrastructure.

To date, all of our revenue has been derived from non-refundable payments we received under the option and license agreement (the Taiho Agreement) we entered into in September 2017 with Taiho Pharmaceutical Co., Ltd. (Taiho). We have not generated any revenue from product sales and we have never been profitable. We have incurred net losses since the commencement of our operations. As of December 31, 2017, we had an accumulated deficit of $73.2 million. We incurred a net loss of $53.1 million in the year ended December 31, 2017. We do not expect to generate product revenue unless and until we obtain marketing approval for and commercialize a product candidate, and we cannot assure you that we will ever generate significant revenue or profits.

To date, we have financed our operations primarily through private placements of convertible preferred stock and payments from the Taiho Agreement. From inception through December 31, 2017, we received net proceeds of $226.3 million through private placements of convertible preferred stock. As of December 31, 2017, we had cash, cash equivalents and short-term investments of $175.7 million. We believe that our existing cash, cash equivalents and short-term investments will be sufficient to fund our planned operations for at least the next 12 months without the proceeds from this offering. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we expect.

We expect to incur substantial expenditures in the foreseeable future as we expand our pipeline and advance our product candidates through clinical development, the regulatory approval process and, if approved, commercial launch activities. Specifically, in the near term we expect to incur substantial expenses relating to our ongoing
and planned clinical trials, the development and validation of our manufacturing processes, and other development activities. Furthermore, upon the completion of this offering, we expect to incur additional costs associated with operating as a public company, including significant legal, accounting, investor relations and other expenses that we did not incur as a private company.

We will need substantial additional funding to support our continuing operations and pursue our development strategy. Until such time as we can generate significant revenue from sales of our product candidates, if ever, we expect to finance our operations through the sale of equity, debt financings or other capital sources, including potential collaborations with other companies or other strategic transactions. Adequate funding may not be available to us on acceptable terms, or at all. If we fail to raise capital or enter into such agreements as, and when, needed, we may have to significantly delay, scale back, or discontinue the development and commercialization of our product candidates or delay our efforts to expand our product pipeline.

Taiho Option and License Agreement

In September 2017, we and Taiho entered into the Taiho Agreement to collaborate on the potential development and commercialization of certain product candidates from our portfolio in Japan and certain other territories in Asia (excluding China) (the Taiho Territory). The Taiho Agreement provides Taiho with exclusive options, over a five-year period (the Option Period), to obtain an exclusive development and commercialization license to clinical stage product candidates from our programs (each, an Arcus Program).

In consideration for the exclusive options and other rights contained in the Taiho Agreement, Taiho will make non-refundable, non-creditable cash payments to us totaling $35.0 million, of which we received $25.0 million during 2017. We are due an additional $5.0 million of non-refundable and non-creditable payments in both 2018 and 2019.

In the event that we do not initiate IND enabling studies for at least five Arcus Programs prior to the expiration of the Option Period, Taiho may elect to extend the Option Period, up to a maximum of seven years for the Option Period, subject to an extension fee. If Taiho elects to exercise an option they will be obligated to make an exercise option payment for each option exercise of between $3.0 million to $15.0 million, dependent on the development stage of the applicable Arcus Program for which the option is exercised. In addition, under the Taiho Agreement, we are eligible to receive additional clinical and regulatory milestones totaling up to $130.0 million per Arcus Program, and we will be eligible to receive contingent payments of up to $145.0 million per Arcus Program associated with the achievement of specified levels of Taiho net sales in the Taiho Territory.

In addition, we will receive royalties ranging from high single-digits to mid-teens on net sales of licensed products in the Taiho Territory. Royalties will be payable on a licensed product-by-licensed product and country-by-country basis during the period of time commencing on the first commercial sale of a licensed product in a country and ending upon the later of: (a) ten (10) years from the date of first commercial sale of such licensed product in such country; and (b) expiration of the last-to-expire valid claim of our patents covering the manufacture, use or sale or exploitation of such licensed product in such country.

WuXi Biologics License Agreement

In August 2017, we entered into a license agreement (the WuXi Agreement) with WuXi Biologics (Cayman) Inc. (Wuxi Biologics) for an exclusive license to develop, use, manufacture, and commercialize products including AB122. Under the WuXi Agreement, we have made upfront and milestone payments of $18.5 million as of December 31, 2017 and we may be required to make additional clinical and regulatory milestone payments, commercialization milestone payments up to $375.0 million, and royalty payments that range from high single-digits to low teens of net sales. However, because the achievement of these milestones is not fixed and determinable, such commitments have not been included on our consolidated balance sheet or under
Abmuno License Agreement

In December 2016, we entered into a license agreement (the Abmuno Agreement) with Abmuno Therapeutics LLC (Abmuno) for a worldwide exclusive license to develop, use, manufacture, and commercialize products including AB154. Under the Abmuno Agreement, we made upfront and milestone payments of $3.8 million as of December 31, 2017 and we may be required to make additional clinical, regulatory and commercialization milestone payments up to $103.8 million. However, because the achievement of these milestones is not fixed and determinable, such commitments have not been included on our consolidated balance sheet or under “—Contractual Obligations and Commitments” below. For additional information regarding future payments to third parties, including milestone payments to Abmuno, please see “Business—License Agreements.”

Components of Operating Results

Collaboration and License Revenue

We recognize revenue from the Taiho Agreement for research and development services provided pursuant to our collaboration with Taiho on the development of certain product candidates.

Operating Expenses

Research and Development Expenses

Our research and development expenses consist of expenses incurred in connection with the research and development of our research programs. These expenses include payroll and personnel expenses including stock-based compensation for our research and product development employees, laboratory supplies, product licenses, consulting costs, contract research, pre-clinical and clinical expenses, and depreciation. We expense both internal and external research and development costs as they are incurred. Non-refundable advance payments for services that will be used or rendered for future research and development activities are recorded as prepaid expenses and recognized as an expense as the related services are performed.

We do not allocate our costs by product candidates, as a significant amount of research and development expenses include internal costs, such as payroll and other personnel expenses, and external costs neither of which are tracked by product candidate. In particular, with respect to internal costs several of our departments support multiple product candidate research and development programs, and we do not allocate those costs by product candidate.

We expect our research and development expenses to increase substantially during the next few years as we seek to complete existing and initiate additional clinical trials, pursue regulatory approval of AB928 and AB122, and advance other programs including AB154 and AB680 into the clinic. Over the next few years, we expect our preclinical, clinical, and contract manufacturing expenses to increase significantly relative to what we have incurred to date. In addition, under the WuXi Agreement entered into in August 2017, we made upfront and milestone payments of $18.5 million, all of which was recorded as research and development expense, and we may be required to pay additional clinical and regulatory milestone payments based on the development progress of AB122. Predicting the timing or the final cost to complete our clinical program or validation of our manufacturing and supply processes is difficult and delays may occur because of many factors.

General and Administrative Expenses

General and administrative expenses consist principally of personnel-related costs including payroll and stock-based compensation for personnel in executive, finance, human resources, business and corporate development,
and other administrative functions, professional fees for legal, consulting, and accounting services, rent and other facilities costs, depreciation, and other general operating expenses not otherwise classified as research and development expenses.

We anticipate that our general and administrative expenses will increase substantially during the next few years as a result of staff expansion and additional occupancy costs, as well as costs associated with being a public company, including higher legal and accounting fees, investor relations costs, higher insurance premiums and other compliance costs associated with being a public company.

*Interest and Other Income, Net*

Interest and other income, net consists primarily of interest earned on our short-term investments in corporate notes and government agency notes, and our share of losses recorded relating to our equity method investment in PACT Pharma, Inc. (PACT Pharma).

**Critical Accounting Policies, Significant Judgments and Use of Estimates**

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported revenue and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management’s judgments and estimates.

While our significant accounting policies are described in the notes to our consolidated financial statements, we believe that the following critical accounting policies are most important to understanding and evaluating our reported financial results.

**Revenue Recognition**

We generate revenue from our option and license agreement for the development and commercialization of our product candidates. Option and license agreements may include non-refundable upfront research and development fees, option fees to obtain development and commercialization licenses for our products, milestone payments based on the achievement of defined development, regulatory and sales targets, and royalties on sales of commercialized products. To date, we have not recognized revenue from sales of our products.

We recognize revenue when all four of the following criteria have been met: (i) collectability is reasonably assured; (ii) delivery has occurred or services have been rendered; (iii) persuasive evidence of an arrangement exists; and (iv) the fee is fixed or determinable. Revenue under option and license arrangements is recognized based on evaluation of the performance obligations of the contract. Collectability is assessed based on evaluation of payment criteria as stated in the contract as well as the creditworthiness of the customer. Determination of whether delivery has occurred or services rendered are based on management’s evaluation of the performance obligations as stated in the contract and progress made against those obligations. Evidence of arrangement is deemed to exist upon execution of the contract. Fees are considered fixed and determinable when the amount payable to us is no longer subject to any acceptance, refund rights or other contingencies that would alter the fixed nature of the fees charged for the deliverables.

Option and license agreements may contain multiple elements as evaluated under Accounting Standards Codification (ASC) 605-25, *Revenue Recognition-Multiple-Element Arrangements*, including agreements to
provide research and development services, participation in development and/or steering committees, manufacturing services, sharing of know-how and other information, and grants of licenses to develop and commercialize product candidates. Each deliverable under the agreement is evaluated to determine whether it qualifies as a separate unit of accounting based on whether the deliverable has standalone value to the customer. The arrangement’s consideration that is fixed or determinable is then allocated to each separate unit of accounting based on the following hierarchy: (i) vendor-specific objective evidence of the fair value of the deliverable, if it exists; (ii) third-party evidence of selling price, if vendor-specific objective evidence is not available; or (iii) the best estimate of selling price if neither vendor-specific objective evidence or third-party evidence is available.

A delivered item or items that do not qualify as a separate unit of accounting within the arrangement are combined with the other applicable undelivered items within the arrangement. The allocation of arrangement consideration and the recognition of revenue is then determined for those combined deliverables as a single unit of accounting. For a combined unit of accounting, non-refundable upfront fees are recognized as performance obligations related to the final deliverable are completed. In the case of research and development services, performance would generally be expected to be performed ratably over the estimated performance period unless we determine there is a discernible pattern of performance other than straight-line, in which case we use a proportionate performance method to recognize the revenue over the estimated performance period. Amounts received in advance of performance are recorded as deferred revenue. If any of the initial deliverables are determined to have standalone value separate from the research and development services, then the allocated consideration is recorded as revenue when those items are delivered.

Option and license agreements may also contain milestone payments that become due upon the achievement of certain milestones. We apply ASC 605-28, Revenue Recognition—Milestone Method. Under the milestone method, payments that are contingent upon achievement of a substantive milestone are recognized in the period in which the milestone is achieved. Milestones are defined as an event that can only be achieved based on our performance and there is substantive uncertainty about whether the event will be achieved at the inception of the arrangement. Events that are contingent only on the passage of time or only on counterparty performance are not considered milestones subject to this guidance. Further, for the milestone to be considered substantive, the amounts received must relate solely to prior performance, be reasonable relative to all of the deliverables, and the consideration must be commensurate with our performance to achieve the milestone. Non-substantive milestone payments are recognized as revenue over the estimated period of any remaining performance obligations.

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development expenses consist primarily of personnel costs for our research and product development employees. Also included are non-personnel costs such as professional fees payable to third parties for preclinical and clinical studies and research services, laboratory supplies and equipment maintenance, product licenses, and other consulting costs.

We estimate preclinical and clinical study and research expenses based on the services performed, pursuant to contracts with research institutions that conduct and manage preclinical and clinical studies and research services on its behalf. We estimate these expenses based on discussions with internal management personnel and external service providers as to the progress or stage of completion of services and the contracted fees to be paid for such services. If the actual timing of the performance of services or the level of effort varies from the original estimates, we will adjust the accrual accordingly. Payments associated with licensing agreements to acquire exclusive licenses to develop, use, manufacture and commercialize products that have not reached technological feasibility and do not have alternate commercial use are expensed as incurred. Payments made to third parties under these arrangements in advance of the performance of the related services by the third parties are recorded as prepaid expenses until the services are rendered.
Stock-Based Compensation Expense

We account for stock-based compensation arrangements with employees in accordance with ASC 718, *Stock Compensation*. Stock-based awards granted include stock options with time-based vesting. ASC 718 requires the recognition of compensation expense, using a fair value-based method, for costs related to all stock-based payments. Our determination of the fair value of stock options with time-based vesting on the date of grant utilizes the Black-Scholes option-pricing model, and is impacted by our common stock price as well as other variables including, but not limited to, expected term that options will remain outstanding, expected common stock price volatility over the term of the option awards, risk-free interest rates and expected dividends.

The fair value of a stock-based award is recognized over the period during which an optionee is required to provide services in exchange for the option award, known as the requisite service period (usually the vesting period) on a straight-line basis. Stock-based compensation expense is recognized based on the fair value determined on the date of grant and is reduced for forfeitures as they occur.

Equity instruments issued to non-employees are accounted for in accordance with ASC 505-50 *Equity Based Payments to Non-Employees* and are recorded at their fair value on the measurement date and are subject to periodic adjustments as the underlying equity instruments vest. The fair value of options granted to consultants is expensed when vested. Non-employee stock-based compensation expense was not material for all periods presented.

Estimating the fair value of equity-settled awards as of the grant date using valuation models, such as the Black-Scholes option pricing model, is affected by assumptions regarding a number of complex variables. Changes in the assumptions can materially affect the fair value and ultimately how much stock-based compensation expense is recognized. These inputs are subjective and generally require significant analysis and judgment to develop.

**Expected Term** — We have opted to use the “simplified method” for estimating the expected term of options, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the option (generally 10 years).

**Expected Volatility** — Due to our limited operating history and a lack of company specific historical and implied volatility data, we have based our estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. The historical volatility data was computed using the daily closing prices for the selected companies’ shares during the equivalent period of the calculated expected term of the stock-based awards.

**Risk-Free Interest Rate** — The risk-free rate assumption is based on the U.S. Treasury instruments with maturities similar to the expected term of our stock options.

**Expected Dividend** — We have not issued any dividends in our history and do not expect to issue dividends over the life of the options and therefore have estimated the dividend yield to be zero.

The following assumptions were used to calculate the fair value of awards granted to employees, non-employees and directors during the periods indicated:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free interest rate</td>
<td>1.2% - 2.45%</td>
<td>1.66% - 2.20%</td>
</tr>
<tr>
<td>Expected term (in years)</td>
<td>6.25 - 9.84</td>
<td>5.95 - 9.99</td>
</tr>
<tr>
<td>Volatility</td>
<td>67.0% - 77.8%</td>
<td>67.0% - 71.7%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
We will continue to use judgment in evaluating the expected volatility, expected terms, and interest rates utilized for our stock-based compensation expense calculations on a prospective basis.

Stock-based compensation expense, net of forfeitures, is reflected in the consolidated statements of operations and comprehensive loss as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>Year Ended</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development</td>
<td>$ 67</td>
<td>$ 222</td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>23</td>
<td>273</td>
<td></td>
</tr>
<tr>
<td>Total stock-based compensation</td>
<td>$ 90</td>
<td>$ 495</td>
<td></td>
</tr>
</tbody>
</table>

As of December 31, 2017, total unamortized stock-based compensation was $1.9 million.

The intrinsic value of all outstanding stock options as of December 31, 2017 was approximately $6.6 million based on a hypothetical common stock fair value of $14.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus.

Common Stock Valuations

The estimated fair value of the common stock underlying our stock options was determined at each grant date by our board of directors, with input from management. All options to purchase shares of our common stock are intended to be exercisable at a price per share not less than the per-share fair value of our common stock underlying those options on the date of grant.

In the absence of a public trading market for our common stock, on each grant date, our board of directors made a reasonable determination of the fair value of our common stock based on the information known to us on the date of grant, upon a review of any recent events and their potential impact on the estimated fair value per share of the common stock, and timely valuations from an independent third-party valuation in accordance with guidance provided by the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* (the Practice Aid). The methodology to determine the fair value of our common stock included estimating the fair value of the company by including an estimation of the value of the business based on guideline public companies under a number of different scenarios. The assumptions used to determine the estimated fair value of our common stock are based on numerous objective and subjective factors, combined with management judgment, including external market conditions affecting the pharmaceutical and biotechnology industry and trends within the industry; our stage of development; the rights, preferences and privileges of our convertible preferred stock relative to those of our common stock; the prices at which we sold shares of our convertible preferred stock; our financial condition and operating results, including our levels of available capital resources; the progress of our research and development efforts, our stage of development and business strategy; equity market conditions affecting comparable public companies; general U.S. market conditions and the lack of marketability of our common stock.

The Practice Aid identifies various available methods for allocating enterprise value across classes and series of capital stock to determine the estimated fair value of common stock at each valuation date. In accordance with the Practice Aid, we considered the following methods:

- **Option Pricing Method.** Under the option pricing method (OPM), shares are valued by creating a series of call options with exercise prices based on the liquidation preferences and conversion terms of each equity class. The estimated fair values of the preferred and common stock are inferred by analyzing these options.
• **Probability-Weighted Expected Return Method**. The probability-weighted expected return method (PWERM) is a scenario-based analysis that estimates value per share based on the probability-weighted present value of expected future investment returns, considering each of the possible outcomes available to us, as well as the economic and control rights of each share class.

Based on our early stage of development and other relevant factors, we determined that an OPM was the most appropriate method for allocating our enterprise value to determine the estimated fair value of our common stock for valuations performed during August 2016 and May 2017. For the valuation that we performed in November 2017, we began using a hybrid approach of the OPM and the PWERM methods to determine the estimated fair value of our common stock. In determining the estimated fair value of our common stock, our board of directors also considered the fact that our stockholders could not freely trade our common stock in the public markets. Accordingly, we applied discounts to reflect the lack of marketability of our common stock based on the weighted-average expected time to liquidity.

The following table presents a summary of the equity awards that we have granted in the preceding twelve months:

<table>
<thead>
<tr>
<th>Grant Date</th>
<th>Common Shares Underlying Options Granted</th>
<th>Per Share Exercise Price of Options</th>
<th>Estimated Fair Value of Common Stock Per Share Used to Determine Stock-Based Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/15/2017</td>
<td>676,437</td>
<td>$1.23</td>
<td>$2.38</td>
</tr>
<tr>
<td>4/24/2017</td>
<td>136,361</td>
<td>$1.23</td>
<td>$2.38</td>
</tr>
<tr>
<td>5/15/2017</td>
<td>42,674</td>
<td>$1.23</td>
<td>$2.38</td>
</tr>
<tr>
<td>6/22/2017</td>
<td>11,110</td>
<td>$2.58</td>
<td>$2.58</td>
</tr>
<tr>
<td>8/31/2017</td>
<td>108,311</td>
<td>$2.58</td>
<td>$2.58</td>
</tr>
<tr>
<td>9/19/2017</td>
<td>39,645</td>
<td>$2.58</td>
<td>$2.58</td>
</tr>
<tr>
<td>11/10/2017</td>
<td>32,069</td>
<td>$5.39</td>
<td>$5.39</td>
</tr>
<tr>
<td>12/8/2017</td>
<td>16,412</td>
<td>$5.39</td>
<td>$5.39</td>
</tr>
<tr>
<td>1/4/2018</td>
<td>1,121,163</td>
<td>$5.39</td>
<td>$8.95</td>
</tr>
<tr>
<td>2/16/2018</td>
<td>27,902</td>
<td>$8.95</td>
<td>$8.95</td>
</tr>
<tr>
<td>2/23/2018</td>
<td>6,313</td>
<td>$8.95</td>
<td>$8.95</td>
</tr>
</tbody>
</table>

We obtained valuation reports from an independent third-party valuation specialist as of the dates below that reflected the fair value per share of our common stock:

<table>
<thead>
<tr>
<th>Valuation Date (As of)</th>
<th>Fair Value Per Share of Common Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 15, 2016</td>
<td>$1.23</td>
</tr>
<tr>
<td>May 31, 2017</td>
<td>$2.58</td>
</tr>
<tr>
<td>November 1, 2017</td>
<td>$5.39</td>
</tr>
<tr>
<td>February 1, 2018</td>
<td>$8.95</td>
</tr>
</tbody>
</table>

Following the completion of this offering, our board of directors intends to determine the fair value of our common stock based on the closing price of our common stock on the date of grant.

**Income Taxes**

We provide for income taxes under the asset and liability method. Current income tax expense or benefit represents the amount of income taxes expected to be payable or refundable for the current year. Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and net operating loss and credit carryforwards, and are measured using the enacted tax rates and laws that will be in effect when such items are expected to reverse. Deferred income tax assets are reduced, as necessary, by a valuation allowance when management determines it is more likely than not that some or all of the tax benefits will not be realized.
We account for uncertain tax positions in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*. We assess all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position’s sustainability and is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and we will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit might change as new information becomes available.

As of December 31, 2017, our total deferred tax assets were $18.6 million. Due to our lack of earnings history and uncertainties surrounding our ability to generate future taxable income, the net deferred tax assets have been fully offset by a valuation allowance. The deferred tax assets were primarily comprised of federal and state tax net operating losses (NOLs). Utilization of NOLs may be limited by the “ownership change” rules, as defined in Section 382 of the Code. Similar rules may apply under state tax laws. Our ability to use our remaining NOLs may be further limited if we experience an ownership change in connection with this offering, future offerings or as a result of future changes in our stock ownership.

**Results of Operations**

**Comparison of the Years Ended December 31, 2016 and 2017**

The following table summarizes our results of operations for the periods indicated (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>Collaboration and license revenue</td>
<td>$—</td>
<td>$1,413</td>
<td>$1,413</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>14,247</td>
<td>47,218</td>
<td>32,971</td>
</tr>
<tr>
<td>General and administrative</td>
<td>3,935</td>
<td>7,636</td>
<td>3,701</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(18,182)</td>
<td>(53,441)</td>
<td>(35,259)</td>
</tr>
<tr>
<td>Interest and other income, net</td>
<td>212</td>
<td>359</td>
<td>147</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(17,970)</td>
<td>$(53,082)</td>
<td>$(35,112)</td>
</tr>
</tbody>
</table>

* Not meaningful

**Collaboration and License Revenue**

Collaboration and license revenue of $1.4 million for the year ended December 31, 2017 was entirely due to the revenue we recognized during the period from the Taiho Agreement we entered into in September 2017. We had no collaboration and license revenue for the year ended December 31, 2016.

**Research and Development Expenses**

Research and development expenses increased $33.0 million, or 231%, from $14.2 million for the year ended December 31, 2016 to $47.2 million for the year ended December 31, 2017. The increase in research and development expenses was primarily due to upfront and milestone payments of $18.5 million made to WuXi Biologics, an increase of $6.4 million in clinical, pre-clinical, and manufacturing costs related to the initiation of our clinical trials for AB928 and AB122 during the year ended December 31, 2017, an increase of $4.8 million in personnel costs as a result of an increase in our employee headcount, an increase of $2.2 million in lab supplies and non-capitalized equipment, and an increase of $0.5 million in depreciation.
General and Administrative Expenses

General and administrative expenses increased $3.7 million, or 94%, from $3.9 million for the year ended December 31, 2016 to $7.6 million for the year ended December 31, 2017. The increase in general and administrative expenses was primarily due to an increase of $1.6 million in personnel costs as a result of an increase in our employee headcount, an increase of $0.7 million in depreciation, an increase of $0.4 million in office related expenses, and an increase of $0.4 million in legal and accounting fees.

Interest and Other Income, Net

Interest and other income, net increased $0.1 million, or 69%, from $0.2 million for the year ended December 31, 2016 to $0.4 million for the year ended December 31, 2017. The increase was primarily due to an increase in interest income of $0.7 million, partially offset by our share of losses from PACT Pharma of $0.4 million.

Liquidity and Capital Resources

To date, we have financed our operations primarily through private placements of convertible preferred stock and proceeds from the Taiho Agreement. We received net proceeds of $49.6 million from the sale and issuance of shares of our Series A convertible preferred stock in the year ended December 31, 2015, net proceeds of $69.8 million from the sale and issuance of shares of our Series B convertible preferred stock in the year ended December 31, 2016 and net proceeds of $106.9 million from the sale and issuance of our Series C convertible preferred stock in the year ended December 31, 2017 (an estimated $0.1 million of accrued financing costs are expected to be paid in the year ending December 31, 2018). In the year ended December 31, 2017, we received upfront, non-refundable payments from Taiho under the Taiho Agreement of $25.0 million.

In December 2016, we entered into the Abmuno Agreement for an exclusive license to anti-TIGIT antibodies, for which we made upfront and milestone payments in 2017 of $3.8 million. In 2017 we made upfront and milestone payments of $18.5 million under the Wuxi Agreement.

Our cash, cash investments, and short-term investments are held in money market funds, and investments in corporate securities and government agency obligations.

Based on our existing business plan, we believe that our existing cash, cash investments, and short-term investments will be sufficient to fund our anticipated level of operations through at least the next 12 months without the proceeds from this offering.

We will continue to require additional capital to develop our product candidates and fund operations for the foreseeable future. We may seek to raise capital through private or public equity or debt financings, collaborative or other arrangements with other companies, or through other sources of financing. Adequate additional funding may not be available to us on acceptable terms or at all. Our failure to raise capital as and when needed could have a negative impact on our financial condition and our ability to pursue our business strategies. We anticipate that we will need to raise substantial additional capital, the requirements of which will depend on many factors, including:

- the scope, rate of progress and costs of our drug discovery, preclinical development activities, laboratory testing and clinical trials for our product candidates;
- the number and scope of clinical programs we decide to pursue;
- the scope and costs of manufacturing development and commercial manufacturing activities;
- the timing and amount of milestone payments, if any, we receive under the Taiho Agreement;
- the extent to which we acquire or in-license other product candidates and technologies;
- the cost, timing and outcome of regulatory review of our product candidates;
• the cost and timing of establishing sales and marketing capabilities, if any of our product candidates receive marketing approval;
• the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
• our ability to establish and maintain collaborations on favorable terms, if at all;
• our efforts to enhance operational systems and our ability to attract, hire and retain qualified personnel, including personnel to support the development of our product candidates;
• the costs associated with being a public company; and
• the cost associated with commercializing our product candidates, if they receive marketing approval.

If we raise additional funds by issuing equity securities, our stockholders may experience dilution. Any future debt financing into which we enter may impose upon us additional covenants that restrict our operations, including limitations on our ability to incur liens or additional debt, pay dividends, repurchase our common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. If we are unable to raise additional funds when needed, we may be required to delay, reduce, or terminate some or all of our development programs and clinical trials. We may also be required to sell or license to others rights to our product candidates in certain territories or indications that we would prefer to develop and commercialize ourselves.

See “Risk Factors” for additional risks associated with our substantial capital requirements.

Summary Consolidated Statement of Cash Flows

The following table sets forth the primary sources and uses of cash and cash equivalents for each of the periods presented below (in thousands):

| Net cash (used in) provided by:          | Year Ended December 31, |
|                                       | 2016       | 2017       |
| Operating activities                   | $(12,944)  | $(25,059)  |
| Investing activities                   | (38,861)   | (49,071)   |
| Financing activities                    | 70,100     | 107,396    |
| Net increase in cash and cash equivalents | $18,295    | $33,266    |

Cash Used in Operating Activities

Net cash used in operating activities was $25.1 million for the year ended December 31, 2017 and $12.9 million for the year ended December 31, 2016.

Cash used in operating activities in the year ended December 31, 2017 was primarily due to our net loss for the period of $53.1 million, and was also affected by changes in operating assets and liabilities, including an increase in deferred revenue of $23.6 million, an increase in accounts payable and accrued liabilities of $1.3 million, and non-cash charges relating to depreciation and amortization and stock-based compensation expense of $3.1 million.

Cash used in operating activities in the year ended December 31, 2016 was primarily due to our net loss for the period of $18.0 million, and was also affected by changes in operating assets and liabilities, including an increase
in prepaid expenses, other current assets and long-term assets that totaled $0.8 million, an increase in accounts payable and accrued liabilities of $4.4 million, and non-cash depreciation and amortization expense of $1.3 million.

Cash Used in Investing Activities
Cash used in investing activities was $49.1 million in the year ended December 31, 2017, primarily related to the purchase of investments of $43.6 million, and purchases of property and equipment of $5.5 million.

Cash used in investing activities was $38.9 million in the year ended December 31, 2016, primarily related to the purchase of investments of $33.8 million, purchases of property and equipment of $4.1 million, and our $1.0 million equity investment in PACT Pharma, a related party.

Cash Provided by Financing Activities
Cash provided by financing activities was $107.4 million in the year ended December 31, 2017, which consisted primarily of net proceeds of $106.9 million from the issuance and sale of shares of our Series C convertible preferred stock (an estimated $0.1 million of accrued financing costs will be paid in the year ending December 31, 2018).

Cash provided by financing activities was $70.1 million in the year ended December 31, 2016, which consisted primarily of net proceeds of $69.8 million from the issuance and sale of shares of our Series B convertible preferred stock.

Contractual Obligations and Commitments
The following table summarizes our contractual obligations as of December 31, 2017 (in thousands):

<table>
<thead>
<tr>
<th>Payments due by period</th>
<th>Less than 1 year</th>
<th>2 to 3 years</th>
<th>4 to 5 years</th>
<th>After 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating lease obligations</td>
<td>$ 1,952</td>
<td>$4,146</td>
<td>$4,460</td>
<td>$6,826</td>
<td>$17,384</td>
</tr>
</tbody>
</table>

As of December 31, 2017, we had obligations consisting of operating leases for our operating facilities for approximately 70,100 square feet. Under the terms of the agreements, we will have lease obligations consisting of $17.4 million in payments from 2018 through 2025.

We enter into contracts in the normal course of business with third party contract organizations for clinical trials, non-clinical studies and testing, manufacturing, and other services and products for operating purposes. These contracts generally provide for termination following a certain period after notice, and therefore we believe that our non-cancelable obligations under these agreements are not material and they are not included in the table above.

We have not included milestone or royalty payments or other contractual payment obligations in the table above if the timing and amount of such obligations are unknown or uncertain.

Off-Balance Sheet Arrangements
Since our inception, we have not engaged in any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Agreements with PACT Pharma
In September 2016, we purchased approximately 3.6 million shares of common stock of PACT Pharma, a privately funded, early-stage biopharmaceutical company focused on adoptive cell therapy. We determined the
fair value of such investment to be insignificant given the start-up nature of PACT Pharma’s operations, and it was recorded at a nominal amount. In December 2016, we and PACT Pharma entered into a Master Services Agreement (the PACT Agreement) under which we provide PACT Pharma with general administrative support, including finance, human resources, legal, and other operational support. We also received certain warrants to purchase PACT Pharma common stock exercisable upon PACT Pharma’s achievement of certain valuation thresholds pursuant to the PACT Agreement. The PACT Agreement will terminate no later than December 31, 2018. Also in December 2016, we purchased 1.0 million shares of Series A preferred stock of PACT Pharma for $1.0 million. Our investment in PACT Pharma is accounted for as an equity method investment, and as a result we record our share of PACT Pharma’s operating results in our consolidated statements of operations and comprehensive loss. For the year ended December 31, 2017, we recorded $0.4 million relating to our share of PACT Pharma’s operating loss. For the year ended December 31, 2016, our share of PACT Pharma’s operating results was not significant. We monitor the investment for events or circumstances indicative of potential other-than-temporary impairment, and make appropriate reductions in carrying values if we determine that an impairment charge is required. For the years ended December 31, 2017 and 2016, no impairment charge was recorded. See Note 5 to our consolidated financial statements included elsewhere in this prospectus for further discussion of our equity investment in PACT Pharma.

Indemnification

As permitted under Delaware law and in accordance with our bylaws, we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving in such capacity. We are also party to indemnification agreements with our officers and directors. We believe the fair value of the indemnification rights and agreements is minimal. Accordingly, we have not recorded any liabilities for these indemnification rights and agreements as of December 31, 2017 and December 31, 2016.

JOBS Act Accounting Election

The Jumpstart Our Business Startups Act of 2012 (the JOBS Act), permits an “emerging growth company” such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We are choosing to elect the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

We will remain an emerging growth company until the earliest of (1) the last day of our first fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least $1.07 billion, or (ii) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700.0 million of the prior June 30th and (2) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies and adopted by us as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

Recently Adopted Accounting Standards Updates

In November 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-17 (Topic 740), Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires deferred tax liabilities and assets to be classified
as noncurrent in the consolidated balance sheets. For public entities, the standard will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted for financial statements that have not been previously issued. The ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We early adopted this ASU during 2016 on a retrospective basis and the adoption had no impact on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02 (Topic 810), Consolidation, Amendments to the Consolidations Analysis, which amends the consolidation requirements in ASC 810. The ASU modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities and significantly amends the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. For public business entities, the guidance is effective for annual periods and interim periods beginning after December 15, 2015. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. We adopted the ASU in 2016 and the adoption did not have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern. The new standard provides guidance around management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for all entities for annual periods ending after December 15, 2016, and interim periods with annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard in 2016 did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718),” which simplifies the accounting for employee share-based transactions. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the consolidated statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification, and the classification of those taxes paid on the consolidated statement of cash flows. For public entities, ASU 2016-09 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. We adopted ASU 2016-09 in 2017 and the adoption did not have any impact to our consolidated financial statements.

Recently Issued Accounting Standards or Updates Not Yet Effective

In November 2016, the FASB issued ASU No. 2016-18 (Topic 230), Restricted Cash, Statement of Cash Flows. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. ASU 2016-18 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption is permitted. The amendments in this ASU should be applied using a retrospective transition method to each period presented. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, becomes effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption is permitted. ASU 2014-09 also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method).

The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. generally accepted accounting pronouncements. We are still in the process of evaluating the effect that this guidance will have on revenue recognition for our Taiho Agreement, specifically as it pertains to the non-refundable, non-creditable cash payments to us totaling $35.0 million and the future contingent payments we may become entitled to. We expect our evaluation to be completed in 2018.

In February 2016, the FASB issued ASU No. 2016-02 (Topic 842), Leases. ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases. The ASU will also require new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early adoption is permitted. We have not yet determined the potential effects of this ASU on its consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risk

The market risk inherent in our financial instruments and in our financial position represents the potential loss arising from adverse changes in interest rates or exchange rates. As of December 31, 2017, we had cash, cash equivalents, and short-term investments of $175.7 million, consisting of interest-bearing money market accounts, and investments in corporate notes and government agency securities, for which the fair market value would be affected by changes in the general level of United States interest rates. However, due to the short-term maturities and the low-risk profile of our investments, an immediate 10% change in interest rates would not have a material effect on the fair market value of our cash, cash equivalents and investments.

We do not believe that inflation, interest rate changes, or exchange rate fluctuations had a significant impact on our results of operations for any periods presented herein.
Company Overview

We are a clinical-stage biopharmaceutical company focused on creating innovative cancer immunotherapies by leveraging underexploited biological opportunities. Specifically, we target well-characterized biological pathways with significant scientific data supporting their importance in regulating the immune response against cancer and for which either there are no molecules in development or those that exist have suboptimal profiles. To exploit these pathways, we have built a robust and highly efficient discovery capability to create and optimize highly differentiated small-molecule immuno-oncology product candidates. Since our inception in 2015, we have built a broad portfolio of small-molecule and antibody product candidates that we plan to develop together as intra-portfolio combinations. We have initiated clinical trials for our two most advanced product candidates, both of which are expected to generate data in 2018, and we expect clinical data from our first intra-portfolio combinations in the first half of 2019. We plan to advance two additional product candidates into clinical trials by the end of 2018. Members of the Arcus team have worked together for more than 10 years discovering innovative small-molecule product candidates while at companies such as Tularik Inc., Amgen, Inc. and Flexus Biosciences, Inc.

Our initial focus is on the ATP-adenosine pathway, a key driver of immunosuppression in the tumor microenvironment. Decades of scientific research have demonstrated that extracellular adenosine, generated by the CD73 enzyme, acts as a powerful inhibitor of immune cell activity. The compelling therapeutic rationale for inhibition of the ATP-adenosine pathway has led several companies to repurpose for oncology existing adenosine A $\text{A}_2a$ receptor antagonists that were originally designed for the treatment of central nervous system (CNS) indications. We believe that our lead product candidate, AB928, which we designed using our small-molecule discovery capability, is the first adenosine receptor antagonist that effectively blocks the adenosine receptor in the tumor microenvironment and potently inhibits both the adenosine 2a receptor (A $\text{A}_2a$ R) and the adenosine 2b receptor (A $\text{A}_2b$ R). Our *in vitro* studies have demonstrated that AB928 reverses adenosine-induced immunosuppression and inhibits the A $\text{A}_2a$ R and A $\text{A}_2b$ R receptors more potently and effectively than the other adenosine receptor antagonists in clinical development. In addition to AB928, we have created a small-molecule inhibitor of CD73, AB680, which could represent another powerful approach to inhibiting the ATP-adenosine pathway, and have generated additional potential product candidates against ATP-adenosine and other important immuno-oncology pathways using our internal discovery capability.

As the immuno-oncology market evolves toward the use of combination therapies, a key element of our strategy is to build a broad portfolio of product candidates that target a wide range of immune mechanisms, which will enable us to pursue multiple intra-portfolio combinations. Consistent with this strategy, we are developing antibody drug candidates that are currently considered the foundation for combination therapies in immuno-oncology, or backbone therapy, or that have the potential to be future backbone therapies, such as our in-licensed antibodies targeting the immune checkpoint receptors PD-1 and TIGIT. Our strategy is to create differentiated combination products by combining these antibodies with our internally discovered small-molecule product candidates.
Our Product Portfolio

The following chart summarizes our product pipeline and our upcoming milestones. We currently hold world-wide rights to all of our product candidates other than the rights to AB122 in China and five other countries that are outside of the United States, Europe and Japan. In addition, Taiho Pharmaceutical Co., Ltd. (Taiho) has an option to exclusively license the development and commercialization rights to each of our programs for Japan and certain other territories in Asia (excluding China).

<table>
<thead>
<tr>
<th>Lead Optimization</th>
<th>Preclinical Phase 2</th>
<th>Phase 1</th>
<th>Phase 3</th>
<th>Status / Milestone</th>
<th>Target Indication</th>
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<tr>
<td><strong>Dual and Selective $A_2$A Receptor Antagonists</strong></td>
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<tr>
<td>AB928 ($A_2$A_R Antagonist)</td>
<td>Final Phase 1 data in Q2’18</td>
<td>Solid tumors’</td>
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<tr>
<td>A063105/A062920</td>
<td>Predominant characterization ongoing</td>
<td>Solid tumors</td>
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<td><strong>Small-Molecule CD73 Inhibitor</strong></td>
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<tr>
<td>AB680 (intravenous)</td>
<td>Regulatory filing in mid-2016</td>
<td>Solid tumors</td>
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<td><strong>Antibody Programs</strong></td>
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<tr>
<td>AB122 (anti-PD-1 Antibody)</td>
<td>Phase 1 data in cancer patients in Q2’18</td>
<td>Solid tumors’</td>
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<tr>
<td>AB154 (anti-TIGIT Antibody)</td>
<td>Regulatory filing in mid-2016</td>
<td>Solid tumors</td>
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* For more details on the solid tumor types that we plan to pursue in our clinical trials for AB928 + AB122 and AB928 + chemotherapy, please see “Business—Our Clinical Development Strategy for AB928.”

In addition to the above product candidates, we expect to identify a lead oral CD73 inhibitor in 2018. We have initiated several other programs against promising immuno-oncology targets such as arginase, and we expect to select a lead arginase inhibitor in 2018 and submit a regulatory application to initiate a Phase 1 clinical trial for this product candidate in early 2019.

We are rapidly advancing our two lead, internally discovered small-molecule product candidates, the profiles of which are summarized below.

- **AB928.** Our lead adenosine receptor antagonist, AB928, is an orally bioavailable, highly potent, reversible antagonist of the $A_2a$ and $A_2b$ receptors. We believe that AB928 is the first adenosine receptor antagonist in clinical development to be designed specifically for the biology of the tumor microenvironment and has multiple advantages over other adenosine receptor antagonists in clinical development, including: (i) significantly greater potency under conditions that closely resemble the tumor microenvironment, for example, high concentrations of adenosine and albumin, (ii) inhibition of both the $A_2a$ and $A_2b$ receptors, (iii) low penetration through the blood-brain barrier, (iv) high penetration of tumor tissue and (v) attractive pharmacokinetics, with high oral bioavailability and a human half-life that enables once-daily dosing.

AB928 is currently in a Phase 1 trial in healthy volunteers. This trial will provide us with significant insights into the safety, pharmacokinetic and pharmacodynamic profiles of AB928, which could allow us to initiate the dose-escalation portions of our planned combination trials in cancer patients at a higher dose than would otherwise be possible. We have completed the single-ascending-dose portion of this trial, administering single doses up to 150 mg, which we believe is sufficient to inhibit at least 90% of $A_2a$ R activation, and have observed no safety issues to date. We expect to report final safety, pharmacokinetic and pharmacodynamic data from this trial and to submit regulatory applications to initiate clinical trials in cancer patients for AB928 in combination with AB122, our anti-PD-1 antibody, and in combination with chemotherapy in the second quarter of 2018. We are planning to explore AB928 in a variety of solid tumors supported by biological and commercial rationale, as described in more detail in “—Our Clinical Development Strategy for AB928.” We are also focused on the identification of additional molecules that block adenosine 2 receptor signaling and have identified a second dual $A_2a$R/$A_2b$R antagonist (A003105) as well as a selective $A_2a$R antagonist (A002926).
Our lead CD73 inhibitor, AB680, is a highly potent, reversible and selective inhibitor of the CD73 enzyme and is expected to be the first small-molecule inhibitor of CD73 to enter clinical development. As CD73 plays a critical role in the extracellular generation of adenosine, AB680 may provide a highly effective approach to preventing adenosine-mediated immune suppression. We plan to submit our first regulatory application for AB680 in the middle of 2018 and expect to initiate our first clinical trial for AB680 in the second half of 2018. Similar to AB928, we plan to follow this trial with dose escalation trials which will explore AB680 in combination with other agents in multiple solid tumor types where we believe the ATP-adenosine pathway plays an important role. Based upon its projected pharmacokinetic profile, AB680 has the potential to be administered on the same dosing schedule as our anti-PD-1 antibody, AB122, and various chemotherapeutic agents, which would be attractive from a patient compliance and commercial perspective. We also plan to advance into preclinical development a small-molecule CD73 inhibitor that can be dosed orally, and expect to select such oral development candidate in 2018.

We have in-licensed two antibody drug candidates that represent current or potential backbone therapies, the profiles of which are summarized below:

- **AB122.** Our anti-PD-1 antibody, AB122, is a fully human antibody with similar binding affinity and other characteristics to the marketed anti-PD-1 antibodies, pembrolizumab and nivolumab. AB122 is currently in a Phase 1 dose-escalation trial in cancer patients in Australia. We expect to submit a regulatory application to initiate clinical trials in cancer patients for AB122 in combination with AB928 during the second quarter of 2018 and to report safety, pharmacokinetic and pharmacodynamic data from our ongoing Phase 1 trial of AB122 in cancer patients in the third quarter of 2018. We expect to initiate an expansion cohort to evaluate AB122 as a single agent in tumor types known to be responsive to an anti-PD-1 therapy in the second half of 2018. We also plan to develop AB122 in combination with our other small-molecule and antibody product candidates.

- **AB154.** Our anti-TIGIT antibody, AB154, is a humanized antibody that inhibits a unique immune checkpoint target involved in a pathway that plays both inhibitory and stimulatory roles in the immune system. We plan to submit our first regulatory application for AB154 in the middle of 2018 and expect to initiate a Phase 1 dose escalation trial to evaluate AB154 as a single agent and in combination with AB122 in the second half of 2018. A variety of tumor types associated with high expression of CD155 and TIGIT will be explored.

While we plan to retain significant economic and commercial rights to our portfolio, we may out-license the rights to our product candidates in certain regions where we are unlikely to pursue commercialization on our own. In September 2017, we entered into an option and license agreement with Taiho for the potential development and commercialization of our product candidates in Japan and certain other territories in Asia (excluding China). Under the terms of the agreement, we will receive a non-refundable and non-creditable upfront payment and research payments totaling $35.0 million during the first three years of the agreement. For any program for which Taiho exercises its option for an exclusive license, we will receive an option payment and will be eligible to receive up to $275.0 million in development, regulatory, and commercial milestone payments arising from such program, as well as royalties, ranging from high single digits to mid-teens, on net sales in Taiho’s territories.

**Our Internal Discovery Capability and Team**

Our discovery capability and organization have enabled the rapid and efficient generation of small-molecule immuno-oncology drug candidates. In the case of our A2AR antagonist program, we identified the first compounds in February 2016, synthesized AB928 for the first time in December 2016, and initiated our first clinical trial of AB928 in November 2017, essentially progressing from program initiation to first subject dosed within 21 months. We believe that our discovery capability and our expertise and efficiency will allow us to replicate the rapid timeline that we achieved with AB928.
We have assembled a management team with highly relevant experience in immuno-oncology, small-molecule drug discovery and clinical development. Members of our scientific and senior management team, including our founders, Dr. Terry Rosen and Dr. Juan Jaen, have demonstrated their ability to rapidly discover product candidates, most recently at Flexus Biosciences, Inc., which was acquired by Bristol-Myers Squibb in 2015 for its preclinical-stage IDO-1 enzyme inhibitor, now called BMS-986205, approximately 18 months after the company’s formation. Prior to Flexus, several members of our senior management team worked together at Amgen, Inc. and prior to that at Tularik Inc. (which was acquired by Amgen). While we believe that our experienced management team represents an important competitive advantage, the historical results, past performance and/or acquisition of companies with which members of our management team have been affiliated, including Flexus, do not necessarily predict or guarantee similar results for our company.

Our Scientific Advisory Board includes several thought leaders in the immuno-oncology field, including Jeffrey A. Bluestone, Ph.D., the CEO of the Parker Institute for Cancer Immunotherapy and the A.W. and Mary Margaret Clausen Distinguished Professor Director, Hormone Research Institute University of California, San Francisco; Antoni Ribas, M.D. Ph.D., Professor of Medicine of Hematology / Oncology and the Director of JCCC Tumor Immunology at UCLA; David Lacey, M.D. Ph.D., former Senior Vice President of Discovery Research at Amgen; Jonathan Yingling, Ph.D., Senior Vice President of Early Development at Idera Pharmaceuticals and former Vice President, Oncology Discovery and Translational Research at Bristol-Myers Squibb; Ramy Ibrahim, M.D., Vice President, Clinical Development at the Parker Institute for Cancer Immunotherapy and previously Clinical Vice President, Immuno-Oncology at AstraZeneca; and Chris Garcia, Ph.D., Professor of Molecular & Cellular Physiology and Structural Biology at Stanford University.

As of February 1, 2018, we had 83 employees, including 50 holding Ph.D. or M.D. degrees and 68 in R&D, and have established internal expertise in chemistry, immunology, biochemistry, pharmacology, structural biology, translational medicine, and preclinical and clinical development. An important element of our strategy is to build and maintain significant internal capabilities in the areas, such as medicinal chemistry, that we believe are critical for the discovery of highly differentiated small-molecule compounds.

Since our inception in 2015, we have raised approximately $227 million in equity capital from investors that have significant life sciences experience and that share our vision to create a leading company in the immuno-oncology field, including: GV (formerly Google Ventures), The Column Group, Foresite Capital, Wellington Management Company LLP, EcoR1 Capital, BVF Partners L.P., Decheng Capital, Invus Opportunities, Hillhouse, Aisling Capital, Novartis Institute for BioMedical Research, Inc., Celgene Corporation, Stanford University, Taiho Ventures and DROIA Oncology Ventures. This equity capital includes approximately $22 million in investments made by our founders and management.

Background on the Immuno-Onology Market

For decades, it has been understood that the immune system can be harnessed to eradicate and prevent the proliferation of cancer cells. Unfortunately, multiple early clinical trial failures discouraged the biopharmaceutical industry from making a significant investment in immuno-oncology. However, when the immune checkpoint inhibitor ipilimumab generated positive Phase 3 data in melanoma in 2010, demonstrating a longer survival rate, in patients with very advanced disease, the biopharmaceutical industry’s view of the importance of immuno-oncology changed significantly. Ipilimumab acts by blocking the function of a receptor called CTLA-4, which is found primarily on T cells. While ipilimumab has yet to demonstrate meaningful activity in other tumor types as a single agent, the melanoma data catalyzed a massive increase in investment in the immuno-oncology field at biopharmaceutical companies.

Following the ipilimumab data, biopharmaceutical companies focused their development efforts on another class of immune checkpoint inhibitors that includes anti-PD-1 antibodies, which block the PD-1 receptor found on T cells, B cells and myeloid cells, and anti-PD-L1 antibodies, which block the PD-L1 ligand on cancer cells. Collectively, anti-CTLA-4, anti-PD-1 and anti-PD-L1 antibodies represent the first generation of immune
checkpoint inhibitors. These drugs all act to release the “brakes” on the immune system by activating T cells and enabling them to recognize and eradicate cancer cells. Compared to ipilimumab, anti-PD-1/PD-L1 antibodies have demonstrated higher clinical response rates, higher response rates and/or longer overall survival, activity in a broader range of tumors and a better safety profile. Currently, this class of molecules is approved in at least six tumor types, including non-small cell lung carcinoma, melanoma, squamous cell head and neck cancer, bladder cancer, renal cell carcinoma and Hodgkin’s Lymphoma. According to EvaluatePharma, a life sciences market intelligence firm, by 2022, these antibody products are expected to generate revenue of approximately $30 billion globally.

Opportunities for Combination Therapies

Despite the success of the first generation of immune checkpoint inhibitors, patient response rates for single-agent therapy are relatively low. For example, the two approved anti-PD-1 antibodies, when administered as single agents, have only demonstrated response rates of approximately 30% in melanoma patients, and the majority of these patients see their disease ultimately progress. The response rates in other tumor types are even lower. In addition, these therapies have not demonstrated meaningful single-agent activity in many of the most prevalent types of cancer, such as breast, prostate, pancreatic, ovarian and colorectal.

To address the limitations of single-agent immuno-oncology therapy, efforts are now focused on combining anti-PD-1/PD-L1 antibodies with other types of drugs. These combination efforts are designed to address the multiple mechanisms that likely prevent effective anti-tumor immunity and are based on the understanding that several immune processes may need to be modulated concurrently to overcome the adaptations that tumors use to escape immunity. For example, in addition to T cells, there are several other types of immune cells that are critical to an effective anti-tumor immune response, which can be dysregulated in cancer. In addition, tumors can affect their microenvironment in ways that suppress effective immune function, thereby creating favorable conditions for tumor growth and proliferation.

The first combination of immuno-oncology agents to be approved by the FDA was the combination of two immune checkpoint inhibitors, the anti-PD-1 antibody nivolumab and the anti-CTLA-4 antibody ipilimumab, for the treatment of advanced metastatic melanoma. While this combination improved survival rates relative to either agent alone, it also resulted in increased toxicities. Regardless, this therapy demonstrates the opportunity for combinations of drugs that target multiple immune mechanisms.

A significant academic and industry effort is now underway to evaluate combinations of anti-PD-1/PD-L1 antibodies with other agents in order to achieve higher response rates and longer overall survival. Despite recent clinical successes with combination therapy, such as the growing body of data supporting combining inhibitors of an enzyme known as IDO-1 with anti-PD-1 antibodies in a number of tumor types, the challenge remains to identify and develop combinations that will ultimately succeed in important clinical settings. We believe that we are uniquely positioned to address this opportunity by pursuing mechanisms and combinations supported by strong biological rationale derived from existing and evolving scientific data sets.

Our Unique Approach to Immuno-Oncology

Our Focus on Scientifically Validated Immuno-Oncology Pathways

To exploit the significant opportunity in the immuno-oncology market in the most efficient manner and to maximize the addressable patient population for our portfolio, we focus on the following:

- **Scientifically Validated Pathways.** Academia has spent decades elucidating the biology behind the immune system’s role in cancer, generating a large amount of information on pathways and potential therapeutic targets. However, much of this information has yet to be translated into the discovery of high-quality product candidates. We are focusing on biological pathways for which we can leverage this body of existing scientific knowledge to rapidly generate highly differentiated, small-molecule drug candidates and to identify promising combination therapies and clinical settings in which to
pursue them. We believe that this approach mitigates our risk and allows us to create and develop high-quality drug candidates targeting critical immune pathways more quickly and efficiently than would otherwise be possible.

- **Broad Range of Mechanisms.** We are focused on developing product candidates that act against a broad range of mechanisms that enable tumors to evade eradication by the immune system. The following graphic illustrates the diverse set of opportunities for therapeutic intervention, as well as the pathways in which we are currently conducting research. In the first row of the graphic, *Eliminate Immune Suppression* refers to opportunities to reverse mechanisms that actively suppress the immune response against cancer cells. *Enhance APC Function* refers to the stimulation of dendritic cells to effectively present tumor antigens for recognition by T cells. *Enhance Effector Activity* refers to the opportunity to enhance the activity of certain immune cells that are critical to generating a successful immune response against tumors.

As shown below, the approved checkpoint inhibitors only relieve T cell suppression and do not directly impact other immune cells nor directly enhance immune system function. Collectively, the Arcus small molecules and antibodies in the box below illustrate the breadth of the mechanisms that we are currently pursuing with our portfolio and where they fall in the spectrum of anti-tumor immune mechanisms.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Eliminate Immune Suppression</th>
<th>Enhance APC Function</th>
<th>Enhance Effector Activity</th>
</tr>
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<tbody>
<tr>
<td>Cells Involved</td>
<td>T cells</td>
<td>NK cells</td>
<td>T_reg</td>
</tr>
<tr>
<td>Function</td>
<td>Activation</td>
<td>Excretion</td>
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**Approved Checkpoint Inhibitors**

- CTLA-4
- PD-1
- PD-L1

**Arcus Small Molecules**

- A2R
- CD73
- ARG-1

**Arcus Antibodies**

- PD-1
- TGF
- TIM3
- TIMF
- TIMT
- TIMT
- TIMT
- TIMT

APC: antigen-presenting cells; NK cells: natural killer cells; T_reg: regulatory T cells; MDSC: myeloid-derived suppressor cells; M2: anti-inflammatory macrophages; DC: dendritic cells; Effector Activity: the ability of immune cells to attack target cells by various mechanisms, depending on the cell type.

- **Ubiquitously Important Targets.** We focus on targets that are ubiquitous, meaning that they are believed to play an important role in a broad range of human cancer types and settings. For example, CD73, the key enzyme responsible for the generation of extracellular adenosine, has been found to be over-expressed in many tumor types, including non-small cell lung cancer, colorectal cancer, gastroesophageal cancer, breast cancer (particularly triple-negative breast cancer), ovarian cancer, and others, suggesting that it plays a broad immuno-protective role in tumor survival. In fact, high levels of CD73 expression have been shown to correlate with reduced survival rates in cancer patients. Given the broad applicability of our targets, we expect to pursue the development of AB928, AB680, and our other product candidates in multiple tumor types, utilizing an adaptive trial design that will allow us to explore several combination settings in parallel, starting with relatively small patient cohorts. We expect that our focus on targets and pathways that are ubiquitously involved in cancer will enable our product candidates to address broad patient populations and significant market opportunities.
To exploit the potential of these scientifically well understood immuno-oncology pathways and targets, we are focusing our internal discovery effort on novel small-molecule product candidates. While all immuno-oncology agents approved to date are large molecules, such as the anti-PD-1, anti-PD-L1 and anti-CTLA-4 antibodies, we believe that both small and large molecule modalities will be critical in addressing the many different immune-mediated pathways that may be dysregulated in a patient’s tumor. As many immuno-oncology pathways are not amenable to intervention by antibodies or protein therapeutics, we expect that small-molecule approaches will allow us to access a significantly greater number of potential targets, including intracellular and extracellular enzymes, G-protein coupled receptors (GPCRs), and kinases. In addition, in some cases, small molecules may prove superior to large-molecule approaches against the same target. For example, we have shown in in vitro studies that our small-molecule CD73 inhibitors can achieve a greater degree of CD73 inhibition than certain antibodies against this target that are in clinical development.

Our internal discovery effort is designed to create and advance small-molecule product candidates with the ideal pharmacological properties for the tumor micro-environment and the target of interest. Small-molecule drugs against the same biological target can be highly differentiated from each other based on their respective pharmacokinetic, pharmacodynamic and biophysical properties. For example, many small-molecule drugs are potent when tested in buffer solution but lose a significant amount of this potency in physiologically relevant media such as blood or tumor tissue, due to a phenomenon known as “plasma protein binding” in which compounds bind non-specifically to albumin and other abundant proteins found in such tissues. We rigorously test our molecules in whole blood or other physiologically relevant systems and only advance molecules that retain a high degree of activity when tested under such “real world” conditions. We also design our molecules to have the ideal pharmacological properties for the targeted pathway and the desired clinical effect. For example, we specifically designed our A₂R antagonist AB928 to have a greatly reduced ability to cross the blood brain barrier, as we believe that this attribute will allow us to dose the compound at higher levels before the appearance of any potential adverse events associated with inhibition of the A₂a receptor in the brain. We also designed our A₂R antagonist AB928 to inhibit both the A₂a R and A₂b R receptors, as we believe a “dual A₂R antagonist” will have broader immunological and anti-tumor activity than a “selective A₂a R antagonist.”

To support our strategy of pursuing multiple intra-portfolio combinations, we are building a diverse portfolio of product candidates that target different immune mechanisms. In addition to small molecules, we are also developing antibody product candidates that target what we believe are some of the most important immune checkpoint receptors, including PD-1 and TIGIT, and that we expect to be critical components of our future intra-portfolio combinations. By combining these antibody candidates with our internally discovered small-molecule product candidates, we believe we can create highly differentiated combination products. We also plan to fully explore potential synergies between our molecules and standard-of-care treatments, such as chemotherapy, when there is a strong biological rationale, such as the case of combining our ATP-adenosine pathway inhibitors AB928 and AB680 with certain chemotherapeutic agents.

Given that the treatment of cancer continues to evolve towards the use of agents that are specific for particular tumor profiles, we intend to explore biomarkers that may predict a patient’s response to treatment. Patients’ tumors being considered for immune-based therapies are already routinely tested for certain markers, such as PD-L1 expression or the absence of mutation-repair mechanisms, to determine whether they are appropriate candidates for anti-PD-1 or PD-L1 therapy. In certain settings, we may incorporate biomarker screening into our clinical trials to increase the likelihood of success by focusing on patients that are most likely to respond to our product candidates. For example, we will measure CD73 levels in patients during our early clinical trials with our ATP-adenosine pathway inhibitors AB928 and AB680 in order to determine the value of incorporating screening for CD73 expression into our future clinical trials.

Our Small-Molecule Discovery Capability

We leverage existing chemical and structural knowledge about the pathway or target to identify chemical starting points for our drug discovery programs. We then conduct extensive optimization of the biological and
pharmacological properties of those leads guided by structure-activity relationship (SAR) knowledge generated under the direction of our experienced drug discovery scientists. In some cases, we utilize structural biology (x-ray crystallography) to improve the way in which our compounds bind to their target. For example, we had a collaboration with Professor Norbert Sträter at the University of Leipzig in Germany for the elucidation, using x-ray crystallography, of the structures of more than 15 of our internally discovered CD73 inhibitors bound to human CD73; this effort contributed in a meaningful way to the identification of our lead development candidate AB680.

We determine upfront the properties that we believe are critical to effectively modulate the target pathway of interest. These properties include high potency under physiologically relevant conditions, e.g., blood; selectivity against the target; lack of drug-drug interactions; high penetration of tumor tissue; optimal pharmacokinetic properties; and good safety profile. We conduct in our laboratories those activities that we consider to be critical for creating a molecule with optimal properties. These activities include medicinal chemistry, assay development, assessment of compound potency and selectivity, *in vitro* and *in vivo* pharmacokinetic profile evaluation, *in vivo* pharmacology, and exploratory safety evaluation, among others. Having these capabilities and expertise in-house allows us to iterate on the design of our product candidates, until we achieve the predefined optimal properties.

We have utilized our drug discovery capability to create several product candidates, including our dual adenosine receptor antagonist AB928 and our small-molecule CD73 inhibitor AB680. The robustness and integrated nature of our drug discovery capability have also enabled rapid advancement of our programs. For example, in our A2R receptor program, we progressed from lead identification to first synthesis of AB928 in 10 months, and to the start of our first clinical trial in another 11 months. We believe that we can consistently take molecules from lead identification to our first regulatory application in about 18 months. Our plan is to advance into clinical development at least one new product candidate generated by our internal discovery effort each year for the next several years.

**Our Approach to Clinical Development**

Our approach to clinical development is to pursue strategies that allow us to generate meaningful data on our product candidates in the most efficient manner possible, which should allow us to rapidly advance our product candidates through clinical trials. Some of the key elements of our approach include:

- **Focus our development efforts on combination products, particularly those that are intra-portfolio.** To maximize the potential of our small-molecule product candidates, we will focus our development efforts on combining them with other agents which we expect to be synergistic with our small molecules. We have in-licensed two antibody product candidates, both of which we expect to be synergistic with our small molecule product candidates, which will allow us to pursue multiple intra-portfolio combinations incorporating our internally discovered small-molecule product candidates. While we initially plan to focus on the development of doublet therapies, such as the combination of AB928 and AB122, we also plan to pursue triplet therapies, which would incorporate two or three of our product candidates. The table below summarizes some of the combination studies we could pursue with our existing portfolio.

<table>
<thead>
<tr>
<th>Arcus Product Candidate</th>
<th>Potential Doublet Partner</th>
<th>Potential Triplet Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB928 (A2aR/A2bR)</td>
<td>+ AB122 (anti-PD-1)</td>
<td>+ AB122 (anti-PD-1) + AB154 (anti-TIGIT)</td>
</tr>
<tr>
<td></td>
<td>+ Chemotherapy</td>
<td>+ AB122 (anti-PD-1) + Chemotherapy</td>
</tr>
<tr>
<td></td>
<td>+ AB154 (anti-TIGIT)</td>
<td>+ AB122 (anti-PD-1) + Radiation</td>
</tr>
<tr>
<td>AB680 (CD73)</td>
<td>+ AB122 (anti-PD-1)</td>
<td>+ AB122 (anti-PD-1) + AB154 (anti-TIGIT)</td>
</tr>
<tr>
<td></td>
<td>+ Chemotherapy</td>
<td>+ AB122 (anti-PD-1) + Chemotherapy</td>
</tr>
<tr>
<td></td>
<td>+ AB154 (anti-TIGIT)</td>
<td></td>
</tr>
<tr>
<td>AB154 (anti-TIGIT)</td>
<td>+ AB122 (anti-PD-1)</td>
<td>See above</td>
</tr>
</tbody>
</table>

- **Design our clinical trials to advance our compounds as quickly and efficiently as possible.** Following the identification of our recommended dose from our dose escalation trials, we plan to initiate the
enrollment of expansion cohorts in multiple tumor types using an adaptive trial design. Adaptive trial designs give us the ability to quickly close or increase the size of our expansion cohorts based on initial tumor response data generated in that cohort, which we believe is an efficient way to study our product candidates in multiple tumor types. Each cohort will enroll 15-30 patients, which we believe is sufficient in size to allow us to determine whether the response rate would be clinically meaningful, or an improvement over the response rates observed with the current standard of care. We could increase the size of any expansion cohort in which we observe a promising initial response rate, in order to generate a sufficient amount of information to support the advancement of the product candidate or combination product into a potentially registrational trial.

For some of our small-molecule product candidates, we may choose to initiate clinical testing in healthy volunteers, as we have done with AB928. Because AB928 has been shown to have a fairly benign safety profile in our preclinical toxicology studies, particularly relative to other oncology agents, we were able to start clinical testing of AB928 in healthy volunteers. A healthy volunteer trial allows us to evaluate our product candidates in a relatively large number of subjects over a relatively short time period and to study the behavior of our product candidates in a more controlled setting than is possible in a clinical trial with cancer patients. These trials should allow us to generate significant data on the safety, pharmacodynamic and pharmacokinetic profiles of our product candidates, providing meaningful information on receptor coverage, half-life, optimal dosing regimen and consistency of the product candidate’s activity across human subjects. This should allow us to initiate dosing in cancer patients at a higher dose and with a better understanding of the product candidate’s biological profile and therefore accelerate the dose escalation portion of our trials. We will only pursue this approach when we believe that it could accelerate our overall clinical development timelines and meaningfully de-risk our future trials.

We may also initiate clinical trials for our product candidates in certain regions outside the United States, which may allow us to accelerate our enrollment times. For example, we initiated our first clinical trial for AB122 in Australia, which we believe allowed us to accelerate the time from regulatory submission to the initiation of dosing in patients relative to what would have been possible in the United States. We also believe that we can enroll patients into this trial faster in Australia than in the United States. We also currently plan to initiate trials for our first intra-portfolio combinations in Australia.

- **Select tumor types and settings based on biological and commercial rationale.** In selecting tumor types to pursue, we will focus on those types that are most dependent on the pathways targeted by our agents, such as tumors with high levels of CD73 expression for ATP-adenosine inhibitors. We will also focus on patient populations and settings where we believe there is still considerable unmet need. As an example, for our AB122 combinations, we will focus on anti-PD-1 relapsed/refractory patients in indications like non-small cell lung cancer where anti-PD-1 therapy is currently considered the standard of care. In the case of our chemotherapy combinations, we will focus on tumor types in which that particular chemotherapy is already considered the standard of care, such as the case of oxaliplatin-containing regimens in the treatment of colorectal cancer. In addition, we are pursuing settings where significant clinical data already exist for the agent that will be evaluated in combination with our product candidates. We believe that this will allow us to determine whether the data we generate in our expansion cohorts are clinically meaningful and differentiated from the current standard of care.

**Our Strategy**

Our objective is to transform the treatment of cancer by creating a broad portfolio of innovative immuno-oncology therapeutics and developing combinations that offer significant improvement over current treatment options. To achieve this objective, we are pursuing the following strategies:

- **Rapidly advance our lead product candidates and combinations through clinical development in multiple tumor types.** We have initiated Phase 1 trials for our two lead product candidates, AB928 and
AB122. Leveraging the benign safety profile of AB928 observed in extensive preclinical toxicology studies, we are conducting our initial trial of this product candidate in healthy human volunteers. Data from this trial should support selection of a higher starting dose and more rapid dose escalation in our first AB928 clinical trial in cancer patients, which will be a combination trial with AB122. For this trial, we will utilize an adaptive trial design where our goal is to generate sufficiently robust data in certain tumor types to allow us to advance the AB928+AB122 combination into a large, randomized trial that could potentially support regulatory approval. Concurrently with the AB928+AB122 combination, we intend to evaluate the clinical activity of AB928 in combination with certain forms of chemotherapy, which will implement an adaptive trial design similar to that of the AB928+AB122 trial. We plan to pursue similar adaptive trial designs for our other product candidates, including AB680 and AB154. The objective of our adaptive trial designs is to rapidly generate meaningful clinical data that potentially supports the initiation of a registrational trial.

- **Pursue combinations and tumor types based on strong biological rationales.** We are pursuing therapeutic combinations supported by strong biological rationales that suggest synergy between the agents. For example, activation of A2aR receptors on T cells has been shown to impair the ability of anti-PD-1 antibodies to enhance activation of those T cells, providing a strong rationale for combining anti-PD-1 therapy with our agents that target the ATP-adenosine pathway. We are also selecting tumor types that we believe will be most sensitive to our product candidates’ mechanisms of action, such as those that have high CD73 expression and T cell infiltration in the cases of AB928 and AB680. In our later-stage trials, we will likely screen for patients with certain tumor profiles, such as high CD73 expression, which should enhance the likelihood of success of these product candidates. In combination trials that involve AB122, we will determine whether expression level of PD-L1 influences the response rate in a particular tumor type.

- **Control, or otherwise secure access to, all the components of our desired therapeutic combinations.** As anti-PD-1/PD-L1 antibodies are currently considered the backbone therapy of immuno-oncology treatment, we believed that it was critical to ensure access to this type of molecule to pursue and control the development of multiple intra-portfolio combinations. In September 2017, we in-licensed an IND-ready anti-PD-1 antibody from WuXi Biologics. We have also in-licensed a preclinical-stage anti-TIGIT antibody that we believe has the potential to become a backbone therapy in the future, and we will continue to evaluate and pursue other molecules that we believe will be critical elements of our combination strategy. By having these antibody product candidates in our portfolio, we can better control the clinical trial design and timelines and retain much of the economics of any resulting products that receive regulatory approval.

- **Continue to expand our pipeline of novel small-molecule product candidates.** More than 80% of our workforce is dedicated to research and development, and we plan to continue to invest in our discovery capability and to expand our pipeline. By the end of 2018, we expect to have filed regulatory applications to initiate clinical trials in the United States or other countries for at least four product candidates, including two for product candidates that we discovered in-house. We have initiated several other programs against promising immuno-oncology targets such as arginase, and we expect to select a lead arginase inhibitor in 2018 and submit a regulatory application to initiate a Phase 1 clinical trial for this product candidate in early 2019. A key element of our portfolio strategy is to create second-generation molecules for our small-molecule programs; these compounds may possess differentiated pharmacological profiles and are generally derived from chemical scaffolds distinct from the one from which the first generation product candidate was selected. We have active second-generation programs in place for AB928 and AB680.

- **Retain significant economic and commercial rights to our programs in key geographic areas.** We plan to retain significant economic and commercial rights to our portfolio in the United States and certain other regions. We have pursued and will continue to evaluate opportunities to out-license rights to our product candidates in regions in which we are unlikely to pursue development and commercialization on our own, as was the case with our option and license agreement with Taiho for
Japan and certain other territories in Asia (excluding China). In the future, we may enter into strategic collaborations with pharmaceutical companies in the United States or Europe if we believe the partnership enables us to accelerate the development and commercialization of our programs while allowing us to retain meaningful rights to our product candidates.

Our ATP-Adenosine Programs

The ATP-Adenosine Pathway and Its Relevance in Cancer

Our initial focus is on the ATP-adenosine pathway, which, when activated, has potent immuno-suppressive effects in the tumor microenvironment, thereby preventing the immune system from recognizing and destroying cancer cells. The activation of this pathway begins with the release from cells of adenosine triphosphate (ATP), a nucleotide that is the primary source of cellular energy. Under normal conditions, ATP is found primarily intracellularly; however, under conditions of cellular damage or cell death, large amounts of ATP are released extracellularly. On its own, ATP acts as a “danger signal” to alert and activate the innate immune system. However, an enzyme known as CD39 converts the extracellular ATP into adenosine monophosphate (AMP), and another enzyme known as CD73 subsequently converts AMP into adenosine, which has profound immuno-suppressive properties. This process, which results in the generation of large amounts of extracellular adenosine, evolved to protect human tissue from excessive inflammation by counteracting the pro-inflammatory effects of ATP. However, cancer cells have hijacked this mechanism to prevent the immune system from efficiently recognizing and eradicating them.

Once generated, adenosine can bind to and activate four different G-protein coupled receptors: A1R, A2aR, A2bR and A3R. Of these, only the A2aR and A2bR receptors are believed to play a role in intra-tumoral immuno suppression as described below:

- **A2aR.** The binding of adenosine to the A2aR receptor, which is expressed on T cells, natural killer (NK) cells and myeloid cells such as dendritic cells, leads to increased intracellular levels of cyclic AMP (cAMP) and the impairment of maturation and/or activation of T cells, NK cells and dendritic cells. This process significantly impairs the activation of the immune system against cancer cells.
  
  In addition, the relationship between A2aR, PD-1, and T cell receptor (TCR) activation on T cells is becoming increasingly elucidated. Increased cAMP levels induce specific biochemical and transcriptional changes in T cells that interfere with TCR activation, decrease the levels of certain proteins (such as CD28) necessary for optimal T cell activation and elevate the levels of certain proteins (such as PD-1) that inhibit T cell activation. As a result, A2aR receptor signaling may play a role in development of resistance to anti-PD-1 therapy.

- **A2bR.** The binding of adenosine to the A2bR receptor, which is primarily expressed on myeloid cells, further contributes to the impaired maturation/activation of dendritic cells, a process that is critical for the generation of an adaptive immune response against tumor antigens. Activation of the A2bR receptor by adenosine also enhances the tumor-protective effects of myeloid-derived suppressor cells (MDSC) and anti-inflammatory macrophages (M2). Therefore, adenosine binding to A2bR results in further impairment of the maturation/activation of these myeloid cells and activates a distinct process that protects tumor cells from the immune system.

One of the significant consequences of A2aR and A2bR activation on tumor-infiltrating immune cells is a decrease in effector T cell (Teff) numbers and activity, as well as simultaneous increases in regulatory T cell (Treg) numbers and activity and decreases in inflammatory cytokine production. Teff and Treg play opposite roles in their attack and protection, respectively, of cancer cells. Their numbers and, more importantly, their ratio is frequently indicative of a cancer patient’s likely prognosis; specifically, a higher Teff to Treg ratio is generally correlated with a better prognosis.

The enzymes CD39 and CD73 are upregulated in response to various stimuli, such as the hypoxic tumor microenvironment and certain growth factors and cytokines. In addition, the commonly prescribed
chemotherapeutic agents oxaliplatin and doxorubicin also induce elevated CD39 and CD73 levels, which may result in an immunosuppressive response that counteracts some of the potentially beneficial effects of these chemotherapies. Consistent with the relationship between hypoxia and elevated CD73 expression, several studies, including those published by Gao et al. (BioMed. Res. Intl. (2014) i.d. 460654; see Table 2), Loi et al. (Proc. Natl. Acad. Sci. (2013) 110(27): 11091-11096), and Inoue et al. (Oncotarget, January 2017), as well as public databases, such as the National Institutes of Health’s The Cancer Genome Atlas database, have shown that CD73 is overexpressed in multiple tumor types and that high CD73 expression is correlated with a poor prognosis in many types of cancer. These include non-small-cell lung carcinoma, colorectal cancer, head and neck squamous cell carcinoma, ovarian cancer, triple-negative breast cancer, renal cell carcinoma, prostate cancer and gastroesophageal cancer. These studies demonstrate the broad potential of CD73 inhibition in many oncology settings.

Our Product Candidates Targeting the ATP-Adenosine Pathway

We are pursuing what we consider to be the two most critical targets within the ATP-adenosine pathway: the A<sub>2a</sub>R/A<sub>2b</sub>R receptors and the enzyme CD73. Due to the significant and growing amount of scientific literature, including papers by Vijayan et al. (Nat. Rev. Cancer (2017) 17: 709-724); Ohta (Front. Immunol. (2016) 7: article 109); and Allard et al. (Curr. Opin. Pharmacol. (2016) 29: 7-16), supporting the critical role of the ATP-adenosine pathway in cancer, several companies have recently repurposed for oncology A<sub>2a</sub>R receptor-selective antagonists that were originally developed for Parkinson’s disease and other CNS disorders. These repurposed molecules were originally developed to inhibit the effects of adenosine in the brain, where adenosine is present in much smaller quantities than in the tumor microenvironment. These molecules were also specifically designed to cross the blood brain barrier, which could limit the use of higher doses in other settings, like oncology, because of the potential for CNS-mediated adverse events.

Our Dual Adenosine Receptor Antagonist, AB928

Our most advanced small molecule targeting the ATP-adenosine pathway, AB928, is an orally bioavailable, highly potent, reversible antagonist of the A<sub>2a</sub> R and A<sub>2b</sub> R receptors. AB928 is currently in a Phase 1 trial in healthy volunteers. We expect to submit regulatory applications in the second quarter of 2018 to initiate clinical trials in cancer patients for AB928 in combination with AB122, our anti-PD-1 antibody, and in combination with chemotherapy. We may also develop AB928 in combination with other agents for which a strong biological rationale exists supporting their synergy with A<sub>2</sub>R antagonism.

We believe that AB928 is the first A<sub>2</sub>R antagonist in clinical development that inhibits both the A<sub>2a</sub> R and A<sub>2b</sub> R receptors and which was designed specifically for the oncology setting. As a result, AB928 has several attributes that differentiate it from the other A<sub>2</sub>R antagonists in clinical development, including:

- **High potency and low plasma protein binding**. We have shown that AB928 is more potent against A<sub>2a</sub> R in buffer than the A<sub>2a</sub> R antagonists currently in clinical development. More importantly, AB928 is significantly more potent than these A<sub>2a</sub> R antagonists when we evaluated them under conditions that more closely resemble the tumor microenvironment. In these studies, we evaluated AB928 in an assay using whole blood, instead of buffer, and in the presence of high levels of NECA (a synthetic analogue of adenosine). Blood, like tumors, contains much higher concentrations of albumin than the brain. As albumin non-specifically binds to many small-molecule drugs, resulting in a dramatic loss of effective potency, blood represents a more representative biological medium for the evaluation of the potency of small-molecule drugs. The high levels of NECA used in this experiment are representative of the high concentrations of adenosine that have been measured in many solid tumors; these levels can be as much as 100 times higher than those found in the brain. Because the other A<sub>2a</sub> R antagonists in clinical development were developed with a focus on activity in the brain, they were not necessarily designed to work in the presence of the much higher levels of adenosine that are found in tumors.

When we evaluated AB928 under these conditions, AB928 was significantly more potent at inhibiting A<sub>2a</sub> R activation, as measured by phosphorylated CREB (pRCEB), than the A<sub>2a</sub> R antagonists in clinical development, as shown in the graph below. CREB is a transcription factor that becomes phosphorylated
when the A\textsubscript{2a} R is activated; thus, the level of pCREB inhibition is a measure of an A\textsubscript{2a} R antagonist’s ability to inhibit A\textsubscript{2a} R activation. The table below on the right shows the calculated IC\textsubscript{50} values for the various compounds in this experiment. The IC\textsubscript{50} values indicate the concentration of each compound necessary to achieve 50\% inhibition of pCREB formation. Therefore, lower values reflect greater compound potency.

<table>
<thead>
<tr>
<th>Compound</th>
<th>IC\textsubscript{50} (nM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB928</td>
<td>80</td>
</tr>
<tr>
<td>CPI-444\textsuperscript{a,b}</td>
<td>~10,000</td>
</tr>
<tr>
<td>AZD 4635\textsuperscript{c}</td>
<td>2,600</td>
</tr>
<tr>
<td>PBF-509\textsuperscript{d}</td>
<td>~10,000</td>
</tr>
<tr>
<td>Preladenant\textsuperscript{e}</td>
<td>785</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Measured in human blood CD8\textsuperscript{+} T cells; CREB is a transcription factor that becomes phosphorylated when A\textsubscript{2a} R is activated; thus, the level of pCREB inhibition is a measure of the ability of an A\textsubscript{2a} R antagonist to inhibit A\textsubscript{2a} R activation.

\textsuperscript{b} CPI-444: Compound synthesized by Arcus based on structure from AACR, April 2017 (#CT119)

\textsuperscript{c} AZD4635: Compound synthesized by Arcus based on structure from AACR, April 2017 (#2641)

\textsuperscript{d} PBF509: Compound synthesized by Arcus that is believed to be either PBF-509 or a close analogue (based on Pat. Appl. WO2017025918)

\textsuperscript{e} Preladenant was purchased from Ark Pharma (AK-43905); Preladenant was run on a different donor and date than the remaining compounds.

- **Dual antagonism of the A\textsubscript{2a} R and A\textsubscript{2b} R receptors.** Unlike the repurposed A\textsubscript{2a} R receptor-selective molecules that were initially developed for CNS indications, we designed our A\textsubscript{2} R antagonist to optimize its properties for use in immuno-oncology. As such, we designed AB928 to inhibit both the A\textsubscript{2a} R and A\textsubscript{2b} R receptors, since the binding of adenosine to A\textsubscript{2b} R receptors on myeloid cells contributes to adenosine-mediated immune suppression. Therefore, we expect that AB928 could have broader immunological activity than the selective A\textsubscript{2a} R antagonists. The scientific literature also supports the role of A\textsubscript{2b} R receptors in different types of cancer, such as triple-negative breast and ovarian cancers.

The following table summarizes data we have generated in our cell-based assays conducted in buffer evaluating the potency of AB928 against A\textsubscript{2a} R and A\textsubscript{2b} R, relative to the selective A\textsubscript{2a} R antagonists. As shown below, AB928 is the most potent inhibitor of A\textsubscript{2a} R receptors and is the only compound that meaningfully inhibits A\textsubscript{2b} R receptors.

\begin{table}
\begin{tabular}{|l|c|c|c|}
\hline
A\textsubscript{2} R Antagonist & A\textsubscript{2a} R (K\textsubscript{B}, nM) & A\textsubscript{2b} R (K\textsubscript{B}, nM) \\
\hline
AB928 (Dual A\textsubscript{2a} R/A\textsubscript{2b} R Antagonist) & 1.4 & 2.4 \\
CPI-444\textsuperscript{a,b} & 5.4 & 493 \\
AZD 4635\textsuperscript{a} & 1.7 & 64 \\
PBF-509\textsuperscript{a,b} & 58 & 189 \\
Preladenant\textsuperscript{a,b} & 3.3 & 3,121 \\
\hline
\end{tabular}
\end{table}

\textsuperscript{a} Arcus data generated with compound samples synthesized or purchased by Arcus.

\textsuperscript{b} CPI-444: Structure from AACR, April 2017 (#CT119), synthesized by Arcus; AZD4635: Structure from AACR, April 2017 (#2641), synthesized by Arcus; PBF509: believed to be PBF-509 or a close analogue (based on Pat Appl WO2017025918).
synthesized by Arcus; Preladenant was purchased from Ark Pharma (AK-43905) and was run on a different donor and date than the other compounds.  

\( K_B \) is a measure of a compound’s thermodynamic ability to bind/block its target receptor; lower \( K_B \) values reflect greater potency for a given receptor.

- **Low penetration across the blood brain barrier.** Unlike the other A2aR antagonists that were specifically designed to penetrate and act in the brain, we have designed AB928 to minimize penetration of the blood-brain barrier. We have shown in animal studies that the concentration of AB928 measured in brain corresponds to approximately 1% of the concentration found in blood. We believe that this characteristic could allow us to dose at levels necessary to achieve high receptor coverage of AB928 in the tumor microenvironment while avoiding the potential for CNS-related toxicities.

- **High tumor/plasma ratio.** Another rationale for selecting AB928 as our lead A2aR/A2bR antagonist development candidate is that a relatively high level of the compound penetrates the tumor. The blood vessels that provide nutrients to tumors are poorly organized and may represent an obstacle against deep penetration of the tumor tissue by drugs arriving from the blood. The graph below shows the concentration of AB928 in the tumor and plasma over time in tumor-bearing mice and demonstrates that AB928 achieves significant tumor penetration.

![Tissue distribution in tumor-bearing mice after a single 30 mg/kg subcutaneous dose of AB928 to CT26-tumor bearing mice](image)

<table>
<thead>
<tr>
<th>Compound</th>
<th>Tumor/Plasma Ratio</th>
<th>Brain/Plasma Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB928</td>
<td>&gt;0.60</td>
<td>0.01</td>
</tr>
</tbody>
</table>

- **Attractive pharmacokinetics**. We designed AB928 to have high oral bioavailability and a human half-life to support once-daily dosing. Other A2aR antagonists in clinical development are being dosed to patients twice per day, presumably reflecting their relatively low oral bioavailability and/or short half-life in humans. Molecules with good oral bioavailability and long half-lives that can be dosed only once per day generally have lower “peak-to-trough” fluctuations in plasma levels between doses. This is important in cases in which the dose-limiting toxicities of the drugs are associated with high peak plasma levels; in these cases, higher overall drug exposures are possible when those drugs have longer half-lives, such as is the case with AB928. Data from our ongoing Phase 1 trial in healthy volunteers shows an excellent half-life of approximately 20 hours, which allows for once-daily dosing.
Based on the important differentiated characteristics summarized above, we believe that AB928 could prove to have more robust anti-tumor effects and activity in a broader range of tumor types than the A<sub>2a</sub>R antagonists in clinical development.

**In Vitro and In Vivo Data Supporting the Selection of AB928 as our Development Candidate**

The objective of our *in vitro* and *in vivo* studies is to characterize the effect of our molecules on immune function in systems that we believe are representative of human and cancer biology. Our highly comprehensive *in vitro* and *in vivo* work has helped to elucidate the immune biology behind the pathways we pursue, demonstrate the differentiation of our product candidates relative to other agents in their classes, identify a likely effective dose for human studies and determine potential combinations to explore in clinical development.

Since AB928 was first synthesized at Arcus in December 2016, we have conducted multiple *in vitro* studies to assess the ability of AB928 to reverse the immuno-suppressive activity of adenosine. In these studies, we measure readouts such as secretion of IFN-γ and IL-2, which are cytokines released upon T cell activation and that have potent effects on anti-tumor immunity. For our assays, we typically use primary immune cells isolated from human blood, including CD4<sup>+</sup> T cells (also known as T helper cells because they activate other immune cells), CD8<sup>+</sup> T cells (also known as cytotoxic T cells for their ability to directly kill cancer cells), dendritic cells and natural killer (NK) cells. The table below summarizes some of the key *in vitro* studies that we have conducted to date and shows that AB928 consistently reversed adenosine-mediated immune suppression in multiple cell types and under various experimental conditions.

<table>
<thead>
<tr>
<th>System</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human CD8&lt;sup&gt;+&lt;/sup&gt; T cells</td>
<td>• AB928 inhibited A&lt;sub&gt;2a&lt;/sub&gt;R receptor-mediated cAMP accumulation, in a dose-dependent manner, demonstrating that AB928 effectively blocks the activation of A&lt;sub&gt;2a&lt;/sub&gt;R</td>
</tr>
<tr>
<td></td>
<td>• Measured AB928 potency: K&lt;sub&gt;B&lt;/sub&gt; = 540 pM; IC&lt;sub&gt;50&lt;/sub&gt; = 940 pM</td>
</tr>
<tr>
<td>Human CD8&lt;sup&gt;+&lt;/sup&gt; T cells</td>
<td>• AB928 blocked the adenosine-dependent inhibition of IFN-γ and granzyme B production, in a dose-dependent manner</td>
</tr>
<tr>
<td>Human CD4&lt;sup&gt;+&lt;/sup&gt; T cells</td>
<td>• AB928 blocked the adenosine-dependent inhibition of proliferation and of IL-2 production, in a dose-dependent manner</td>
</tr>
<tr>
<td>Mixed lymphocyte reaction (MLR) between</td>
<td>• AB928 blocked the adenosine-dependent inhibition of anti-PD-1-induced IFN-γ production, in a dose-dependent manner</td>
</tr>
<tr>
<td>human dendritic cells and T cells</td>
<td></td>
</tr>
<tr>
<td>Mouse NK cells</td>
<td>• AB928 blocked the adenosine-dependent inhibition of NK cell cytotoxicity, in a dose dependent manner</td>
</tr>
<tr>
<td>Maturation/Activation of monocyte-derived</td>
<td>• AB928 inhibited the suppressive effects of adenosine on the maturation and activation of dendritic cells, as measured by the impaired performance of these dendritic cells in an MLR assay. These results are consistent with the hypothesis that a dual A&lt;sub&gt;2a&lt;/sub&gt;R/A&lt;sub&gt;2b&lt;/sub&gt;R antagonist may have a broader immune-activation profile than selective A&lt;sub&gt;2a&lt;/sub&gt;R antagonists</td>
</tr>
<tr>
<td>dendritic cells</td>
<td></td>
</tr>
</tbody>
</table>
An example of one of many studies that we have performed in-house to demonstrate the ability of AB928 to block adenosine-mediated impairment of T cell activation is illustrated in the figure below. In this study, activation of human CD8\(^+\) T cells leads to a profound release of IFN-\(\gamma\). This assay recapitulates certain elements of the process by which T cells recognize their target. Introduction of adenosine (6 \(\mu\)M) into this assay induced a profound inhibition of IFN-\(\gamma\) production, as demonstrated by the second bar. When we also introduced increasing concentrations of AB928, in addition to adenosine, we demonstrated that AB928, at concentrations as low as 5 nM, was able to completely block the inhibitory effects of adenosine on IFN-\(\gamma\) production.

In another study aimed at understanding the role of the A\(_{2a}\)R receptor on NK cell activation, we isolated NK cells from mouse spleen and cultured them together with labeled LLC cells (a common test system to measure the cell-killing activity of NK cells). In this experiment, we used various concentrations of the synthetic adenosine receptor agonist NECA to inhibit the cytotoxic activity of the NK cells. As shown in the figure below, AB928 was very effective at blocking the inhibitory effects of NECA in this assay system, restoring the NK cells' killing activity in a dose-dependent manner. In this figure, the Y axis (% Cell Killing) reflects the percentage of the target cells that were killed as a result of being co-cultured with the NK cells.

We have also conducted several in vivo studies of AB928 in mouse tumor models to assess the compound's pharmacokinetics, anti-tumor activity and the degree of target inhibition necessary for anti-tumor activity and effects on tumor-infiltrating lymphocytes (TIL), a generic term for the immune cells that can be retrieved from tumor tissue. We are particularly interested in the latter assessment and the way in which AB928 alters the size and composition of the TIL, such as the ratio between CD8\(^+\) T cells and T\(_{reg}\) cells, towards a more favorable anti-tumor profile.

Our in vivo experiments have evaluated AB928 in combination with anti-PD-1/PD-L1 antibodies as well as with certain chemotherapies, both of which are believed to be synergistic with A\(_{2}\)R antagonism. In the case of anti-PD-1/PD-L1 antibody combinations, previous studies conducted by others have demonstrated that higher CD73 expression limits the efficacy of anti-PD-1/PD-L1 antibodies and, therefore, A\(_{2}\)R inhibition (which prevents the downstream effects of CD73 expression and activity) could increase the effectiveness of anti-PD-1/PD-L1 antibodies. In addition, certain chemotherapies, specifically anthracyclines and platinum-based agents, are known to induce immunogenic cell death (ICD), which results in the extracellular release of...
significant amounts of ATP, which is converted into adenosine by the sequential actions of CD39 and CD73. As a result, we expect that A2AR antagonists, like AB928, will be synergistic with ICD-inducing chemotherapies. We have demonstrated this synergy in our in vivo studies as discussed below.

In one experiment in the MC38 mouse colon adenocarcinoma tumor model, we evaluated the combination of AB928 and an anti-PD-L1 antibody. Despite the fact that the tumors in this highly variable mouse model do not express CD73, and therefore would not be expected to respond to adenosine inhibition, and only the TIL do, we observed a reduction in tumor volumes, as well as an improvement in survival, for the AB928 and anti-PD-L1 antibody combination compared to the anti-PD-L1 antibody alone, as summarized in the graph below. It should be noted that human tumors are very different from mouse tumors in that, in the former, cancer cells are often found to express significant levels of CD73; based on this difference, we believe that human tumors may be more dependent than mouse tumors on adenosine for their protection against the immune system.

In other studies conducted in the AT-3 OVA mouse breast tumor model, we evaluated the combination of AB928 with the ICD-inducing chemotherapies, oxaliplatin and doxorubicin. Again, despite the fact that tumors in this mouse model do not express CD73 and only the TIL do, we observed a significant reduction in tumor volume with the AB928 + oxaliplatin combination, compared to either agent alone, as shown in the graph on the left below. We observed similar results when evaluating AB928 in combination with doxorubicin in this same mouse model, as shown in the graph on the right below.
Our initial development efforts for AB928 will focus on combination trials evaluating AB928 with our anti-PD-1 antibody, AB122, and with certain chemotherapeutics. The rationale for selecting these two combination partners for AB928 are as follows:

- **Anti-PD-1 Therapy, such as AB122.** A 2a R activation by adenosine induces biochemical and transcriptional changes in T cells that interfere with TCR activation, decreases the levels of certain proteins (such as CD28) necessary for optimal T cell activation and elevates levels of certain proteins (such as PD-1) that inhibit T cell activation. As a result, A 2a R receptor signaling may play a role in the development of resistance to anti-PD-1 therapy.

- **Certain Chemotherapy.** Certain chemotherapies, such as oxaliplatin and doxorubicin, induce immunogenic cell death (ICD) in cancer cells, a process that is characterized by, among other features, endoplasmic reticulum stress and enhanced release of ATP into the extracellular environment. In tumors that express high levels of CD73, this ATP is readily converted into adenosine, resulting in profound immune suppression which can counteract the potential anti-tumor effects of chemotherapy.

Our clinical development strategy for AB928 is designed to achieve rapid proof-of-concept in one or more tumor types and to advance AB928 into a registrational trial as quickly as possible. As we expect that the anti-tumor activity of AB928 will result primarily from combination with other agents, we will focus our development efforts on combination trials of AB928 with other mechanisms that are expected to be synergistic with inhibition of the ATP-adenosine pathway, such as anti-PD-1 antibodies and ICD-inducing chemotherapies. In our combination trials, we will focus on tumor types for which there is substantial evidence that they may rely on the immune-suppressive effects of adenosine. These tumor types share the following characteristics:

- Infiltration with T cells (as T cells need to be present in the tumor for an adenosine receptor antagonist to have an effect).
- Tumors characterized by high CD73 expression, as evidence that the tumor has the ability to produce adenosine (examples, based on published literature, include non-small-cell lung carcinoma, colorectal cancer, head and neck squamous cell carcinoma, ovarian cancer, triple-negative breast cancer, renal cell carcinoma, prostate cancer and gastroesophageal cancer).
- Anti-PD-1/PD-L1 antibodies or ICD-inducing chemotherapy are currently considered or expected to become the standard of care. Examples include the use of oxaliplatin-containing chemotherapy in colorectal cancer and gastroesophageal cancer; carboplatin in the treatment of non-small cell lung cancer; or the use of anti-PD-1/PD-L1 antibodies in non-small cell lung cancer and renal cell carcinoma.

We initiated a Phase 1 trial of AB928 in healthy volunteers in November 2017. This blinded, placebo controlled trial will enroll up to 80 subjects at a single site in the Netherlands and will include single-ascending-dose and multiple-ascending-dose escalation cohorts. Study subjects are being randomized 3:1 to either AB928 or placebo. This trial was designed to provide us with significant insights into the safety, pharmacokinetic and pharmacodynamic profiles of AB928, which could allow us to start the dose-escalation portion of our planned combination trials in cancer patients at a higher dose than would otherwise be possible.
We have completed the single-ascending-dose portion of this trial, administering single doses of AB928 up to 150 mg in healthy volunteers and have not observed any safety issues to date. At this dose, AB928 demonstrated over 90% inhibition of the A2aR receptor. As shown in the following graph, increasing doses of AB928 resulted in dose proportional increases in plasma levels of AB928. The plasma half life of AB928 following a single dose has been shown to be approximately 20 hours which supports once daily dosing.

We have developed a pCREB assay to study the pharmacodynamics of AB928, or the degree to which AB928 inhibits pCREB formation (a marker for A2aR inhibition), at each dose level administered in our Phase 1 trial. We collected blood samples from the healthy volunteers at time points corresponding to pre-dose, 2 hours post dose, and 24 hours post dose, incubated these blood samples with 5 µM NECA ex vivo to activate the A2aR receptor and analyzed the samples as described in our earlier pCREB study. The following graph shows data for the 150 mg AB928 single-dose cohort and specifically the mean pCREB activation signal for the pooled placebo group (6 subjects) and for the healthy volunteers receiving 150 mg of AB928 (6 subjects) over the timepoints indicated. Prior to dosing, all subjects responded to 5 µM NECA by increasing the levels of pCREB in their blood CD8+ T cells. As shown in the graph below, two hours after dosing, the placebo group maintained their pCREB activation signal in response to NECA stimulation while the 150 mg AB928 group had no detectable pCREB signal, demonstrating that AB928 was able to completely block the activation of A2aR by NECA. Twenty-four hours after dosing, the placebo group maintained a response similar to their pre-dose level, while the 150 mg AB928 group only showed approximately 10% of the response seen pre-dose, indicating that the levels of AB928 remaining at 24 hours were still sufficient to inhibit approximately 90% of the NECA-mediated activation of A2aR.
The multiple-ascending-dose portion of the trial is still enrolling and we plan to select a dose of AB928 sufficient to inhibit at least 90% of A_{2a} R activation in the presence of 5 μM of NECA. Final data from this trial will be available in the second quarter of 2018.

In the second quarter of 2018, we plan to submit a regulatory application to initiate a clinical trial in cancer patients for AB928 in combination with AB122, our anti-PD-1 antibody. The dose-escalation portion of this trial will assess the safety profile of increasing dose levels of AB928 when combined with a fixed dose of AB122 and allow us to identify the recommended dose of AB928 + AB122 for future trials. Once we have determined the recommended dose of AB928 + AB122, we plan to initiate up to 6 expansion cohorts to evaluate this combination in multiple cancer types and we expect to initiate our first expansion cohorts in the first half of 2019. Tumor selection will be based on the criteria described earlier in this section, namely, tumor types that are known to be responsive to anti-PD-1/PD-L1 therapy, are associated with high expression of CD73, and are generally known to be accessible to T cell infiltration. For tumor types in which patients are likely to have already been treated with anti-PD-1/PD-L1 antibodies, we plan to recruit patients that are either refractory or relapsed after initial response to this type of therapy. We plan to utilize an adaptive trial design that will allow us to review data from initial patients and expand only those cohorts that achieve a threshold response rate. Each expansion cohort will initially enroll approximately 15 patients, and will be expanded to up to 30 patients if the threshold response rate has been met. The objective of the adaptive trial design and expansion cohorts is to generate clinical data which potentially support initiation of a registrational trial.

In parallel with our regulatory application for our AB928 + AB122 combination trial, we plan to submit regulatory applications to initiate clinical trials in cancer patients for AB928 in combination with three different types of ICD-inducing chemotherapies (generally referred to here as chemotherapy), specifically platinum-based therapy and anthracycline-based therapy. Once the recommended dose is determined for each AB928 and chemotherapy combination, we plan to advance these combinations into selected expansion cohorts, currently anticipated in the first half of 2019. We have selected tumor types in which to evaluate these combinations based on considerations consistent with those outlined above, namely, tumor types that are associated with high expression of CD73, that are generally known to be accessible to T cell infiltration, and for which one of the chemotherapies of interest are already considered standard of care.
The schematics below depict the proposed designs for the clinical trials described above. The first schematic depicts the proposed design for the trials evaluating AB928 + AB122 and the second schematic depicts the proposal design for the trials evaluating AB928 + chemotherapy (where we plan to be evaluating AB928 in combination with three different chemotherapy regimens). In the case of the chemotherapy combinations, we expect to use the chemotherapy containing regimen currently considered the standard of care for that indication, such as the oxaliplatin-containing regimen mFOLFOX in the case of colorectal cancer. For the 11 expansion cohorts shown below, there already exists significant historical response data for anti-PD-1 therapy or ICD-inducing chemotherapy alone. We expect that this will enable us to better quantify the potential clinical benefits of our combination therapies in comparison to these standards of care.
An important component of our development program will be the incorporation of a biomarker strategy to identify patients most likely to benefit from AB928. In our initial clinical trials of AB928 in patients, we plan to test patients’ tumors for CD73 expression and expect to use CD73 expression as a tool to select patients in future trials. We will also evaluate other tumor and blood markers designed to establish the extent of in vivo inhibition of the adenosine system, assess the effects of AB928 on the anti-tumor immune response, and identify additional biomarkers that are potentially predictive of response to AB928 and that could be used to screen patients in our future clinical trials.

**Our Second-Generation A2R Antagonist Strategy**

We have an active discovery program focused on the identification of additional molecules that block adenosine 2 receptor signaling. We have identified a second dual A<sub>2a</sub>R/A<sub>2b</sub>R antagonist (A002926) as well as a selective A<sub>2a</sub>R antagonist (A003105), both of which are derived from a chemical scaffold different from that of AB928. In the design of these candidates, our focus has been on retaining or improving on the potency of AB928 for the A<sub>2a</sub>R receptor, while potentially increasing the selectivity of the compounds. We expect to take at least one of these development candidates through non-GLP toxicology studies in the near-term, so that it could be advanced into clinical development within 6-9 months of making such decision.

**Our CD73 Inhibitor Program**

Our next most advanced program in the adenosine pathway targets the CD73 enzyme, which plays a critical role in the last step of the process of extracellular ATP conversion into adenosine. CD73 inhibition should therefore be a highly effective approach to inhibiting the activation of adenosine-mediated immune suppression, as it could significantly suppress adenosine generation.

We are currently pursuing two structurally distinct chemical series of small-molecule CD73 inhibitors. Optimization of our first series was facilitated through a collaboration with Professor Norbert Sträter (University of Leipzig), a structural biologist who has solved the structure of multiple complexes of CD73 bound to our compounds. We have utilized this information in a structure-based drug design effort to create small-molecule inhibitors of CD73 with extraordinary potency in the picomolar range. This series includes compounds with extremely long half-lives, such as our lead development candidate, AB680, which we believe could be dosed intravenously or subcutaneously in the clinic every two or three weeks at the same time that a patient receives PD-1 therapy or chemotherapy. This series also includes compounds that could be dosed orally. We have also identified a second chemical series, and we are evaluating compounds from this series that could be orally administered. We expect to nominate an oral development candidate from one of our two series in 2018.

We expect that AB680 will be the first small-molecule CD73 inhibitor to enter clinical development, and we are not aware of any other small-molecule CD73 inhibitors in preclinical development. While there are several anti-CD73 antibodies in development, we believe that a small-molecule approach to CD73 inhibition could offer several advantages, including:

- **More complete inhibition of CD73 enzymatic activity.** As illustrated in the graph below, we have shown in our assays that our small-molecule CD73 inhibitor, AB680, inhibits CD73 more potently and effectively than one of the anti-CD73 antibodies in clinical development, MEDI9447. One explanation for this difference in potency is that our small-molecule CD73 inhibitors bind in the active site of the CD73 enzyme and they do so with an affinity about ten million times greater than the affinity of its substrate, AMP, for CD73. In contrast, many anti-CD73 antibodies were not designed to inhibit the enzymatic activity of CD73 but to instead induce internalization of CD73 from the cell surface and therefore will be less effective at inhibiting soluble forms of CD73. There are significant levels of soluble CD73 that have been shed from the cell surface. Our small-molecule inhibitors display comparable potency and effectiveness against soluble as well as membrane-bound forms of CD73,
while at least some of the CD73 antibodies in development are unable to completely inhibit the enzymatic action of soluble CD73.

* Representative data from two separate experiments shown

- **Deeper tumor penetration.** As small molecules, we expect that our CD73 inhibitors should be able to achieve better penetration of tumor tissue relative to the CD73 antibodies which are much larger molecules. We have shown, in tumor-bearing mice, that the concentrations of our inhibitors in the tumor tissue are approximately 15-20% of those in the blood, demonstrating their ability to permeate well beyond the tumor micro-vasculature. It is well accepted that monoclonal antibodies, because of their molecular size and properties, cannot diffuse further than a few microns from the blood vessel that delivers them to the tumor.

- **Potential for both intravenous and oral delivery.** We are developing both oral and injectable formulations of our CD73 inhibitors, which could provide flexibility on dosing regimens. We expect that AB680 dosed once every two or three weeks, on the same schedule as an anti-PD-1 antibody or a chemotherapeutic agent, would be very convenient for patients and also be very attractive commercially. An orally formulated CD73 inhibitor would be highly convenient for patients not undergoing regular infusions.
In Vitro and In Vivo Data Supporting the Reversal of Immune Suppression by AB680

Similar to our work with AB928, our in vitro and in vivo work with AB680 and our other small-molecule CD73 inhibitors has focused on characterizing the effects of these compounds on human immune cells, in assays that we believe are relevant to the biology of human tumors. The table below summarizes some of the key studies that we have performed with AB680 and demonstrates that our CD73 inhibitors effectively and consistently reverse CD73-mediated immune suppression. We have used variations of the assay systems described earlier for our AB928 program, with the main difference being that we suppress immune cell activation by introducing AMP (which is converted to adenosine by CD73) into the assay instead of introducing adenosine or a synthetic adenosine analogue for this purpose.

<table>
<thead>
<tr>
<th>Assay</th>
<th>Key Findings</th>
</tr>
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<tbody>
<tr>
<td>Human CD8+ T cells</td>
<td>AB680 reversed the AMP-dependent inhibition of T cell activation and IFN-γ production, in a dose-dependent manner</td>
</tr>
<tr>
<td>Human CD4+ T cells</td>
<td>AB680 reversed the AMP-dependent inhibition of T cell activation and proliferation, and IFN-γ and IL-2 production, in a dose-dependent manner</td>
</tr>
<tr>
<td>MLR between human dendritic cells and T cells from two different donors</td>
<td>AB680 blocked the AMP-dependent inhibition of anti-PD-1-enhanced IFN-γ and IL-2 production, in a dose-dependent manner</td>
</tr>
</tbody>
</table>

The last experiment summarized in the table above is illustrated in the figure below and demonstrates the ability of AB680 to block the AMP-dependent inhibition of IFN-γ production by CD4+ T cells in a mixed lymphocyte reaction (MLR) assay with allogeneic dendritic cells. In this study, the activity of the T cells was boosted by the introduction of our anti-PD-1 antibody (AB122). Despite the high level of T cell stimulation induced by the combination of allogeneic reaction and PD-1 inhibition, introduction of a high concentration of AMP (100 µM) almost completely inhibited IFN-γ production. An anti-PD-1 antibody (AB122) was introduced to induce T-cell activation, which was then suppressed by the introduction of AMP. This effect was potently reversed by AB680, in a dose-dependent fashion.

We have evaluated our CD73 inhibitors in mouse tumor models, such as the B16F10 melanoma model. The graphs below show data from an experiment we conducted with A000830, a representative molecule from the same series as AB680 that we have used extensively to characterize the in vivo activity of CD73 inhibitors. When dosed in combination with an anti-PD-1 antibody, the CD73 inhibitor significantly reduced tumor volume in established tumors when dosing was initiated after the tumors were palpable. An analysis of the tumor-infiltrating-lymphocyte (TIL) population in these tumors at the end of the study demonstrated that CD73 inhibition resulted in increased TIL infiltration (as measured by the CD45+ to CD45- cell ratio), as well as
increased ratios of cytotoxic T cells (CD8) relative to immunosuppressive TIL (regulatory T cells (T_{reg}) and myeloid-derived suppressor cells (MDSC)). The changes of these ratios are indicative of a more productive anti-tumor immune response. We are currently evaluating our other CD73 inhibitors, including AB680, in this and other tumor models.

** Statistically significant (p<0.01)

** Our Clinical Development Strategy for AB680

We expect to submit a regulatory filing for AB680 in the middle of 2018 to enable us to initiate clinical trials in the second half of 2018. We currently plan to model the early development program for AB680 after our development strategy for AB928 and expect that we could initiate dose-escalation trials of AB680 in combination with AB122 and with chemotherapy by the first half of 2019. The selection of tumor types in which to evaluate the clinical effects of AB680 will be influenced by emerging efficacy data from the AB928 clinical trial. It is possible that response rates and/or duration of response of a particular tumor type might be different for AB928 versus AB680 treatment.

** Our Second-Generation CD73 Strategy

In addition to the chemical series from which AB680 was derived, we are evaluating another chemical series of CD73 inhibitors. We have an active effort to identify a CD73 inhibitor to be developed as an orally administered agent from one of these chemical series. We anticipate selecting a preclinical development candidate from one of these chemical series in 2018. In addition to our efforts to advance a CD73 inhibitor that can be administered orally, we are also identifying other potential back-up compounds to AB680.
Our Antibody Programs

In addition to our small-molecule programs, we are developing antibody drug candidates that are currently considered to be backbone therapy in immunoncology or that have the potential to be backbone therapies in the future, such as our in-licensed anti-PD-1 and anti-TIGIT antibodies. Our strategy is to create differentiated combination products by combining these antibodies with our internally discovered small-molecule product candidates. In addition, by having these antibodies in our portfolio, we can better control the combinations that we pursue, as well as potentially capture a greater share of the value of the combination products. As a result, we have established capabilities at Arcus that allow us to evaluate and develop antibody drug candidates and will continue to explore opportunities to create or in-license antibodies that we believe will be critical to our intra-portfolio combination development strategy.

Our Anti-PD-1 Antibody, AB122

In August 2017, we in-licensed our anti-PD-1 antibody, which we refer to as AB122, from WuXi Biologics. AB122 is a fully human IgG4 antibody that was generated by WuXi Biologics using the transgenic rat platform from Open Monoclonal Technology. The biochemical, biological and preclinical properties of AB122 have been shown by WuXi Biologics and Arcus to be comparable to those of the marketed anti-PD-1 antibodies nivolumab and pembrolizumab. We are currently evaluating AB122 in cancer patients in a Phase 1 dose-escalation trial being conducted in Australia.

In Vitro and In Vivo Data Supporting AB122

Arcus and WuXi Biologics have completed multiple in vitro and in vivo studies to assess the binding, ligand-blocking (PD-L1 and PD-L2), immune cell activation and in vivo properties of AB122. In these studies, we and WuXi Biologics have demonstrated that AB122 has very similar binding properties and similar in vivo efficacy to those of nivolumab. Among the most important of these properties is that AB122 binds to human PD-1 (equilibrium binding constant, K_D, of 1.75x10^-10 M), with greater affinity than that of nivolumab (K_D = 1.16x10^-9 M), as determined by surface plasmon resonance. The K_D reflects the ratio between the on rate (rate at which the antibody binds to its target) and the off rate (rate at which the antibody becomes detached from its target); a lower K_D value reflects greater binding affinity for its target. As shown in the table below, the lower K_D value of AB122 relative to that of nivolumab reflects a greater on rate (k_a) and a slower off rate (K_d).

<table>
<thead>
<tr>
<th>Ligand</th>
<th>k_a (1/Ms)</th>
<th>K_d (1/s)</th>
<th>K_D (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB122</td>
<td>1.12 ± 06</td>
<td>1.96 ± 04</td>
<td>1.75 ± 10</td>
</tr>
<tr>
<td>Nivolumab*</td>
<td>7.76 ± 05</td>
<td>8.97 ± 04</td>
<td>1.16 ± 09</td>
</tr>
</tbody>
</table>

* CAS 946414-94-4
An important feature for any antibody is the ability to block the interaction between its target (PD-1, in this case) and the target’s ligands (PD-L1 and PD-L2, in this case). As shown in the figure below, AB122 is able to potently and completely block the interaction between PD-1 and PD-L1. Similar results were obtained for the blockade of binding of PD-1 to PD-L2.

Another important objective of our in vitro studies was to assess the ability of AB122 to potently and effectively relieve the PD-L1-mediated inhibition of T-cell receptor (TCR) activation on T cells. As illustrated in the figure below, AB122, pembrolizumab and nivolumab were assayed side-by-side in an assay in which the extent of TCR activation was determined in a reporter gene assay. AB122 demonstrated very similar potency to those of both nivolumab and pembrolizumab in this measure of functional inhibition.

* CAS 1374853-91-4
** CAS 946414-94-4
AB122 was also evaluated in tumor models performed with human PD-1 transgenic mice. AB122 was shown to possess similar and maximal in vivo anti-tumor activity to that of pembrolizumab. The graph below shows the effect on tumor size of two different dose levels of AB122 administered every three weeks compared to that of pembrolizumab administered 20 mg/kg every three weeks.

![Graph showing tumor size effect](image)

* CAS 1374853-91-4
** Statistically significant (p<0.01)

### Our Clinical Development Strategy for AB122

In November 2017, we initiated dosing in Australia for our Phase 1 trial of AB122 in cancer patients. We decided to start our clinical testing of AB122 in Australia because we were able to proceed from regulatory filing to dosing of the first patient much more quickly than would have been the case in the United States. We also believe that we may be able to enroll patients more quickly in Australia than in the United States, because we are more likely to identify patients that have not received anti-PD-1 therapy. The first portion of this dose-escalation trial will evaluate fixed doses of 80 mg, 240 mg and potentially higher doses of AB122 as monotherapy administered every two weeks. To date, we have dosed six patients up to 240 mg administered every two weeks and AB122 has exhibited a pharmacokinetic profile similar to nivolumab in all samples analyzed to date. Once we identify our recommended dose for future trials of AB122, we plan to initiate clinical trials to evaluate AB122 in combination with our A2aR/A2bR antagonist, AB928. As discussed above under the section titled “Business—Our Clinical Development Strategy for AB928”, this will be followed by various dose-expansion cohorts that will evaluate the combination in carefully chosen tumor types.

We are evaluating various strategies to demonstrate the clinical benefit of AB122 monotherapy, given its role as a cornerstone of our combination strategy. Following the identification of the recommended monotherapy dose and regimen for AB122, we are planning to initiate a dose expansion cohort which would evaluate AB122 in approximately 30-40 cancer patients in tumor types known to be responsive to anti-PD-1/PD-L1 therapy, such as non-small-cell lung cancer.

### Our Anti-TIGIT Antibody, AB154

Our second antibody program targets TIGIT (T-cell immunoreceptor with Ig and ITIM domains), a unique immune checkpoint target, because its primary ligand, CD155, plays both inhibitory and stimulatory roles in
regulating the activity of effector immune cells such as T and NK cells. TIGIT is an inhibitory receptor highly expressed on T cells displaying an exhausted phenotype, tumor-infiltrating T_{reg}, and NK cells. The ligands for TIGIT are expressed on a large number of cancer cells and on other immune cells such as dendritic cells, and their binding to TIGIT results in inhibition of immune cells.

In addition to TIGIT, CD155 binds, with lower affinity, to DNAM-1 (also known as CD226), a stimulatory receptor also expressed on T cells and NK cells. As a result, when anti-TIGIT antibodies bind to TIGIT, thereby blocking the TIGIT:CD155 interaction, they not only block an inhibitory signal on T cells and NK cells but also free up CD155 to bind to and activate DNAM-1, leading to increased activation of T cells and NK cells. The graphic below further illustrates the TIGIT:CD155 interaction and consequences of inhibiting TIGIT.

Concurrent blockade of TIGIT and PD-1 has been shown to be more effective than PD-1 blockade alone in both in vitro and in vivo models. Importantly, high TIGIT expression at initial cancer diagnosis is associated with CD8+ T cell exhaustion and poor clinical outcomes.

AB154 is our humanized anti-TIGIT IgG1 monoclonal antibody engineered to lack Fc γ R binding and effector function (that is, it will not trigger antibody-dependent cellular cytotoxicity—ADCC—or complement-dependent cytotoxicity—CDC). We in-licensed AB154 in December 2016. Since that time, we have initiated cell line development and other chemistry, manufacturing and controls, or CMC activities and preclinical safety assessment studies and expect to initiate clinical trials for AB154 in cancer subjects in 2018.
Preclinical Data Supporting the Benefits of TIGIT Blockade and AB154

We have demonstrated that AB154 binds with high affinity and selectively to human (IC$_{50}$ = 0.3 nM) and cynomolgus monkey TIGIT. This affinity for TIGIT allows AB154 to block TIGIT:CD155 binding with great potency (IC$_{50}$ = 0.4 nM). We have demonstrated that blocking TIGIT in vitro enhances the activation and function of human T cells and NK cells and also synergizes with PD-1 inhibition in vitro. The table below provides a summary of the key preclinical immune function data generated for this molecule.

<table>
<thead>
<tr>
<th>Assay</th>
<th>Key Findings</th>
</tr>
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<tbody>
<tr>
<td>Jurkat T cell stably expressing TIGIT (reporter</td>
<td>• AB154 reversed TIGIT-mediated inhibition of T cell receptor activation, in</td>
</tr>
<tr>
<td>Polyclonal activation of human T cells by</td>
<td>a dose-dependent manner</td>
</tr>
<tr>
<td>staphylococcal enterotoxin B (SEB)</td>
<td>• AB154 produced robust enhancement of effector cytokines production by</td>
</tr>
<tr>
<td>Antigen-specific T cell activation</td>
<td>human T cells; effects similar to those obtained with an anti-PD-1 antibody</td>
</tr>
<tr>
<td>Antigen-dependent T cell cytotoxicity</td>
<td>• AB154 induced robust IL-2 secretion and proliferation by T cells in</td>
</tr>
<tr>
<td>Natural killer (NK) cell natural cytotoxicity</td>
<td>response to Tetanus Toxin recall antigen; effects similar to those obtained</td>
</tr>
<tr>
<td>Mixed lymphocyte reaction (MLR) between</td>
<td>with an anti-PD-1 antibody</td>
</tr>
<tr>
<td>human dendritic cells and T cells</td>
<td>• AB154 enhanced CD8+ T cell killing of target cells in an antigen-dependent</td>
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<tr>
<td></td>
<td>manner</td>
</tr>
<tr>
<td></td>
<td>• AB154 enhanced the production of effector cytokines (e.g., IFN-γ) by CD4+</td>
</tr>
<tr>
<td></td>
<td>T cells co-cultured with allogeneic dendritic cells. AB154 was able to</td>
</tr>
<tr>
<td></td>
<td>enhance the effects of an anti-PD-1 antibody in this assay.</td>
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</table>

The figure below illustrates the ability of AB154 to enhance the production of IFN-γ in a mixed lymphocyte reaction assay (allogeneic co-culture of dendritic cells and CD4+ T cells) in combination with AB122.

![IFN-γ Production Graph](image)

* Statistically significantly (p<0.05)

Development Status of AB154

To support our clinical development activities, GLP toxicology studies are ongoing and we plan to submit our first regulatory application to initiate clinical trials for AB154 in mid-2018. Following this regulatory submission, our plan is to initiate a dose-escalation trial investigating both AB154 as monotherapy and in combination with AB122 in cancer patients. We estimate that safety and initial efficacy data will be available from this dose-escalation trial in 2019; once the recommended Phase 2 dosing regimen (as monotherapy and in the combination) has been established, we plan to evaluate these therapies in selected tumor types, which will be based on results from our work to identify those tumor types with the highest expression levels of CD155 and
TIGIT. Leading clinical settings at this time include the following types of cancer: colorectal, head and neck, triple-negative breast and lung (both non-small cell lung cancer and small cell lung cancer).

**Our Early-Stage Drug Discovery Programs**

**Arginase Program**

We have an active research effort directed at the discovery of novel inhibitors of arginase-1 (ARG-1), an immuno-suppressive enzyme. ARG-1 is highly expressed by various elements in the tumor microenvironment, including cancer cells and myeloid-derived immune cells. ARG-1 depletes arginine from the tumor microenvironment, which creates a shortage of a key building block for the efficient activation and proliferation of both T cells and NK cells. Addition of recombinant ARG-1 or extracts of myeloid cells to *in vitro* T cell cultures results in reduced proliferation and cytokine secretion. This effect is blocked by inhibition of ARG-1 activity. ARG-1 levels in blood are elevated in multiple tumor types, including gastric, renal and lung, and this elevation is correspondingly associated with reduced arginine levels. We are currently only aware of one ARG-1 inhibitor in clinical development, INCB001158 by Calithera Biosciences/Incyte.

We are currently optimizing small-molecule inhibitors of ARG-1 with the goal of creating a highly potent and selective inhibitor with optimal drug-like properties. The graph below shows the results of an experiment conducted to assess the potency of an ARG-1 small molecule inhibitor (identified as A003347) from our lead series. ARG-1 enzymatic activity was measured in the presence of increasing concentrations of A003347. As shown, A003347 completely inhibits ARG-1 enzymatic activity with a calculated IC$_{50}$ of 47 nM. This compares favorably to the reported potency of INCB001158, with an IC$_{50}$ of 98 nM in an ARG-1 enzymatic activity assay. We are continuing to optimize compounds from this series and believe that we may be able to achieve significant increases in potency.

In a separate experiment, we assessed the ability of A003347 to reverse ARG-1-induced suppression of T cell proliferation. As shown in the graph below, addition of 15 nM recombinant ARG-1 completely suppressed the proliferation of primary human CD8+ T cells, demonstrating the necessity of arginine for optimal T cell activation. The introduction of A003347 reversed the ARG-1-mediated suppression of CD8+ T cell proliferation in a dose-dependent manner.
We expect to select a lead arginase inhibitor in 2018 and submit a regulatory application to initiate a Phase 1 clinical trial for this product candidate in early 2019. Preclinical studies by third parties suggest that ARG-1 inhibitors could work synergistically with anti-PD-1 antibodies. Additionally, ARG-1 inhibitors may work well in combination with our adenosine pathway inhibitors, which could allow us to reverse inhibition by two immunosuppressive pathways in the tumor microenvironment.

Rationale for the Development of Triplet Combinations Involving our Development Candidates

In addition to evaluating multiple doublet combinations with our product candidates, we plan to explore triplet combinations and have already demonstrated the potential of at least one novel triplet combination involving three of our product candidates. For example, there is a strong rationale for developing a doublet combination of AB154 (our anti-TIGIT antibody) and AB122 (our anti-PD-1 antibody) in certain settings. However, we have shown in cell-based studies that the profound T cell activation that results from the combination of anti-TIGIT and anti-PD-1 antibodies can be almost completely blocked by the introduction of adenosine monophosphate (AMP), which is converted by CD73 into adenosine, as illustrated in the figure below. This experiment demonstrates how powerfully adenosine suppresses T cell function, even in the presence of two highly potent immune checkpoint inhibitors. However, when we introduced our CD73 inhibitor AB680 into the assay, it completely reversed the AMP-induced immune suppression as shown in the last bar. This experiment demonstrates how triplet combination therapy has the potential to overcome adenosine-induced immune suppression. Hence, it is likely that there could be value in exploring a triplet combination involving either AB928 or AB680 together with AB154 and AB122.

* Statistically significant (p<0.05)
** Statistically significant (p<0.01)
Commercialization Plans

We intend to retain significant development and commercial rights to our product candidates and, if marketing approval is obtained, to commercialize our product candidates on our own, or potentially with a partner, in the United States and other regions. We currently have no sales, marketing or commercial product distribution capabilities and have no experience as a company commercializing products. We intend to build the necessary infrastructure and capabilities over time for the United States, and potentially other regions, following further advancement of our product candidates. Clinical data, the size of the addressable patient population, the size of the commercial infrastructure and manufacturing needs may all influence or alter our commercialization plans.

License Agreements

Abmuno Therapeutics LLC License Agreement

In December 2016, we entered into a license agreement (the Abmuno Agreement) with Abmuno Therapeutics LLC (Abmuno) for a worldwide exclusive license to develop, use, manufacture, and commercialize products that include an anti-TIGIT antibody. We licensed AB154 under the Abmuno Agreement. Under the Abmuno Agreement, we have made upfront and milestone payments of $3.8 million as of December 31, 2017 and we may be required to make additional clinical, regulatory and commercialization milestone payments up to $103.8 million.

The Abmuno Agreement terminates on the latest of (i) the expiry of the last-to-expire Abmuno licensed patent that covers a product that contains an anti-TIGIT antibody, (ii) the date on which there is no longer an Abmuno licensed patent application that is still pending and has been pending for a certain period of time that covers a product that contains an anti-TIGIT antibody and (iii) 10 years from the date of first commercial sale.

WuXi Biologics (Cayman) Inc. License Agreement

In August 2017, we entered into a license agreement (the WuXi Agreement) with WuXi Biologics (Cayman) Inc. (WuXi Biologics) for an exclusive license to develop, use, manufacture, and commercialize products that include an anti-PD-1 antibody throughout the world except for China and five other countries outside of the United States, Europe and Japan. We licensed AB122 under the WuXi Agreement. Under the WuXi Agreement, we have made upfront and milestone payments of $18.5 million as of December 31, 2017 and we may be required to make additional clinical and regulatory milestone payments, commercialization milestone payments up to $375.0 million, and royalty payments that range from high single-digits to low teens of net sales beginning on the first commercial sale and ending on the later of (i) ten (10) years following such first commercial sale and (ii) the expiry of all patents that may subsequently be issued or granted that cover the product in such country, hereafter referred to as the royalty term. We are also required to pay WuXi Biologics a percentage in the low double digits of certain sublicense income that we receive from our sublicensees in direct connection with our sublicensees’ rights to use WuXi Biologics’s patents, patent applications and know-how.

We are obligated to appoint WuXi Biologics as our exclusive manufacturer of such licensed products for a certain period of time subject to certain exceptions. Our sublicensees, however, may manufacture, at any time, certain portions of their requirements for such product subject to certain conditions. We made certain covenants not to commercialize any anti-PD-1 antibody licensed or obtained by us after the date of the license agreement with WuXi Biologics other than anti-PD-1 antibodies licensed from WuXi Biologics, subject to certain exceptions as set forth in the WuXi Agreement.

This agreement terminates, on a licensed product-by-licensed product and country-by-country basis, on expiration of the royalty term for such licensed product for the applicable country.

Taiho Pharmaceutical Co., Ltd. Option and License Agreement

In September 2017, we entered into an option and license agreement (the Taiho Agreement) with Taiho Pharmaceutical Co., Ltd. (Taiho) pursuant to which Taiho will provide $35.0 million of non-refundable,
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non-creditable cash payments to us during the first three years of the agreement in exchange for an exclusive option, over a five-year period (the Option Period), to in-license the development and commercialization rights to clinical stage product candidates from our portfolio (each, an Arcus Program) for Japan and certain other territories in Asia (excluding China). We received $25.0 million in 2017 and we are due an additional $5.0 million of non-refundable and non-creditable payments in both 2018 and 2019. If we do not initiate IND-enabling studies for at least five Arcus Programs prior to the expiration of the Option Period, Taiho may elect to extend the Option Period, up to a maximum of seven years for the Option Period, subject to an extension fee. If Taiho elects to exercise any such options, the license described above will be granted under terms and conditions set forth in the agreement. Under such terms, Taiho is obligated to pay an option exercise payment for each option exercise of between $3.0 million to $15.0 million, with the amount dependent on the development stage of the applicable Arcus Program for which the option is exercised. In addition, Taiho is obligated to pay to us clinical, regulatory and commercialization milestones up to $275.0 million with respect to each program for which Taiho exercises the option and been granted the applicable license, as well as royalties ranging from high single digits to mid-teens, on net sales in Taiho’s territories. Royalties will be payable on a licensed product-by-licensed product and country-by-country basis during the period of time commencing on the first commercial sale of a licensed product in a country and ending upon the later of: (i) ten (10) years from the date of first commercial sale of such licensed product in such country; and (ii) expiration of the last-to-expire valid claim of our patents covering the manufacture, use or sale or exploitation of such licensed product in such country.

This agreement will remain in effect until (i) expiration of the last option exercise period if Taiho has not exercised any of its options or (ii) if Taiho has exercised any of its options, expiry of all royalty terms for the licensed products.

Manufacturing and Supply

We do not own or operate, and currently have no plans to establish, any manufacturing facilities. We rely, and expect to continue to rely, on third parties for the manufacture of our product candidates for preclinical and clinical testing, as well as for commercial manufacture if any of our product candidates obtain marketing approval. We also rely, and expect to continue to rely, on third parties to package, label, store and distribute our investigational product candidates, as well as for our commercial products if marketing approval is obtained. We believe that this strategy allows us to maintain a more efficient infrastructure by eliminating the need for us to invest in our own manufacturing facilities, equipment and personnel while also enabling us to focus our expertise and resources on the development of our product candidates.

To date, we have obtained active pharmaceutical ingredients (API) and drug product for our product candidates from single-source third party contract manufacturers. We are in the process of developing our supply chain for each of our product candidates and intend to put in place framework agreements under which third-party contract manufacturers will generally provide us with necessary quantities of API and drug product on a project-by-project basis based on our development needs. With respect to AB122, we agreed, as part of our license agreement with WuXi Biologics, that WuXi Biologics would be our exclusive manufacturer of AB122 with respect to clinical and commercial supplies until a certain number of years after marketing approval for AB122, subject to certain exceptions.

As we advance our product candidates through development, we will consider our lack of redundant supply for the API and drug product for each of our product candidates to protect against any potential supply disruptions.

We generally expect to rely on third parties for the manufacture of any companion diagnostics we may develop.

Competition

The pharmaceutical and biotechnology industries are characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary products. While we believe that our technology, development
experience and scientific knowledge provide us with competitive advantages, we face potential competition from many different sources, including large pharmaceutical and biotechnology companies, academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for the research, development, manufacturing and commercialization of cancer immunotherapies. Any product candidates that we successfully develop and commercialize will compete with new immunotherapies that may become available in the future.

We compete in the segments of the pharmaceutical, biotechnology and other related markets that develop immuno-oncology treatments. There are many other companies that have commercialized and/or are developing immuno-oncology treatments for cancer including large pharmaceutical and biotechnology companies, such as AstraZeneca/MedImmune, Bristol-Myers Squibb, Merck, Novartis, Pfizer and Roche/Genentech.

For our dual adenosine receptor antagonist, AB928, we are aware of several other companies that are developing selective adenosine A<sub>2a</sub> R antagonists, including AstraZeneca/MedImmune, Corvus, iTEOS, Merck and Novartis. To our knowledge, there are no adenosine receptor antagonists approved for the treatment of cancer and the most advanced such selective A<sub>2a</sub> R antagonists are in Phase 1/2 clinical trials.

For our small molecule CD73 inhibitor, AB680, we are aware of several pharmaceutical companies developing antibodies against this target, including AstraZeneca/MedImmune, Bristol-Myers Squibb, Corvus, Innate Pharma, Merck and Surface Oncology. To our knowledge, only AstraZeneca and Bristol-Myers Squibb have advanced their CD73 antibodies into clinical development. We believe that AB680 will be the first small molecule CD73 inhibitor to enter clinical development.

For our anti-PD-1 antibody, AB122, multiple large pharmaceutical companies have already received regulatory approvals for their anti-PD-1/PD-L1 antibodies, including AstraZeneca, Bristol-Myers Squibb, Merck, Pfizer in partnership with Merck Kgaa, and Roche/Genentech. There are also many other anti-PD-1 and anti-PD-L1 antibodies in clinical development.

For our anti-TIGIT antibody, AB154, we are aware of several pharmaceutical companies developing antibodies against this target including Bristol-Myers Squibb, Merck, OncoMed and Genentech. To our knowledge, there are no approved anti-TIGIT antibodies and the most advanced antibodies are in Phase 1 clinical trials.

For our arginase program, we are aware of the following pharmaceutical companies developing an ARG-1 inhibitor: Calithera Biosciences/Icyte and OncoArendi Therapeutics. To our knowledge, there are no approved arginase inhibitors and the most advanced candidate is in Phase 1 clinical trials.

Many of the companies against which we are competing or against which we may compete in the future have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved drugs than we do. Mergers and acquisitions in the pharmaceutical, biotechnology and diagnostic industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and enrolling subjects for our clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

We could see a reduction or elimination of our commercial opportunity if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we or our collaborators may develop. Our competitors also may obtain FDA or foreign regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we or our collaborators are able to enter the market. The key competitive factors affecting the success of all of our product candidates, if
approved, are likely to be their efficacy, safety, convenience, price, the effectiveness of companion diagnostics (if required), the level of biosimilar or
generic competition and the availability of reimbursement from government and other third-party payors.

**Intellectual Property**

Our commercial success depends in large part on our ability to obtain and maintain patent protection in the United States and other countries for our product
candidates, to operate without infringing valid and enforceable patents and proprietary rights of others, and to prevent others from infringing on our
proprietary or intellectual property rights. We seek to protect our proprietary position by filing, in the United States and other foreign jurisdictions, patent
applications intended to cover the composition of matter of our product candidates, their methods of use, and related discoveries, technologies, inventions
and improvements that may be commercially important to our business. We may also rely on trade secrets to protect aspects of our business that are not
amenable to, or that we do not consider appropriate for, patent protection. We also intend to take advantage of regulatory protection afforded through data
exclusivity, market exclusivity and patent term extensions where available.

We do not yet own or license any issued patents relating to our product candidates. As of February 1, 2018, we own or have in-licensed 9 pending U.S.
patent applications, 8 pending Patent Cooperation Treaty (PCT) patent applications, and 9 pending foreign patent applications. A PCT patent application is
an international patent application that allows an applicant to simultaneously file in more than 150 contracting states via a single patent application. The
PCT application can be converted into a “national phase” application in any such contracting state, at which point substantive examination will be
performed by the patent office in the jurisdiction (i.e. country or region) in which the national phase application has been filed. As of February 1, 2018,
with respect to our adenosine receptor antagonist program, we own 5 U.S. patent applications, 1 PCT patent application and 1 foreign patent application in
each of Argentina, Taiwan and Uruguay that are directed to compositions of matter and methods of use. As of February 1, 2018, with respect to our CD73
inhibitor program, we own 1 U.S. patent application, 3 PCT patent applications and 3 foreign patent applications in Taiwan that are directed to compositions
of matter and methods of use. As of February 1, 2018, with respect to our anti-PD-1 antibody program, we in-license 2 PCT applications and we own 1 U.S.
provisional application that are directed to compositions of matter and methods of use. As of February 1, 2018, with respect to our anti-TIGIT antibody
program, we in-license 2 PCT applications and we own 1 U.S. provisional application that are directed to compositions of matter and methods of use. As of February 1, 2018, with respect to our anti-TIGIT antibody
program, we in-license 2 PCT applications and we own 1 U.S.

The patent positions for biotechnology and pharmaceutical companies like us are generally uncertain and can involve complex legal, scientific and factual
issues. Changes in either the patent laws or their interpretation in the United States and other countries may diminish our ability to protect our product
candidates and enforce the patent rights that we own or license, and could affect the value of such intellectual property. With respect to both company-
owned and licensed intellectual property, we cannot guarantee that the patent applications we are currently pursuing or may file in the future will issue as
patents in any particular jurisdiction or whether the claims of any issued patents will provide sufficient proprietary protection from competitors. Our
competitors may independently develop similar product candidates or technologies that are outside the scope of the rights granted under any issued patents
that we own or exclusively in-license. We cannot be sure that any patents that may be granted to us in the future will be commercially useful in protecting
our products or their methods of use or manufacture. Moreover, even issued patents do not guarantee us the right to commercialize our products. For
example, third parties may have blocking patents that could be used to prevent us from commercializing or manufacturing our product candidates.

Because of the extensive time required for development, testing and regulatory review of a product candidate, it is possible that, before a product can be
commercialized, any patent protection for such product may expire or
remain in force for only a short period following commercialization, thereby reducing the commercial advantage the patent provides. In the United States, the term of a patent covering an FDA-approved product may, in certain cases, be eligible for a patent term extension under the Hatch-Waxman Act as compensation for the loss of patent term during the FDA regulatory review process. The period of extension may be up to five years, but cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval. Only one patent among those eligible for an extension and only those claims covering the approved product, a method for using it, or a method for manufacturing it may be extended. Similar provisions are available in Europe and in certain other jurisdictions to extend the term of a patent that covers an approved product. While we intend to seek patent term extensions in any jurisdictions where they are available, there is no guarantee that the applicable authorities, including the FDA, will agree with our assessment of whether such extensions should be granted, and even if granted, the length of such extensions.

Government Regulation

Government Regulation and Product Approval

Government authorities in the United States, at the federal, state and local level, and in other countries and jurisdictions, including the European Union, extensively regulate, among other things, the research, development, testing, manufacture, quality control, approval, packaging, storage, recordkeeping, labeling, advertising, promotion, distribution, marketing, post-approval monitoring and reporting, and import and export of therapeutic products. The processes for obtaining regulatory approvals in the United States and in foreign countries and jurisdictions, along with subsequent compliance with applicable statutes and regulations and other regulatory authorities, require the expenditure of substantial time and financial resources.

FDA Approval Process

In the United States, the Food and Drug Administration (FDA) regulates drugs and biological products under the Federal Food, Drug, and Cosmetic Act (FDCA), the Public Health Service Act (PHSA), and implementing regulations. These laws and other federal and state statutes and regulations, govern, among other things, the research, development, testing, manufacture, storage, recordkeeping, approval, labeling, promotion and marketing, distribution, post-approval monitoring and reporting, sampling, and import and export of therapeutic products. The process of obtaining regulatory approvals and the subsequent compliance with applicable federal, state, local and foreign statutes and regulations require the expenditure of substantial time and financial resources. Failure to comply with applicable U.S. requirements may subject a company to a variety of administrative or judicial sanctions, such as clinical hold, FDA refusal to approve pending regulatory applications, warning or untitled letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, civil penalties, and criminal prosecution.

The process required by the FDA before a drug or biological product may be marketed in the United States generally includes the following:

- Completion of preclinical laboratory tests, animal studies and formulation studies according to Good Laboratory Practices (GLP) or other applicable regulations;
- Submission to the FDA of an investigational new drug application (IND), which must become effective before human clinical trials may begin in the United States;
- Performance of adequate and well-controlled human clinical trials according to Good Clinical Practices (GCP), to establish the safety and efficacy of the product candidate for its intended use;
- Submission to the FDA of a New Drug Application (NDA) or Biological Licensing Application (BLA) for a new product;
- Satisfactory completion of an FDA inspection of the facility or facilities where the product candidate is manufactured to assess compliance with the FDA’s current good manufacturing practices (cGMP), to
assure that the facilities, methods and controls are adequate to preserve the therapeutic product candidate’s identity, strength, quality, purity, and potency;

- Potential FDA audit of the preclinical and clinical trial sites that generated the data in support of the NDA/BLA; and
- FDA review and approval of the NDA/BLA.

Satisfaction of FDA pre-market approval requirements typically takes many years and the actual time required may vary substantially based upon the type, complexity, and novelty of the product candidate or disease. A clinical hold may occur at any time during the life of an IND and may affect one or more specific trials or all trials conducted under the IND.

Preclinical tests include laboratory evaluation of product candidate’s chemistry, formulation, and toxicity, as well as animal trials to assess the characteristics and potential safety and efficacy of the product candidate. The conduct of the preclinical tests must comply with federal regulations and requirements, including GLP. The results of preclinical testing are submitted to the FDA as part of an IND along with other information, including information about product candidate’s chemistry, manufacturing and controls, and a proposed clinical trial protocol. Long term preclinical tests, such as animal tests of reproductive toxicity and carcinogenicity, may continue after the IND is submitted. A 30-day waiting period after the submission of each IND is required prior to the commencement of clinical testing in humans. If the FDA has neither commented on nor questioned the IND within this 30-day period, the clinical trial proposed in the IND may begin. Clinical trials involve the administration of the investigational product to healthy volunteers or subjects under the supervision of a qualified investigator. Clinical trials must be conducted: (i) in compliance with federal regulations; (ii) in compliance with GCP, an international standard meant to protect the rights and health of subjects and to define the roles of clinical trial sponsors, administrators, and monitors; as well as (iii) under protocols detailing the objectives of the trial, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. Each protocol involving testing on U.S. subjects and subsequent protocol amendments must be submitted to the FDA as part of the IND.

The FDA may order the temporary or permanent discontinuation of a clinical trial at any time, or impose other sanctions if it believes that the clinical trial either is not being conducted in accordance with FDA requirements or presents an unacceptable risk to the clinical trial subjects. The trial protocol and informed consent information for subjects in clinical trials must also be submitted to an institutional review board (IRB) for approval. An IRB may also require the clinical trial at the site to be halted, either temporarily or permanently, for failure to comply with the IRB’s requirements, or may impose other conditions. The study sponsor may also suspend a clinical trial at any time on various grounds, including a determination that the subjects are being exposed to an unacceptable health risk.

Clinical trials to support NDAs/BLAs for marketing approval are typically conducted in three sequential phases, but the phases may overlap. In Phase 1, the initial introduction of the product candidate usually into healthy human subjects, the product candidate is tested to assess metabolism, pharmacokinetics, pharmacological actions, side effects associated with increasing doses, and, if possible, early evidence on effectiveness. Phase 2 usually involves trials in a limited patient population to determine the effectiveness of the product candidate for a particular indication, dosage tolerance, and optimal dosage, and to identify common adverse effects and safety risks. If a product candidate demonstrates evidence of effectiveness and an acceptable safety profile in Phase 2 evaluations, Phase 3 trials are undertaken to obtain additional information about clinical efficacy and safety in a larger number of subjects, typically at geographically dispersed clinical trial sites, to permit the FDA to evaluate the overall benefit risk relationship of the product candidate and to provide adequate information for the labeling of the product candidate. In most cases, the FDA requires two adequate and well-controlled Phase 3 clinical trials to demonstrate the efficacy of the product candidate. A single Phase 3 trial may be sufficient in certain circumstances.

A therapeutic product candidate being studied in clinical trials may be made available for treatment of individual patients, in certain circumstances. Pursuant to the 21st Century Cures Act (Cures Act) which was signed into law in December 2016, the manufacturer of an investigational product for a serious disease or condition is required to
make available, such as by posting on its website, its policy on evaluating and responding to requests for individual patient access to such investigational product.

During the development of a new product candidate, sponsors are given opportunities to meet with the FDA at certain points; specifically, prior to the submission of an IND, at the end of Phase 2 and before an NDA/BLA is submitted. Meetings at other times may be requested. These meetings can provide an opportunity for the sponsor to share information about the data gathered to date and for the FDA to provide advice on the next phase of development. Sponsors typically use the meeting at the end of Phase 2 to discuss their Phase 2 clinical results and present their plans for the pivotal Phase 3 clinical trials that they believe will support the approval of the new product candidate.

Concurrent with clinical trials, sponsors usually complete additional animal safety studies and also develop additional information about the chemistry and physical characteristics of the product candidate and finalize a process for manufacturing commercial quantities of the product candidate in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the product candidate and the manufacturer must develop methods for testing the quality, purity and potency of the product candidate. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the product candidate does not undergo unacceptable deterioration over its proposed shelf-life. After completion of the required clinical testing, an NDA, for a drug product candidate, or a BLA, for a biological product candidate, is prepared and submitted to the FDA. FDA approval of the NDA or BLA is required before marketing of the product may begin in the United States. The NDA or BLA must include the results of all preclinical, clinical, and other testing and a compilation of data relating to the product candidate’s pharmacology, chemistry, manufacture, and controls. The cost of preparing and submitting an NDA or BLA is substantial. The submission of most NDAs and BLAs is additionally subject to a substantial application user fee, and the applicant under an approved NDA or BLA is also subject to annual product and establishment user fees. These fees are typically increased annually. On August 3, 2017, Congress passed the FDA Reauthorization Act of 2017 (FDARA) which reauthorizes the various user fees to facilitate the FDA’s product review and oversight.

The FDA has 60 days from its receipt of an NDA or BLA to determine whether the application will be accepted for filing based on the agency’s threshold determination that it is sufficiently complete to permit substantive review. Combination products are typically marketed under an application type associated with the constituent part that provides the primary mode of action (PMOA) for the combination product (i.e., an NDA or abbreviated new drug application (ANDA) if it has a drug PMOA, a BLA if it has a biological product PMOA. A single marketing application is generally sufficient for a combination product. In some cases, however, a sponsor may wish to submit separate marketing applications for different constituent parts of a combination product, and the FDA may consider this permissible. The FDA may refuse to file any NDA or BLA that it deems incomplete or not properly reviewable at the time of submission, and may request additional information. In this event, the NDA or BLA must be resubmitted with the additional information and the resubmitted application also is subject to review before the FDA accepts it for filing. Once the submission is accepted for filing, the FDA begins an in-depth review. The FDA has agreed to certain performance goals in the review of NDAs and BLAs. Most such applications for standard review product candidates are reviewed within ten months of the date the FDA files the NDA or BLA; most applications for priority review product candidates are reviewed within six months of the date the FDA files the NDA or BLA. Priority review can be applied to a product candidate that the FDA determines has the potential to treat a serious or life-threatening condition and, if approved, would be a significant improvement in safety or effectiveness compared to available therapies. The review process for both standard and priority review may be extended by the FDA for three additional months to consider certain late-submitted information, or information intended to clarify information already provided in the submission.

Among other things, the FDA reviews an NDA to determine whether the product is safe and effective for its intended use, a BLA to determine whether the product is safe, pure, and potent, and in each case, whether the product candidate is being manufactured in accordance with cGMP. The FDA may also refer applications for novel product candidates, or product candidates that present difficult questions of safety or efficacy, to an advisory committee—typically a panel that includes clinicians and other experts—for review, evaluation, and a
recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee, but it generally follows such recommendations.

Before approving an NDA or BLA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. Additionally, the FDA will inspect the facility or the facilities at which the product candidate is manufactured. The FDA will not approve the product candidate unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. To assure GCP and cGMP compliance, an applicant must incur significant expenditures of time, money and effort in the areas of training, record keeping, production and quality control.

Notwithstanding the submission of relevant data and information, the FDA may ultimately decide that the NDA or BLA does not satisfy the criteria for approval and deny approval. Data obtained from clinical trials are not always conclusive. The FDA may disagree with our trial design or interpret data from preclinical studies and clinical trials differently than we interpret the same data. If the agency decides not to approve the NDA or BLA in its present form, the FDA will issue a complete response letter that describes all of the specific deficiencies in the application identified by the FDA. The deficiencies identified may be minor, for example, requiring labeling changes, or major, for example, requiring additional clinical trials. If a complete response letter is issued, the applicant may either resubmit the NDA or BLA, addressing the deficiencies identified in the letter, or withdraw the application. If, or when, those deficiencies have been addressed to the FDA’s satisfaction in a resubmission of the NDA or BLA, the FDA will issue an approval letter. The FDA has committed to reviewing such resubmissions in two or six months depending on the type of information included. An approval letter authorizes commercial marketing of the drug or biological product in the United States with specific prescribing information for specific indications.

Even if a product candidate receives regulatory approval, the approval may be significantly limited to specific indications and dosages or the indications for use may otherwise be limited, which could restrict the commercial value of the product. Further, the FDA may require that certain contraindications, warnings or precautions be included in the product labeling. The FDA may impose restrictions and conditions on product distribution, prescribing, or dispensing in the form of a risk evaluation and mitigation strategy (REMS), or otherwise limit the scope of any approval. REMS can include medication guides, communication plans for healthcare professionals, and elements to assure safe use (ETASU). ETASU can include, but are not limited to, special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring, and the use of patient registries. The requirement for a REMS can materially affect the potential market and profitability of the product. In addition, the FDA may require post marketing clinical trials, sometimes referred to as “Phase 4” clinical trials, designed to further assess a product’s safety and effectiveness, and testing and surveillance programs to monitor the safety of approved products that have been commercialized.

**Foreign Clinical Trials to Support an IND, NDA, or BLA**

The FDA will accept as support for an IND, NDA, or BLA a well-designed, well-conducted, non-IND foreign clinical trial if it was conducted in accordance with GCP and the FDA is able to validate the data from the trial through an on-site inspection, if necessary. A sponsor or applicant who wishes to rely on a non-IND foreign clinical trial to support an IND must submit the following supporting information to the FDA to demonstrate that the trial conformed to GCP:

- the investigator’s qualifications;
- a description of the research facilities;
- a detailed summary of the protocol and trial results and, if requested, case records or additional background data;
- a description of the drug substance and drug product, including the components, formulation, specifications, and, if available, the bioavailability of the product candidate;
• information showing that the trial is adequate and well controlled;
• the name and address of the independent ethics committee that reviewed the trial and a statement that the independent ethics committee meets the required definition;
• a summary of the independent ethics committee’s decision to approve or modify and approve the trial, or to provide a favorable opinion;
• a description of how informed consent was obtained;
• a description of what incentives, if any, were provided to subjects to participate;
• a description of how the sponsor monitored the trial and ensured that the trial was consistent with the protocol;
• a description of how investigators were trained to comply with GCP and to conduct the trial in accordance with the trial protocol; and
• a statement on whether written commitments by investigators to comply with GCP and the protocol were obtained.

Regulatory applications based solely on foreign clinical data meeting these criteria may be approved if the foreign data are applicable to the U.S. population and U.S. medical practice, the trials have been performed by clinical investigators of recognized competence, and the data may be considered valid without the need for an on-site inspection by FDA or, if FDA considers such an inspection to be necessary, FDA is able to validate the data through an on-site inspection or other appropriate means. Failure of an application to meet any of these criteria may result in the application not being approvable based on the foreign data alone.

Disclosure of Clinical Trial Information

Sponsors of clinical trials of FDA-regulated products are required to register and disclose certain clinical trial information. Information related to the product, patient population, phase of investigation, trial sites and investigators, and other aspects of the clinical trial is then made public as part of the registration. Sponsors are also obligated to disclose the results of their clinical trials after completion. Disclosure of the results of these trials can be delayed in certain circumstances for up to two years after the date of completion of the trial. Competitors may use this publicly available information to gain knowledge regarding the progress of development programs.

Expedited Development and Review Programs

The FDA has various programs, including Fast Track, priority review, accelerated approval and breakthrough therapy, which are intended to expedite or simplify the process for reviewing product candidates, or provide for the approval of a product candidate on the basis of a surrogate endpoint. Even if a product candidate qualifies for one or more of these programs, the FDA may later decide that the product candidate no longer meets the conditions for qualification or that the time period for FDA review or approval will be lengthened. Generally, product candidates that are eligible for these programs are those for serious or life-threatening conditions, those with the potential to address unmet medical needs and those that offer meaningful benefits over existing treatments. For example, Fast Track is a process designed to facilitate the development and expedite the review of product candidates to treat serious or life-threatening diseases or conditions and fill unmet medical needs. Priority review is designed to give a product candidate that treats a serious condition and, if approved, would provide a significant improvement in safety or effectiveness, an initial review within eight months as compared to a standard review time of twelve months.

Although Fast Track and priority review do not affect the standards for approval, the FDA will attempt to facilitate early and frequent meetings with a sponsor of a Fast Track designated product candidate and expedite
review of the application for a product candidate designated for priority review. Accelerated approval provides for an earlier approval for a new product candidate that meets the following criteria: is intended to treat a serious or life-threatening disease or condition, generally provides a meaningful advantage over available therapies and demonstrates an effect on a surrogate endpoint that is reasonably likely to predict clinical benefit or on a clinical endpoint that can be measured earlier than irreversible morbidity or mortality (IMM) that is reasonably likely to predict an effect on IMM or other clinical benefit. A surrogate endpoint is a laboratory measurement or physical sign used as an indirect or substitute measurement representing a clinically meaningful outcome. As a condition of approval, the FDA may require that a sponsor of a product candidate receiving accelerated approval perform post-marketing clinical trials to verify and describe the predicted effect on irreversible morbidity or mortality or other clinical endpoint, and the product may be subject to accelerated withdrawal procedures.

In the Food and Drug Administration Safety and Innovation Act (FDASIA) which was signed into law in July 2012, the U.S. Congress encouraged the FDA to utilize innovative and flexible approaches to the assessment of product candidates under accelerated approval. The law required the FDA to issue related guidance and also promulgate confirming regulatory changes. In May 2014, the FDA published a final Guidance for Industry titled “Expedited Programs for Serious Conditions—Drugs and Biologics,” which provides guidance on FDA programs that are intended to facilitate and expedite development and review of new product candidates as well as threshold criteria generally applicable to concluding that a product candidate is a candidate for these expedited development and review programs.

In addition to the Fast Track, accelerated approval and priority review programs discussed above, the FDA also provided guidance on a new program for Breakthrough Therapy designation, established by FDASIA to subject a new category of product candidates to accelerated approval. A sponsor may seek FDA designation of a product candidate as a “breakthrough therapy” if the product candidate is intended, alone or in combination with one or more other therapeutics, to treat a serious or life-threatening disease or condition, and preliminary clinical evidence indicates that the product candidate may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. A request for Breakthrough Therapy designation should be submitted concurrently with, or as an amendment to, an IND, but ideally no later than the end of Phase 2 meeting.

**Patent Term Restoration and Marketing Exclusivity**

After approval, owners of relevant drug or biological product patents may apply for up to a five year patent extension under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Act. The allowable patent term extension is calculated as half of the product’s testing phase—the time between IND and NDA or BLA submission—and all of the review phase—the time between NDA or BLA submission and approval, up to a maximum of five years. The time can be shortened if the FDA determines that the applicant did not pursue approval with due diligence. The total patent term after the extension may not exceed 14 years.

For patents that might expire during the application phase, the patent owner may request an interim patent extension. An interim patent extension increases the patent term by one year and may be renewed up to four times. For each interim patent extension granted, the post-approval patent extension is reduced by one year. The director of the U.S. Patent and Trademark Office must determine that approval of the product candidate covered by the patent for which a patent extension is being sought is likely. Interim patent extensions are not available for a product candidate for which an NDA or BLA has not been submitted.

Market exclusivity provisions under the FDCA also can delay the submission or the approval of certain applications. The FDCA provides a five-year period of non-patent marketing exclusivity within the U.S. to the first applicant to gain approval of an NDA for a new chemical entity. A product candidate is a new chemical entity if the FDA has not previously approved any other new product candidate containing the same active moiety, which is the molecule or ion responsible for the action of the product candidate substance. During the
exclusivity period, the FDA may not accept for review an abbreviated new drug application (ANDA) or a 505(b)(2) NDA submitted by another company for another version of such product candidate where the applicant does not own or have a legal right of reference to all the data required for approval. However, an application may be submitted after four years if it contains a certification of patent invalidity or non-infringement. The FDCA also provides three years of marketing exclusivity for an NDA, 505(b)(2) NDA or supplement to an approved NDA if new clinical investigations, other than bioavailability studies, that were conducted or sponsored by the applicant are deemed by the FDA to be essential to the approval of the application, for example, for new indications, dosages or strengths of an existing product candidate. This three-year exclusivity covers only the conditions associated with the new clinical investigations and does not prohibit the FDA from approving ANDAs for product candidates containing the original active agent. Five-year and three-year exclusivity will not delay the submission or approval of a full NDA. However, an applicant submitting a full NDA would be required to conduct or obtain a right of reference to all of the preclinical studies and adequate and well-controlled clinical trials necessary to demonstrate safety and effectiveness.

Biosimilars

The Biologics Price Competition and Innovation Act of 2009 (BPCIA) created an abbreviated approval pathway for biological product candidates shown to be highly similar to or interchangeable with an FDA licensed reference biological product. Biosimilarity sufficient to reference a prior FDA-approved product requires that there be no differences in conditions of use, route of administration, dosage form, and strength, and no clinically meaningful differences between the biological product candidate and the reference product in terms of safety, purity, and potency. Biosimilarity must be shown through analytical trials, animal trials, and a clinical trial or trials, unless the Secretary of Health and Human Services waives a required element. A biosimilar product candidate may be deemed interchangeable with a prior approved product if it meets the higher hurdle of demonstrating that it can be expected to produce the same clinical results as the reference product and, for products administered multiple times, the biologic and the reference biologic may be switched after one has been previously administered without increasing safety risks or risks of diminished efficacy relative to exclusive use of the reference biologic. To date, a handful of biosimilar products and no interchangeable products have been approved under the BPCIA. Complexities associated with the larger, and often more complex, structures of biological products, as well as the process by which such products are manufactured, pose significant hurdles to implementation, which is still being evaluated by the FDA.

A reference biologic is granted 12 years of exclusivity from the time of first licensure of the reference product, and no application for a biosimilar can be submitted for four years from the date of licensure of the reference product. The first biologic product candidate submitted under the abbreviated approval pathway that is determined to be interchangeable with the reference product has exclusivity against a finding of interchangeability for other biologics for the same condition of use for the lesser of (i) one year after first commercial marketing of the first interchangeable biosimilar, (ii) 18 months after the first interchangeable biosimilar is approved if there is no patent challenge, (iii) 18 months after resolution of a lawsuit over the patents of the reference biologic in favor of the first interchangeable biosimilar applicant, or (iv) 42 months after the first interchangeable biosimilar’s application has been approved if a patent lawsuit is ongoing within the 42-month period.

Post-approval Requirements

Once an approval is granted, the FDA may withdraw the approval if compliance with regulatory requirements is not maintained or if problems occur after the product reaches the market. Later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market. After approval, some types of changes to the approved product, such as adding new indications, manufacturing changes and additional labeling claims, are subject to further FDA review and approval. In addition, the FDA may under some circumstances require testing and surveillance programs to monitor the effect of approved products that have been commercialized, and the FDA under some circumstances has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs.
Any product manufactured or distributed by us or our collaborators pursuant to FDA approvals are subject to continuing regulation by the FDA, including, among other things:

- record-keeping requirements;
- reporting of adverse experiences associated with the product;
- providing the FDA with updated safety and efficacy information;
- therapeutic sampling and distribution requirements;
- notifying the FDA and gaining its approval of specified manufacturing or labeling changes;
- registration and listing requirements; and
- complying with FDA promotion and advertising requirements, which include, among other things, standards for direct-to-consumer advertising, restrictions on promoting products for uses or in patient populations that are not described in the product’s approved labeling, limitations on industry-sponsored scientific and educational activities and requirements for promotional activities involving the internet.

Manufacturers, their subcontractors, and other entities involved in the manufacture and distribution of approved drug and biological products are required to register their establishments with the FDA and certain state agencies and are subject to periodic unannounced inspections by the FDA and some state agencies for compliance with cGMP, including data integrity requirements, and other laws. The FDA periodically inspects manufacturing facilities to assess compliance with ongoing regulatory requirements, including cGMP, which impose extensive procedural, substantive and record-keeping requirements upon us and third-party manufacturers engaged by us if our products are approved. In addition, changes to the manufacturing process are strictly regulated, and, depending on the significance of the change, may require FDA approval before being implemented. FDA regulations would also require investigation and correction of any deviations from cGMP and impose reporting and documentation requirements upon us and our third-party manufacturers. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain compliance with cGMP and other aspects of regulatory compliance. Failure to comply with the statutory and regulatory requirements can subject a manufacturer to possible legal or regulatory actions, such as warning letters, suspension of manufacturing, seizures of products, injunctive actions or other civil penalties. We cannot be certain we or our present or future third-party manufacturers or suppliers will be able to comply with the cGMP regulations and other ongoing FDA regulatory requirements. If we or our present or future third-party manufacturers or suppliers are not able to comply with these requirements, the FDA may halt our clinical trials or require us to recall a product from distribution.

In addition, therapeutic manufacturers in the United States must comply with applicable provisions of the Drug Supply Chain Security Act and provide and receive product tracing information, maintain appropriate licenses, ensure they only work with other properly licensed entities, and have procedures in place to identify and properly handle suspect and illegitimate product.

**Additional Controls for Biological Products**

To help reduce the increased risk of the introduction of adventitious agents, the PHSA emphasizes the importance of manufacturing controls for products whose attributes cannot be precisely defined. The PHSA also provides authority to the FDA to immediately suspend licenses in situations where there exists a danger to public health, to prepare or procure products in the event of shortages and critical public health needs, and to authorize the creation and enforcement of regulations to prevent the introduction or spread of communicable diseases in the United States and between states.

After a BLA is approved, the biological product may also be subject to official lot release as a condition of approval. As part of the manufacturing process, the manufacturer is required to perform certain tests on each lot.
of the product before it is released for distribution. If the product is subject to official release by the FDA, the manufacturer submits samples of each lot of product to the FDA together with a release protocol showing a summary of the history of manufacture of the lot and the results of all of the manufacturer’s tests performed on the lot. The FDA may also perform certain confirmatory tests on lots of some products, such as viral vaccines, before releasing the lots for distribution by the manufacturer.

In addition, the FDA conducts laboratory research related to the regulatory standards on the safety, purity, potency, and effectiveness of biological products. As with drugs, after approval of biological products, manufacturers must address any safety issues that arise, are subject to recalls or a halt in manufacturing, and are subject to periodic inspection after approval.

**FDA Regulation of Companion Diagnostics**

If use of an *in vitro* diagnostic is essential to safe and effective use of a drug or biologic product, then the FDA generally will require approval or clearance of the diagnostic, known as a companion diagnostic and regulated by FDA as a medical device, at the same time that the FDA approves the product candidate. The review of an *in vitro* companion diagnostic in conjunction with the review of a product candidate involves coordination of review between internal organizations within FDA. Most companion diagnostics require approval of a premarket approval application (PMA). The PMA process, including the gathering of clinical and preclinical data and the submission to and review by the FDA, can take several years or longer. It involves a rigorous premarket review during which the applicant must prepare and provide the FDA with reasonable assurance of the device’s safety and effectiveness and information about the device and its components regarding, among other things, device design, manufacturing and labeling. PMAs are subject to a substantial application fee. In addition, PMAs for certain devices must generally include the results from extensive preclinical and adequate and well-controlled clinical trials to establish the safety and effectiveness of the device for each indication for which FDA approval is sought. In particular, for a diagnostic, the applicant must demonstrate that the diagnostic produces reproducible results when the same sample is tested multiple times by multiple users at multiple laboratories. As part of the PMA review, the FDA will typically inspect the manufacturer’s facilities for compliance with the Quality System Regulation (QSR) which imposes elaborate testing, control, documentation and other quality assurance requirements.

PMA approval is not guaranteed, and the FDA may ultimately respond to a PMA submission with a not approvable determination based on deficiencies in the application and require additional clinical trial or other data that may be expensive and time-consuming to generate and that can substantially delay approval. If the FDA’s evaluation of the PMA application is favorable, the FDA typically issues an approvable letter requiring the applicant’s agreement to specific conditions, such as changes in labeling, or specific additional information, such as submission of final labeling, in order to secure final approval of the PMA. If the FDA concludes that the applicable criteria have been met, the FDA will issue a PMA for the approved indications, which can be more limited than those originally sought by the applicant. The PMA can include post-approval conditions that the FDA believes necessary to ensure the safety and effectiveness of the device, including, among other things, restrictions on labeling, promotion, sale and distribution.

After a device is placed on the market following appropriate approval or clearance from the FDA, it remains subject to significant regulatory requirements. Medical devices may be marketed only for the uses and indications for which they are cleared or approved. Device manufacturers must also establish registration and device listings with the FDA. A medical device manufacturer’s manufacturing processes and those of its suppliers are required to comply with the applicable portions of the QSR, which cover the methods and documentation of the design, testing, production, processes, controls, quality assurance, labeling, packaging and shipping of medical devices. Domestic facility records and manufacturing processes are subject to periodic unscheduled inspections by the FDA. The FDA also may inspect foreign facilities that export products to the United States.

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New Legislation and Regulations

From time to time, legislation is drafted, introduced and passed in Congress that could significantly change the statutory provisions governing the testing, approval, manufacturing and marketing of products regulated by the FDA. In addition to new legislation, FDA regulations and policies are often revised or interpreted by the agency in ways that may significantly affect our business and our products. It is impossible to predict whether further legislative changes will be enacted or whether FDA regulations, guidance, policies or interpretations will be changed or what the effect of such changes, if any, may be.

Other U.S. Healthcare Laws and Compliance Requirements

In the United States, our activities are potentially subject to regulation by various federal, state and local authorities in addition to the FDA, including but not limited to, the Centers for Medicare and Medicaid Services, or CMS, other divisions of the U.S. Department of Health and Human Services (such as the Office of Inspector General and the Health Resources and Service Administration), the U.S. Department of Justice (DOJ) and individual U.S. Attorney offices within the DOJ, and state and local governments. For example, sales, marketing and scientific/educational grant programs may have to comply with the anti-fraud and abuse provisions of the Social Security Act, the false claims laws, the privacy and security provisions of the Health Insurance Portability and Accountability Act (HIPAA) and similar state laws, each as amended, as applicable.

The federal Anti-Kickback Statute prohibits, among other things, any person or entity, from knowingly and willfully offering, paying, soliciting or receiving any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, to induce or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any item or service reimbursable, in whole or in part, under Medicare, Medicaid or other federal healthcare programs. The term remuneration has been interpreted broadly to include anything of value. The Anti-Kickback Statute has been interpreted to apply to arrangements between therapeutic product manufacturers on one hand and prescribers, purchasers, and formulary managers on the other. There are a number of statutory exceptions and regulatory safe harbors protecting some common activities from prosecution. The exceptions and safe harbors are drawn narrowly and practices that involve remuneration that may be alleged to be intended to induce prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exception or safe harbor. Failure to meet all of the requirements of a particular applicable statutory exception or regulatory safe harbor does not make the conduct per se illegal under the Anti-Kickback Statute. Instead, the legality of the arrangement will be evaluated on a case-by-case basis based on a cumulative review of all of its facts and circumstances. Our practices may not in all cases meet all of the criteria for protection under a statutory exception or regulatory safe harbor.

Additionally, the intent standard under the Anti-Kickback Statute was amended by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (ACA), to a stricter standard such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. In addition, the ACA codified case law that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act (FCA) (discussed below).

The federal false claims and civil monetary penalty laws, including the FCA, which imposes significant penalties and can be enforced by private citizens through civil qui tam actions, prohibit any person or entity from, among other things, knowingly presenting, or causing to be presented, a false or fraudulent claim for payment to, or approval by, the federal healthcare programs, including Medicare and Medicaid, or knowingly making, using, or causing to be made or used a false record or statement material to a false or fraudulent claim to the federal government. A claim includes “any request or demand” for money or property presented to the U.S. government. For instance, historically, pharmaceutical and other healthcare companies have been prosecuted under these laws for allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. Other companies have been prosecuted for causing false claims to be submitted.
because of the companies’ marketing of the product for unapproved, off-label, and thus generally non-reimbursable, uses.

HIPAA created additional federal criminal statutes that prohibit, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud or to obtain, by means of false or fraudulent pretenses, representations or promises, any money or property owned by, or under the control or custody of, any healthcare benefit program, including private third-party payors, willfully obstructing a criminal investigation of a healthcare offense, and knowingly and willfully falsifying, concealing or covering up by trick, scheme or device, a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. Like the Anti-Kickback Statute, the ACA amended the intent standard for certain healthcare fraud statutes under HIPAA such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.

Also, many states have similar, and typically more prohibitive, fraud and abuse statutes or regulations that apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. Additionally, to the extent that our product is sold in a foreign country, we may be subject to similar foreign laws.

We may be subject to data privacy and security regulations by both the federal government and the states in which we conduct our business. HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act (HITECH) and its implementing regulations, imposes requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA’s privacy and security standards directly applicable to business associates, independent contractors, or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also created four new tiers of civil monetary penalties, amended HIPAA to make civil and criminal penalties directly applicable to business associates, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce HIPAA and seek attorneys’ fees and costs associated with pursuing federal civil actions. In addition, many state laws govern the privacy and security of health information in specified circumstances, many of which differ from each other in significant ways, are often not pre-empted by HIPAA, and may have a more prohibitive effect than HIPAA, thus complicating compliance efforts.

Certain of our products, once approved, may be administered by a physician. Under currently applicable U.S. law, certain products not usually self-administered (including injectable drugs) may be eligible for coverage under Medicare through Medicare Part B. Medicare Part B is part of original Medicare, the federal health care program that provides health care benefits to the aged and disabled, and covers outpatient services and supplies, including certain pharmaceutical products, that are medically necessary to treat a beneficiary’s health condition. As a condition of receiving Medicare Part B reimbursement for a manufacturer’s eligible drugs or biologicals, the manufacturer is required to participate in other government healthcare programs, including the Medicaid Drug Rebate Program and the 340B Drug Pricing Program. The Medicaid Drug Rebate Program requires pharmaceutical manufacturers to enter into and have in effect a national rebate agreement with the Secretary of the Department of Health and Human Services as a condition for states to receive federal matching funds for the manufacturer’s outpatient drugs furnished to Medicaid patients. Under the 340B Drug Pricing Program, the manufacturer must extend discounts to entities that participate in the program.

In addition, many pharmaceutical manufacturers must calculate and report certain price reporting metrics to the government, such as average sales price (ASP) and best price. Penalties may apply in some cases when such metrics are not submitted accurately and timely. Further, these prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. It is difficult to predict how Medicare coverage and reimbursement policies will be applied to our products in the future and coverage and reimbursement under different federal healthcare programs are not
always consistent. Medicare reimbursement rates may also reflect budgetary constraints placed on the Medicare program.

Additionally, the federal Physician Payments Sunshine Act (Sunshine Act) within the ACA, and its implementing regulations, require that certain manufacturers of drugs, devices, biological and medical supplies for which payment is available under Medicare, Medicaid or the Children’s Health Insurance Program (with certain exceptions) report annually to CMS information related to certain payments or other transfers of value made or distributed to physicians and teaching hospitals, or to entities or individuals at the request of, or designated on behalf of, the physicians and teaching hospitals and to report annually certain ownership and investment interests held by physicians and their immediate family members. Failure to report accurately could result in penalties. In addition, many states also govern the reporting of payments or other transfers of value, many of which differ from each other in significant ways, are often not pre-empted, and may have a more prohibitive effect than the Sunshine Act, thus further complicating compliance efforts.

In order to distribute products commercially, we must comply with state laws that require the registration of manufacturers and wholesale distributors of drug and biological products in a state, including, in certain states, manufacturers and distributors who ship products into the state even if such manufacturers or distributors have no place of business within the state. Some states also impose requirements on manufacturers and distributors to establish the pedigree of product in the chain of distribution, including some states that require manufacturers and others to adopt new technology capable of tracking and tracing product as it moves through the distribution chain. Several states have enacted legislation requiring pharmaceutical and biotechnology companies to establish marketing compliance programs, file periodic reports with the state, make periodic public disclosures on sales, marketing, pricing, clinical trials and other activities, and/or register their sales representatives, as well as to prohibit pharmacies and other healthcare entities from providing certain physician prescribing data to pharmaceutical and biotechnology companies for use in sales and marketing, and to prohibit certain other sales and marketing practices. All of our activities are potentially subject to federal and state consumer protection and unfair competition laws.

Ensuring business arrangements with third parties comply with applicable healthcare laws and regulations is a costly endeavor. If our operations are found to be in violation of any of the federal and state healthcare laws described above or any other current or future governmental regulations that apply to us, we may be subject to penalties, including without limitation, civil, criminal and/or administrative penalties, damages, fines, disgorgement, individual imprisonment, exclusion from participation in government programs, such as Medicare and Medicaid, injunctions, private “qui tam” actions brought by individual whistleblowers in the name of the government, or refusal to allow us to enter into government contracts, contractual damages, reputational harm, administrative burdens, diminished profits and future earnings, additional reporting obligations and oversight if we become subject to a corporate integrity agreement or other agreement to resolve allegations of non-compliance with these laws, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

Coverage, Pricing and Reimbursement

Significant uncertainty exists as to the coverage and reimbursement status of any product candidates for which we may obtain regulatory approval. In the United States and in foreign markets, sales of any products for which we receive regulatory approval for commercial sale will depend, in part, on the extent to which third-party payors provide coverage and establish adequate reimbursement levels for such products. In the United States, third-party payors include federal and state healthcare programs, private managed care providers, health insurers and other organizations. Adequate coverage and reimbursement from governmental healthcare programs, such as Medicare and Medicaid in the United States, and commercial payors are critical to new product acceptance.

Our ability to commercialize any products successfully also will depend in part on the extent to which coverage and reimbursement for these products and related treatments will be available from government health
administration authorities, private health insurers and other organizations. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which therapeutics they will pay for and establish reimbursement levels. Coverage and reimbursement by a third-party payor may depend upon a number of factors, including the third-party payor’s determination that use of a therapeutic is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

We cannot be sure that reimbursement will be available for any product that we commercialize and, if coverage and reimbursement are available, what the level of reimbursement will be. Coverage may also be more limited than the purposes for which the product is approved by the FDA or comparable foreign regulatory authorities. Reimbursement may impact the demand for, or the price of, any product for which we obtain regulatory approval.

Third-party payors are increasingly challenging the price, examining the medical necessity, and reviewing the cost-effectiveness of medical products, therapies and services, in addition to questioning their safety and efficacy. Obtaining reimbursement for our products may be particularly difficult because of the higher prices often associated with branded drugs and drugs administered under the supervision of a physician. We may need to conduct expensive pharmacoeconomic studies in order to demonstrate the medical necessity and cost-effectiveness of our products, in addition to the costs required to obtain FDA approvals. Our product candidates may not be considered medically necessary or cost-effective. Obtaining coverage and reimbursement approval of a product from a government or other third-party payor is a time-consuming and costly process that could require us to provide to each payor supporting scientific, clinical and cost-effectiveness data for the use of our product on a payor-by-payor basis, with no assurance that coverage and adequate reimbursement will be obtained. A payor’s decision to provide coverage for a product does not imply that an adequate reimbursement rate will be approved. Further, one payer’s determination to provide coverage for a product does not assure that other payors will also provide coverage for the product. Adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product development. If reimbursement is not available or is available only at limited levels, we may not be able to successfully commercialize any product candidate that we successfully develop.

Different pricing and reimbursement schemes exist in other countries. In the European Union, governments influence the price of pharmaceutical products through their pricing and reimbursement rules and control of national health care systems that fund a large part of the cost of those products to consumers. Some jurisdictions operate positive and negative list systems under which products may only be marketed once a reimbursement price has been agreed. To obtain reimbursement or pricing approval, some of these countries may require the completion of clinical trials that compare the cost effectiveness of a particular product candidate to currently available therapies. Other member states allow companies to fix their own prices for medicines, but monitor and control company profits. The downward pressure on health care costs has become intense. As a result, increasingly high barriers are being erected to the entry of new products. In addition, in some countries, cross-border imports from low-priced markets exert a commercial pressure on pricing within a country.

The marketability of any product candidates for which we receive regulatory approval for commercial sale may suffer if the government and third-party payors fail to provide adequate coverage and reimbursement. In addition, emphasis on managed care, the increasing influence of health maintenance organizations, and additional legislative changes in the United States has increased, and we expect will continue to increase, the pressure on healthcare pricing. The downward pressure on the rise in healthcare costs in general, particularly prescription
medicines, medical devices and surgical procedures and other treatments, has become very intense. Coverage policies and third-party reimbursement rates may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products for which we receive regulatory approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

**Healthcare Reform**

In the United States and some foreign jurisdictions, there have been, and continue to be, several legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of product candidates, restrict or regulate post-approval activities, and affect the ability to profitably sell product candidates for which marketing approval is obtained. Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives.

For example, the ACA has substantially changed healthcare financing and delivery by both governmental and private insurers. Among the ACA provisions of importance to the pharmaceutical and biotechnology industries, in addition to those otherwise described above, are the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain specified branded prescription drugs and biologic agents apportioned among these entities according to their market share in some government healthcare programs that began in 2011;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program, retroactive to January 1, 2010, to 23.1% and 13% of the average manufacturer price for most branded and generic drugs, respectively, and capped the total rebate amount for innovator drugs at 100% of the Average Manufacturer Price (AMP);
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturers’ outpatient drugs to be covered under Medicare Part D;
- extension of manufacturers’ Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals beginning in 2014 and by adding new mandatory eligibility categories for individuals with income at or below 133% of the federal poverty level, thereby potentially increasing manufacturers’ Medicaid rebate liability;
- expansion of the entities eligible for discounts under the 340B Drug Discount Program;
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research;
- expansion of healthcare fraud and abuse laws, including the FCA and the Anti-Kickback Statute, new government investigative powers, and enhanced penalties for noncompliance;
- a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are inhaled, infused, instilled, implanted, or injected;
- requirements to report certain financial arrangements with physicians and teaching hospitals;
- a requirement to annually report certain information regarding drug samples that manufacturers and distributors provide to physicians;
establishment of a Center for Medicare Innovation at CMS to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending that began on January 1, 2011; and

• a licensure framework for follow on biologic products.

Some of the provisions of the ACA have yet to be implemented, and there have been legal and political challenges to certain aspects of the ACA. Since January 2017, President Trump has signed two executive orders and other directives designed to delay, circumvent, or loosen certain requirements mandated by the ACA. In December 2017, Congress repealed the tax penalty for an individual’s failure to maintain ACA-mandated health insurance as part of a tax reform bill. Congress is continuing to consider legislation that would alter other aspects of the ACA.

We anticipate that the ACA, if substantially maintained in its current form, will continue to result in additional downward pressure on coverage and the price that we receive for any approved product, and could seriously harm our business. Any reduction in reimbursement from Medicare and other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our products. Such reforms could have an adverse effect on anticipated revenue from product candidates that we may successfully develop and for which we may obtain regulatory approval and may affect our overall financial condition and ability to develop product candidates.

Further legislation or regulation could be passed that could harm our business, financial condition and results of operations. Other legislative changes have been proposed and adopted since the ACA was enacted. For example, in August 2011, President Obama signed into law the Budget Control Act of 2011, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals in spending reductions. The Joint Select Committee on Deficit Reduction did not achieve a targeted deficit reduction of at least $1.2 trillion for fiscal years 2012 through 2021, triggering the legislation’s automatic reduction to several government programs. This includes aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, which went into effect beginning on April 1, 2013 and will stay in effect through 2025 unless additional Congressional action is taken.

Additionally, there has been increasing legislative and enforcement interest in the United States with respect to specialty drug pricing practices. Specifically, there have been several recent U.S. Congressional inquiries and proposed federal legislation designed to, among other things, bring more transparency to drug pricing, reduce the cost of prescription drugs under Medicare, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drugs. Individual states in the United States have also become increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures.

The Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act (FCPA), prohibits any U.S. individual or business from paying, offering, or authorizing payment or offering of anything of value, directly or indirectly, to any foreign official, political party or candidate for the purpose of influencing any act or decision of the foreign entity in order to assist the individual or business in obtaining or retaining business. The FCPA also obligates companies whose securities are listed in the United States to comply with accounting provisions requiring us to maintain books and records that accurately and fairly reflect all transactions of the corporation, including international subsidiaries, and to devise and maintain an adequate system of internal accounting controls for international operations.
Additional Regulation

In addition to the foregoing, state and federal laws regarding environmental protection and hazardous substances, including the Occupational Safety and Health Act, the Resource Conservancy and Recovery Act and the Toxic Substances Control Act, affect our business. These and other laws govern our use, handling and disposal of various biological, chemical and radioactive substances used in, and wastes generated by, our operations. If our operations result in contamination of the environment or expose individuals to hazardous substances, we could be liable for damages and governmental fines. We believe that we are in material compliance with applicable environmental laws and that continued compliance therewith will not have a material adverse effect on our business. We cannot predict, however, how changes in these laws may affect our future operations.

Other Regulations

We are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control, and disposal of hazardous or potentially hazardous substances. We may incur significant costs to comply with such laws and regulations now or in the future.

European Union / Rest of World Government Regulation

In addition to regulations in the United States, we will be subject to a variety of regulations in other jurisdictions governing, among other things, clinical trials and any commercial sales and distribution of our products. Whether or not we obtain FDA approval to conduct clinical trials or market a product, we must obtain the requisite approvals from regulatory authorities in foreign jurisdictions prior to the commencement of clinical trials or marketing of the product in those countries.

Certain countries outside of the United States have a similar process that requires the submission of a clinical trial application, much like the IND, prior to the commencement of human clinical trials. In the European Union, for example, before starting a clinical trial, a valid request for authorization must be submitted by the sponsor to the competent authority of the EU Member State(s) in which the sponsor plans to conduct the clinical trial, as well as to an independent national Ethics Committee. A clinical trial may commence only once the relevant Ethics Committee(s) has (have) issued a favorable opinion and the competent authority of the EU Member State(s) concerned has (have) not informed the sponsor of any grounds for non-acceptance. Failure to comply with the EU requirements may subject a company to the rejection of the request and the prohibition to start a clinical trial. Clinical trials conducted in the European Union (or used for marketing authorization application in the European Union) must be conducted in accordance with applicable GCP and GMP rules, International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH) guidelines and be consistent with ethical principles. EU Member State inspections are regularly conducted to verify the sponsor’s compliance with applicable rules. The sponsor is required to record and report to the relevant national competent authorities (and to the Ethics Committee) information about suspected serious unexpected adverse reactions.

The authorization of a clinical trial may be suspended or revoked by EU Member States in their territory if the conditions in the request for an authorization are no longer met, or if an EU Member State has information raising doubts about the safety or scientific validity of the clinical trial. Various penalties exist in EU Member States for non-compliance with the clinical trial rules and related requirements, for example with respect to data protection and privacy. If we or our potential collaborators fail to comply with applicable EU regulatory requirements, we may also be subject to damage compensation and civil and criminal liability. The way clinical trials are conducted in the European Union will undergo a major change when the new EU Clinical Trial Regulation (Regulation 536/2014) comes into application in 2019.

As in the United States, no medicinal product may be placed on the EU market unless a marketing authorization has been issued. Biological products, including immunological medicinal products, must be authorized through
the centralized procedure, i.e., at EU level. Products submitted for approval via the centralized procedure are assessed by the Committee for Medicinal Products for Human Use (CHMP), a committee within the European Medicine Agency (EMA). The CHMP assesses, *inter alia*, whether a medicine meets the necessary quality, safety and efficacy requirements and whether it has a positive risk-benefit balance. The requirements for an application dossier for a biological product contain different aspects than that of a chemical medicinal product. Suspected unexpected serious adverse reactions related to authorized medicinal products must be recorded and reported to the national competent authorities.

Various penalties and sanctions exist in different EU Member States for non-compliance with the EU marketing authorization procedure. The European Commission may also impose financial penalties on the holders of marketing authorizations if they fail to comply with certain obligations in connection with the authorizations. If we or our potential collaborators fail to comply with applicable EU – or other ex-U.S. – regulatory requirements, we may be subject to, among other things, fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

Coverage and reimbursement status of any product candidates for which we obtain regulatory approval are provided for by the national laws of EU Member States. The requirements may differ across the EU Member States. Also at national level, actions have been taken to enact transparency laws regarding payments between pharmaceutical companies and health care professionals (HCPs).

The EU Data Protection Directive and Member State implementing legislation may also apply to health-related and other personal information obtained outside of the United States. The Directive will be replaced by the EU General Data Protection Regulation in May 2018. The Regulation will increase our responsibility and liability in relation to personal data that we process, and we may be required to put in place additional mechanisms to ensure compliance with the new EU data protection rules.

For other countries outside of the European Union, such as countries in Eastern Europe, Latin America or Asia, the requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country. In all cases, again, the clinical trials must be conducted in accordance with GCP and the applicable regulatory requirements.

Because biologically sourced raw materials are subject to unique contamination risks, their use may be restricted in some countries. The requirements and process governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country.

**Australia**

Conducting clinical trials for therapeutic drug candidates in Australia is subject to regulation by Australian regulatory bodies. The Therapeutic Goods Administration (TGA) and the National Health and Medical Research Council set the codes of Good Clinical Practice (GCP) for clinical research in Australia, and compliance with these codes is mandatory. Australia has also adopted international codes, such as those promulgated by the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use (the ICH). The ICH guidelines must be complied with across all fields of clinical research, including those related to pharmaceutical quality, nonclinical and clinical data requirements and trial designs. The basic requirements for preclinical data to support a first-in-human trial under ICH guidelines are applicable in Australia. Requirements related to adverse event reporting in Australia are similar to those required in other major jurisdictions.

Clinical trials conducted using “unapproved therapeutic goods” in Australia, being those which have not yet been evaluated by the TGA for quality, safety and efficacy must occur pursuant to either the Clinical Trial Notification Scheme (CTN Scheme), or the Clinical Trial Exemption Scheme (CTX Scheme). In each case, the trial is supervised by a Human Research Ethics Committee (HREC) an independent review committee set up under
guidelines of the Australian National Health and Medical Research Council that ensures the protection of rights, safety and well-being of human subjects involved in a clinical trial. A HREC does this by reviewing, approving and providing continuing examination of trial protocols and amendments, and of the methods and material to be used in obtaining and documenting informed consent of the trial subjects.

The CTN Scheme broadly involves:

- completion of pre-clinical laboratory and animal testing;
- submission to a HREC, of all material relating to the proposed clinical trial, including the trial protocol;
- the institution or organisation at which the trial will be conducted, referred to as the “Approving Authority”, giving final approval for the conduct of the trial at the site, having regard to the advice from the HREC;
- the investigator submitting a ‘Notification of Intent to Conduct a Clinical Trial’ form (the CTN Form) to the TGA. The CTN form must be signed by the sponsor, the principal investigator, the chairman of the HREC and a person responsible from the Approving Authority. The TGA does not review any data relating to the clinical trial however CTN trials cannot commence until the trial has been notified to the TGA.

Under the CTX Scheme:

- a sponsor submits an application to conduct a clinical trial to the TGA for evaluation and comment; and
- a sponsor must forward any comments made by the TGA Delegate to the HREC(s) at the sites where the trial will be conducted.

A sponsor cannot commence a trial under the CTX Scheme until written advice has been received from the TGA regarding the application and approval for the conduct of the trial has been obtained from an ethics committee and the institution at which the trial will be conducted.

Approval for inclusion in the Australian Register of Therapeutic Goods (ARTG) is required before a pharmaceutical product may be marketed (or imported, exported or manufactured) in Australia. In order to obtain registration of the product on the ARTG, it is required that:

- adequate and well-controlled clinical trials demonstrate the quality, safety and efficacy of the therapeutic product;
- evidence is compiled which demonstrates that the manufacture of the therapeutic product complies with the principles of cGMP;
- manufacturing and clinical data is derived to submit to the Advisory Committee on Prescription Medicines, which makes recommendations to the TGA as to whether or not to grant approval to include the therapeutic product in the ARTG; and
- an ultimate decision is made by the TGA whether to include the therapeutic product in the ARTG.

Employees

As of February 1, 2018, we had 83 full-time employees, 50 of whom hold Ph.D. or M.D. degrees. Of these employees, 68 were engaged in research and development activities and 15 were engaged in general and administrative activities. None of our employees are represented by labor unions or covered by collective bargaining agreements. We consider our relationship with our employees to be good.

Facilities

We currently lease 70,100 square feet of office and laboratory space in Hayward, California under a lease that expires on October 31, 2025. We believe that this space is sufficient to meet our needs for the foreseeable future and that any additional space we may require will be available on commercially reasonable terms.
Legal Proceedings
We are not currently a party to any material legal proceedings. From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity, reputational harm and other factors.
MANAGEMENT

The following table sets forth information regarding our executive officers, key employees and directors, as of February 1, 2018:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position(s)</th>
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<tbody>
<tr>
<td><strong>Executive Officers</strong></td>
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<tr>
<td>Terry Rosen, Ph.D.</td>
<td>58</td>
<td>Chief Executive Officer and Director</td>
</tr>
<tr>
<td>Juan Carlos Jaen, Ph.D.</td>
<td>60</td>
<td>President and Director</td>
</tr>
<tr>
<td>Jennifer Jarrett</td>
<td>47</td>
<td>Chief Business Officer and Chief Financial Officer</td>
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<tr>
<td><strong>Key Employees</strong></td>
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<tr>
<td>Steven Chan</td>
<td>46</td>
<td>Vice President, Finance, Corporate Controller and Principal Accounting Officer</td>
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<tr>
<td>Joyson Joseph Karakunnel, M.D., M.Sc. FACP</td>
<td>47</td>
<td>Vice President, Clinical Development</td>
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<tr>
<td>Andrew Pennell, Ph.D.</td>
<td>52</td>
<td>Vice President, Preclinical Development</td>
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<tr>
<td>Jay P. Powers, Ph.D.</td>
<td>52</td>
<td>Senior Vice President, Drug Discovery</td>
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<tr>
<td>Ulrike Schindler, Ph.D.</td>
<td>59</td>
<td>Vice President, Biology</td>
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<tr>
<td>Tim Sullivan, Ph.D.</td>
<td>48</td>
<td>Vice President, Business Development</td>
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<tr>
<td>Nigel Walker, Ph.D.</td>
<td>62</td>
<td>Vice President, Protein Science</td>
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<tr>
<td>Steve Young, Ph.D.</td>
<td>49</td>
<td>Vice President, Technology</td>
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<tr>
<td><strong>Non-Employee Directors</strong></td>
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<td></td>
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<tr>
<td>David William Beier (1)(2)(3)</td>
<td>69</td>
<td>Director</td>
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<tr>
<td>Kathryn Falberg (1)(2)</td>
<td>57</td>
<td>Director</td>
</tr>
<tr>
<td>Yasunori Kaneko, M.D. (1)(2)(3)</td>
<td>64</td>
<td>Director</td>
</tr>
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</table>

(1) Member of the audit committee.
(2) Member of the compensation committee.
(3) Member of the nominating and corporate governance committee.

**Executive Officers**

Terry Rosen, Ph.D. is our co-founder and has served as our Chief Executive Officer since May 2015 and as a member of our board of directors since April 2015. He also served as the Chief Executive Officer of PACT Pharma, Inc. (PACT Pharma), a biopharmaceutical company, from November 2016 to December 2017. Immediately prior to the founding of our company, Dr. Rosen served briefly in April 2015 as the Chief Executive Officer of FLX Bio, Inc. (FLX Bio), a biopharmaceutical company that was spun-off by Flexus Biosciences, Inc. (Flexus), a biopharmaceutical company. Previously, Dr. Rosen co-founded (with Dr. Jaen) and served as the Chief Executive Officer of Flexus from October 2013 to April 2015, when it was acquired by Bristol-Myers Squibb. Prior to that, Dr. Rosen was at Amgen, Inc. (Amgen), a biopharmaceutical company, from August 2004 to January 2013 where he most recently served as Vice President of Therapeutic Discovery from November 2011 to January 2013. He also worked at Tularik Inc. (Tularik), a biopharmaceutical company, from October 1993 to August 2004 when it was acquired by Amgen, Pfizer Central Research, a biopharmaceutical company, from December 1987 to September 1993, and Abbott Laboratories, a health care company, from July 1985 to December 1987. Dr. Rosen serves on the board of trustees of the Salk Institute as well as on the board of trustees of the California Life Sciences Association. He also serves on the boards of Ideaya Biosciences, Inc., PACT Pharma and TUSK Therapeutics Ltd. Dr. Rosen holds a B.S. in Chemistry from the University of Michigan and a Ph.D. in Chemistry from the University of California, Berkeley. We believe that Dr. Rosen should serve as a director based on his position as one of our founders and as our Chief Executive Officer, his extensive experience in general management and business development and his experience in the field of biosciences.

Juan Carlos Jaen, Ph.D. is our co-founder and has served as our President since May 2015 and as a member of our board of directors since April 2015. He also served as the President of PACT Pharma, a biopharmaceutical
company, from November 2016 until December 2017. Immediately prior to the founding of our company, Dr. Jaen served briefly in April 2015 as the President of FLX Bio. Previously, Dr. Jaen co-founded (with Dr. Rosen) and served as the President and Head of Research and Development at Flexus from October 2013 to April 2015, when it was acquired by Bristol-Myers Squibb. Prior to that, Dr. Jaen served as Senior Vice President of Drug Discovery and as the Chief Scientific Officer of ChemoCentrx, Inc. (ChemoCentrx), a biopharmaceutical company, from 2007 to September 2013. From August 2004 to December 2006, Dr. Jaen was Vice President of Chemistry at Amgen and from 1996 to 2004, Dr. Jaen held positions as Director of Medicinal Chemistry and Vice President of Chemistry at Tularik. Prior to that, Dr. Jaen held several positions in drug discovery and program management, from 1983 to 1996, at the Parke-Davis Pharmaceutical Research division of Warner-Lambert Company, a pharmaceutical company. Dr. Jaen also serves on the board of directors of R2M Pharma, Inc., PACT Pharma, LakePharma, Inc. and the Bella Charitable Foundation. Dr. Jaen holds a B.S. in Chemistry from the Universidad Complutense de Madrid and a Ph.D. in Organic Chemistry from the University of Michigan. We believe that Dr. Jaen should serve as a director based on his position as one of our founders and as our President, his extensive experience in general management and business development and his experience in the field of biomedical research.

Jennifer Jarrett has served as our Chief Business Officer and Chief Financial Officer since March 2017. From April 2016 to September 2016, Ms. Jarrett was the Chief Financial Officer of Medivation, Inc., a biopharmaceutical company, which was acquired by Pfizer Inc. (Pfizer). Prior to that, Ms. Jarrett spent 20 years in investment banking, most recently as Managing Director at Citigroup from July 2010 to April 2016, where she was responsible for managing their west coast life sciences investment banking practice. Before that, Ms. Jarrett was a Director and Managing Director at Credit Suisse from 2000 to 2010, and an associate at Donaldson, Lufkin & Jenrette from 1998 to 2000. During her tenure as an investment banker, Ms. Jarrett covered biotechnology and pharmaceutical companies, primarily in the San Francisco Bay Area. She currently serves on the board of directors of Auden tes Therapeutics, Inc. and Arena Pharmaceuticals, Inc. Ms. Jarrett holds a B.A. in Economics, cum laude, from Dartmouth College and an M.B.A. from Stanford Graduate School of Business.

Key Employees

Steven Chan has served as our Vice President, Finance and Corporate Controller since April 2017 and our Principal Accounting Officer since December 2017. Before that, from November 2014 to March 2017, he served as the Vice President of Finance and Corporate Controller at MyoKardia, Inc., a biopharmaceutical company, where he helped lead the company to an initial public offering in 2015. He previously worked as the Vice President of Finance and Corporate Controller at Solta Medical, Inc., a medical device company, from 2010 to November 2014 and as the Vice President of Finance at Moody’s Analytics from 2007 to 2010. He started his career at KPMG. Mr. Chan received a B.S. in Business Administration from the University of California at Berkeley, Haas School of Business and is a Certified Public Accountant in California (inactive status).

Joyson Joseph Karakunnel, M.D., M.Sc., FACP has served as our Vice President, Clinical Development since April 2017. Dr. Karakunnel has also served as a Medical Director and Advisor of the Parker Institute for Cancer Immunotherapy since April 2017. Previously, Dr. Karakunnel served as a Director at MedImmune, LLC, a pharmaceutical company, from June 2013 to April 2017. Dr. Karakunnel has been an Associate Professor of Medicine at the Uniformed Services University of the Health Sciences from 2011 to April 2017. He previously worked as a hospitalist within the Johns Hopkins Health System from 2010 to February 2014, as a hematologic group team leader and attending physician in hematology and oncology within the Walter Reed National Military Medical Center from February 2010 to May 2013, and as an attending physician and investigator within the National Cancer Institute from 2008 to June 2013. He also worked for the Food and Drug Administration as a medical reviewer from 2007 to 2008. Dr. Karakunnel received a B.S. in Microbiology from the University of Miami. He received a medical degree from Annamalai University and completed his internal medicine residency at Overlook Hospital/University of Medicine and Dentistry of New Jersey, where he was subsequently the chief resident. He has completed fellowships in Hematology, Oncology, and Pain and Palliative Care at the NCI and has also received his M.S. in Pharmacology from the University of Maryland. He was elected to be a fellow in the American College of Physicians.
Andrew Pennell, Ph.D. has served as our Vice President, Preclinical Development since November 2016. From 2002 to November 2016, Dr. Pennell worked at ChemoCentrx, as the Director of Medicinal Chemistry from 2002 to 2007, as the Executive Director of Preclinical Drug Evaluation from 2007 to 2010, as the Senior Director of Preclinical Development from 2010 to July 2015 and, finally, as Director of Preclinical Development from July 2015 to November 2016. Between 1993 and 2002, Dr. Pennell held various scientific management positions, including those of Medicinal Chemistry Group Leader at GlaxoWellcome Inc., a biopharmaceutical company, from 1994 to 2000, and Director of Medicinal Chemistry at Genesoft Inc., a biotechnology company, from 2000 to 2002. Dr. Pennell received a B.Sc. (Hons) in Chemistry and a Ph.D. in Organic Chemistry from Imperial College London. He also worked as a postdoctoral scientist in the laboratories of Professor Gilbert Stork at Columbia University.

Jay P. Powers, Ph.D. served as our Vice President, Drug Discovery from January 2016 through December 2017 and has since served as our Senior Vice President, Drug Discovery. Before that, he served as the Vice President of Drug Discovery at FLX Bio, from April 2015 to November 2015. Previously, Dr. Powers served as the Vice President of Drug Discovery of Flexus, from November 2013 to April 2015, when it was acquired by Bristol-Myers Squibb. From May 2007 to November 2013, Dr. Powers worked at ChemoCentrx, as Director of Medicinal Chemistry from 2007 to 2010, Senior Director of Chemistry from 2010 to January 2013 and, lastly, as Vice President of Drug Discovery from January 2013 to November 2013. Dr. Powers also worked as a Scientific Director at Amgen from 2004 to 2007, Senior Research Investigator at Tularik, from 1998 to 2004, and as a Research Chemist at Abbott Laboratories from 1996 to 1998. Dr. Powers received a B.S. in Biochemistry and a Ph.D. in Chemistry from the University of Minnesota and completed postdoctoral studies in the laboratories of Professor Gilbert Stork at Columbia University.

Ulrike Schindler, Ph.D. has served as our Vice President, Biology since January 2016. Since January 2014, she consulted for non-profit research organizations such as the Max-Planck Institute and the Fraunhofer Society. Dr. Schindler was employed by Amgen from January 2001 to August 2013, with a wide range of responsibilities, including Head of Biologics as Executive Director at Amgen Inc., Executive Director of Amgen Research GmbH and Director of Regional Operations at Amgen Research GmbH. Dr. Schindler began her career in February 1993 at Tularik, where she worked as a postdoctoral fellow, a Scientist, and a Principal Investigator before moving to Tularik GmbH as Managing Director. Dr. Schindler received her B.S. in Biochemistry and her Ph.D. in Physical Chemistry, Genetics and Cell Biology from the University of Freiburg. She performed all practical work for her Ph.D. at the University of Pennsylvania, where she was employed as Visiting Scientist from 1987 to 1992.

Tim Sullivan, Ph.D. has served as our Vice President, Business Development since January 2017. Previously, Dr. Sullivan worked as a Senior Director of External Research & Development Innovation at Pfizer from June 2015 to January 2017. Before that, Dr. Sullivan worked as a Director of New Frontier Science at Takeda Pharmaceutical Company Ltd, a pharmaceutical company, from December 2012 to June 2015. Dr. Sullivan previously worked at ChemoCentrx, as a Principal Scientist from December 2007 to March 2010 and as the Director of Immunology from March 2010 to December 2012. He also worked at Amgen as a Senior Scientist, from August 2004 to March 2007, and as a Principal Scientist from March 2007 to November 2007. He previously worked as a Scientist at Tularik, from 2001 to 2004. Dr. Sullivan received a B.A. in Psychology from the University of Notre Dame and a Ph.D. in Molecular and Cellular Biology from the University of California, Berkeley.

Nigel Walker, Ph.D. has served as our Vice President, Protein Science since May 2016. Since November 2014, Dr. Walker has also served as the founder and principal of Molecular Consulting, LLC, a consulting company. Before his time with our company, Dr. Walker worked at Amgen as a Director of Research from 2004 to 2006, as a Scientific Executive Director from 2006 to March 2013, and finally as an Executive Director, Research from April 2013 to October 2014. Dr. Walker also worked as a Research Scientist at BASF AG from 1984 to 1998 and as the Director of Structural Biology at Tularik from 1998 to 2004. Dr. Walker received a B.Sc. (Hons) and a Ph.D. in Biochemistry from the University of Bristol.

Stephen Young, Ph.D. has served as our Vice President, Technology since March 2016. Prior to that, Dr. Young was the Vice President of Technology at FLX Bio from April 2015 to November 2015. Previously, Dr. Young was the Vice President of Technology at Flexus Biosciences from November 2013 to April 2015, when it was
acquired by Bristol-Myers Squibb. Dr. Young was previously the Executive Director of Lead Discovery and then of Discovery Technologies at Amgen from 2004 to July 2013. Before that, he was Director of Lead Discovery at Tularik from 2001 to 2004. Dr. Young also worked as the Head of High Throughput Screening at Roche U.K. from 1999 to 2001 and as a Senior Biologist from 1994 to 1999 at Glaxo Wellcome plc (now known as GlaxoSmithKline plc). He currently serves on the board of directors of the Society for Laboratory Automation and Screening. Dr. Young received a B.Sc. and a Ph.D. in Biochemistry from the University of Bristol and a diploma in Management from The Open University.

Non-Employee Directors

David William Beier has served as a member of our board of directors since December 2017. Mr. Beier has served as the Managing Director of Bay City Capital LLC, a venture capital firm, since May 2013. He served as Senior Vice President of Global Government Affairs at Amgen Inc., a biopharmaceutical company, from December 2003 to January 2013. Mr. Beier was at the law firm of Hogan & Hartson LLP (now Hogan Lovells LLP) from 2001 to 2003. Mr. Beier previously served in the White House as the Chief Domestic Policy Advisor to Vice President Al Gore during the Clinton Administration from May 1998 to January 2001. Mr. Beier received his J.D. from Albany Law School and his B.A. in History and Urban and Afro-American Studies from Colgate University. We believe Mr. Beier is able to make valuable contributions to our board of directors due to his extensive business experience as an executive in the pharmaceutical industry and his governmental experience.

Kathryn Falberg has served as a member of our board of directors since September 2017. She served as the Executive Vice President and Chief Financial Officer of Jazz Pharmaceuticals plc, a biopharmaceutical company, from March 2012 to March 2014, after serving as its Senior Vice President and Chief Financial Officer since December 2009. From 2001 through 2009, Ms. Falberg worked with a number of smaller companies while serving as a corporate director and audit committee chair for several companies. From 1995 to 2001, Ms. Falberg was with Amgen, where she served as Senior Vice President, Finance and Strategy, and Chief Financial Officer and prior to that as Vice President, Chief Accounting Officer, and Vice President, Treasurer. Ms. Falberg holds an M.B.A. in Finance and B.A. in Economics from the University of California, Los Angeles and is an inactive certified public accountant. Ms. Falberg also serves as a member of the boards of directors of biopharmaceutical companies Aimmune Therapeutics, Inc. and Urogen Pharma Ltd., and a technology company, The Trade Desk, Inc. Ms. Falberg previously served on the boards of directors of Axovant Sciences, Ltd., BioMarin Pharmaceutical Inc., Medivation Inc., Halozyme Therapeutics, Inc., aTyr Pharma, Inc., and multiple other companies. We believe Ms. Falberg is able to make valuable contributions to our board of directors due to her extensive business experience as an executive in the pharmaceutical industry and her service as a director and audit committee member of various other companies.

Yasunori Kaneko, M.D. has served as a member of our board of directors since May 2015. Dr. Kaneko has been a Managing Director at Skyline Venture Partners, L.P., a venture capital firm, since January 1999. Previously, Dr. Kaneko served on the board of LeukoSite Inc., a biopharmaceutical company, until its merger with Millennium Pharmaceuticals, Inc. in 1999. Dr. Kaneko also served as Chief Financial Officer and Vice President, Business Development at Tularik, a biopharmaceutical company, at various times from 1992 until 1999. Dr. Kaneko served as a Senior Vice President and Chief Financial Officer of Ionis Pharmaceuticals, Inc., a pharmaceutical company, which went public in May 1991 during his tenure from 1991 to 1992. Dr. Kaneko began his career at Genentech, Inc., a biotechnology company, where he served in a business development role, from 1981 to 1987 and as head of corporate finance in the investment banking division of Paribas Capital Markets LTD, from 1987 to 1991. Dr. Kaneko received an undergraduate degree and a medical degree from Keio University in Tokyo, and an M.B.A. from Stanford Graduate School of Business. We believe Dr. Kaneko is able to make valuable contributions to our board of directors due to his educational background in medicine, as well as his experience in the life science, pharmaceutical and related financial industries.

Family Relationships

There are no family relationships among any of our directors or executive officers.
**Director Independence**

We have applied to have our common stock listed on the New York Stock Exchange. Our board of directors has determined that none of our non-employee directors has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is “independent” as that term is defined under the rules of the New York Stock Exchange.

Audit committee members must also satisfy the independence rules in Securities and Exchange Commission (SEC) Rule 10A-3 adopted under the Securities Exchange Act of 1934, as amended (Exchange Act). In order to be considered independent for purposes of Rule 10A-3, a member of an audit committee of a public company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: accept, directly or indirectly, any consulting, advisory or other compensatory fee from the listed company or any of its subsidiaries, or be an affiliated person of the listed company or any of its subsidiaries. Each of Mr. Beier, Ms. Falberg and Dr. Kaneko qualify as an independent director pursuant to Rule 10A-3. We also intend to satisfy the audit committee independence requirement of the New York Stock Exchange.

Our board of directors has appointed Dr. Kaneko to serve as our lead independent director. As lead independent director, Dr. Kaneko presides over periodic meetings of our independent directors, serves as a liaison between our Chief Executive Officer and the independent directors and performs such additional duties as our board of directors may otherwise determine and delegate.

**Board Composition**

Our board of directors currently consists of five members, who were elected pursuant to the amended and restated voting agreement that we entered into with certain holders of our common stock and certain holders of our preferred stock and the related provisions of our amended and restated certificate of incorporation.

The provisions of this voting agreement will terminate upon the completion of this offering, after which there will be no further contractual obligations regarding the election of our directors. Our directors hold office until their successors have been elected and qualified or appointed, or the earlier of their death, resignation or removal.

Immediately after the completion of this offering, our board of directors will be divided into three classes with staggered three-year terms. At each annual meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Our directors will be divided among the three classes as follows:

- the Class I director will be Dr. Kaneko, and his term will expire at the annual meeting of stockholders to be held in 2019;
- the Class II directors will be Mr. Beier and Dr. Jaen, and their terms will expire at the annual meeting of stockholders to be held in 2020; and
- the Class III directors will be Ms. Falberg and Dr. Rosen, and their terms will expire at the annual meeting of stockholders to be held in 2021.

Directors in a particular class will be elected for three-year terms at the annual meeting of stockholders in the year in which their terms expire. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Each director’s term continues until the election and qualification of his or her successor, or the earlier of his or her death, resignation or removal.

Our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect upon the completion of this offering provide that only our board of directors can fill vacant directorships, including newly-created seats. Any additional directorships resulting from an increase in the authorized number of directors would be distributed pro rata among the three classes so that, as nearly as possible, each class would consist of one-third of the authorized number of directors.
The classification of our board of directors may have the effect of delaying or preventing changes in our control or management. See “Description of Capital Stock—Anti-Takeover Provisions—Certificate of Incorporation and Bylaw Provisions.”

Board Oversight of Risk

One of the key functions of our board of directors is informed oversight of our risk management process. In particular, our board of directors is responsible for monitoring and assessing strategic risk exposure. Our executive officers are responsible for the day-to-day management of the material risks we face. Our board of directors administers its oversight function directly as a whole. Our board of directors will also administer its oversight through various standing committees, which will be constituted prior to the completion of this offering, that address risks inherent in their respective areas of oversight. For example, our audit committee will be responsible for overseeing the management of risks associated with our financial reporting, accounting and auditing matters; our compensation committee will oversee the management of risks associated with our compensation policies and programs; and our nominating and corporate governance committee will oversee the management of risks associated with director independence, conflicts of interest, composition and organization of our board of directors and director succession planning.

Board Committees

Our board of directors established an audit committee, a compensation committee and a nominating and corporate governance committee, in each case effective upon our becoming a public reporting company under the Exchange Act. Our board of directors may establish other committees to facilitate the management of our business. Our board of directors and its committees will set schedules for meeting throughout the year and can also hold special meetings and act by written consent from time to time, as appropriate. Our board of directors expects to delegate various responsibilities and authority to committees as generally described below. The committees will regularly report on their activities and actions to the full board of directors. Each member of each committee of our board of directors will qualify as an independent director in accordance with the listing standards of the New York Stock Exchange. Each committee of our board of directors will have a written charter approved by our board of directors. Upon the completion of this offering, copies of each charter will be posted on our website at www.arcusbio.com under the Investor Relations section. The inclusion of our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus. Members will serve on these committees until their resignation or until otherwise determined by our board of directors.

Audit Committee

The members of our audit committee are Mr. Beier, Ms. Falberg and Dr. Kaneko, each of whom can read and understand fundamental financial statements. Each member of our audit committee is independent under the rules and regulations of the SEC and the listing standards of the New York Stock Exchange applicable to audit committee members. Ms. Falberg is the chair of the audit committee. Our board of directors has determined that each of Ms. Falberg and Dr. Kaneko qualify as an audit committee financial expert within the meaning of SEC regulations and meet the financial sophistication requirements of the New York Stock Exchange.

Our audit committee will assist our board of directors with its oversight of the integrity of our consolidated financial statements; our compliance with legal and regulatory requirements; the qualifications, independence and performance of the independent registered public accounting firm; the design and implementation of our financial risk assessment and risk management. Among other things, our audit committee is responsible for reviewing and discussing with our management the adequacy and effectiveness of our disclosure controls and procedures. The audit committee also will discuss with our management and independent registered public accounting firm the annual audit plan and scope of audit activities, scope and timing of the annual audit of our consolidated financial statements, and the results of the audit, quarterly reviews of our consolidated financial statements and, as appropriate, initiates inquiries into certain aspects of our financial affairs. Our audit
committee is responsible for establishing and overseeing procedures for the receipt, retention and treatment of any complaints regarding accounting, internal accounting controls or auditing matters, as well as for the confidential and anonymous submissions by our employees of concerns regarding questionable accounting or auditing matters. In addition, our audit committee has direct responsibility for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm. Our audit committee has sole authority to approve the hiring and discharging of our independent registered public accounting firm, all audit engagement terms and fees and all permissible non-audit engagements with the independent auditor. Our audit committee will review and oversee all related person transactions in accordance with our policies and procedures.

Compensation Committee

The members of our compensation committee are Mr. Beier, Ms. Falberg and Dr. Kaneko. Dr. Kaneko is the chair of the compensation committee. Each member of our compensation committee is independent under the rules and regulations of the SEC and the listing standards of the New York Stock Exchange applicable to compensation committee members. Our compensation committee will assist our board of directors with its oversight of the forms and amount of compensation for our executive officers (including officers reporting under Section 16 of the Securities Exchange Act of 1934, as amended), the administration of our equity and non-equity incentive plans for employees and other service providers and certain other matters related to our compensation programs. Our compensation committee, among other responsibilities, evaluates the performance of our chief executive officer and, in consultation with him, evaluates the performance of our other executive officers (including officers reporting under Section 16 of the Exchange Act).

Nominating and Corporate Governance Committee

The members of our nominating and corporate governance committee are Mr. Beier and Dr. Kaneko. Mr. Beier is the chair of the nominating and corporate governance committee. Each member of our nominating and governance committee is independent under the rules and regulations of the SEC and the listing standards of the New York Stock Exchange, applicable to nominating and governance committee members. Our nominating and corporate governance committee will assist our board of directors with its oversight of and identification of individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors, and selects, or recommends that our board of directors selects, director nominees; develops and recommends to our board of directors a set of corporate governance guidelines and oversees the evaluation of our board of directors.

Code of Conduct

Our board of directors will adopt a Code of Conduct (the Code) prior to the completion of this offering. The Code will apply to all of our employees and directors. Upon the completion of this offering, the full text of the Code will be posted on our website at www.arcusbio.com under the Investor Relations section. We intend to disclose future amendments to, or waivers of, the Code, as and to the extent required by SEC regulations, at the same location on our website identified above or in public filings. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus or in deciding whether to purchase shares of our common stock.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended December 31, 2017, our board of directors did not have a compensation committee or a separate committee performing equivalent functions. All members of our board of directors, including our Chief Executive Officer, Terry Rosen, Ph.D., and our President, Juan Carlos Jaen, Ph.D., participated in deliberations of our board of directors concerning executive officer compensation. During the fiscal year ended December 31, 2017, Dr. Rosen and Dr. Jaen served as executive officers and directors of both our company and PACT Pharma. Outside of the relationships set forth in the prior sentence, none of our executive officers serves,
or served during the fiscal year ended December 31, 2017, as a member of the board of directors or compensation committee of any other entity that has or has had one or more executive officers serving as a member of our board of directors. The son of Terry Rosen, Ph.D., our Chief Executive Officer and member of our board of directors, has been employed by us as a Senior Scientist, and previously as a Scientist, since February 2016. For the year ended December 31, 2017, he earned approximately $120,000 in annual salary and other cash compensation, was granted an option to purchase 7,000 shares of common stock with an exercise price of $0.31 per share and received other benefits consistent with other employees serving in the same capacity. Each of Dr. Rosen, Dr. Jaen, Dr. Kaneko, and Ms. Falberg may be deemed to have an interest in certain transactions requiring disclosure under Item 404 of Regulation S-K under the Securities Act of 1933, as amended, or the Securities Act, that are disclosed in “Certain Relationships and Related Party Transactions,” which disclosure is hereby incorporated by reference in this section.

**Director Compensation**

Commencing on April 1, 2017, with respect to Dr. Kaneko, on October 1, 2017, with respect to Ms. Falberg, and on January 1, 2018, with respect to Mr. Beier, and pursuant to letter agreements with each of them, we paid our non-employee directors an annual retainer of $50,000 for their service, payable quarterly in arrears. However, we will approve a non-employee director compensation program that will become effective on the date of this offering, described below. Upon the effective date of this offering, the letter agreements with each of our non-employee directors will be terminated. A non-employee director is a director who is not employed by us and who does not receive compensation from us or have a business relationship with us that would require disclosure under certain SEC rules. We also have a policy of reimbursing all of our non-employee directors for their reasonable out of pocket expenses in connection with attending board of directors and committee meetings.

On July 31, 2015, Dr. Kaneko was granted an option to purchase 12,626 shares of our common stock at an exercise price of $0.40 per share. Dr. Kaneko subsequently exercised such option, with the unvested shares remaining subject to our right of repurchase upon termination of his service. Such repurchase right lapses in 48 substantially equal monthly installments following the completion by Dr. Kaneko of each month of continuous service following May 21, 2015.

On March 15, 2017, Dr. Kaneko was granted an option to purchase 18,939 shares of our common stock at an exercise price of $1.23 per share. Dr. Kaneko subsequently exercised such option, with the unvested shares remaining subject to our right of repurchase upon termination of his service. Such repurchase right lapses in 48 substantially equal monthly installments following the completion by Dr. Kaneko of each month of continuous service following March 14, 2017.

On September 19, 2017, Dr. Kaneko was granted an option to purchase 6,313 shares of our common stock, and Ms. Falberg was granted an option to purchase 25,252 shares of our common stock, in each case at an exercise price of $2.58 per share. Each director subsequently exercised such option, with the unvested shares remaining subject to our right of repurchase upon termination of service. Such repurchase right lapses in 48 substantially equal monthly installments following the completion by the director of each month of continuous service following September 14, 2017.

On January 4, 2018, Dr. Kaneko was granted an option to purchase 25,252 shares of our common stock, Ms. Falberg was granted an option to purchase 25,252 shares of our common stock, and Mr. Beier was granted an option to purchase 50,505 shares of our common stock, in each case at an exercise price of $5.39 per share. Each director subsequently exercised such option, with the unvested shares remaining subject to our right of repurchase upon termination of service. Such repurchase right lapses in 48 substantially equal monthly installments following the completion by the director of each month of continuous service following January 1, 2018.

Our repurchase right with respect to the shares held by our non-employee directors lapses in full if we are subject to a change in control (as defined in “Executive Compensation—Severance and Change in Control Benefits”) prior to the termination of such director’s service.
The following table sets forth information about the compensation of the non-employee members of our board of directors who served as a director during the year ended December 31, 2017. During our 2017 fiscal year, we did not pay any cash fees, make any equity or non-equity awards, or pay any other compensation to Drs. Rosen and Jaen other than in their capacities as our Chief Executive Officer and President, respectively, and thus they are not included in the table below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Fees Earned or Paid in Cash ($)</th>
<th>Option Awards ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kathryn Falberg</td>
<td>12,500</td>
<td>41,750</td>
<td>54,250</td>
</tr>
<tr>
<td>Yasunori Kaneko, M.D.</td>
<td>37,500</td>
<td>43,671</td>
<td>81,171</td>
</tr>
</tbody>
</table>

(1) The amounts shown in this column represent the aggregate amounts of all fees earned or paid in cash for services as a director in 2017 as discussed above.
(2) The amounts in this column represent the aggregate grant date fair value of option awards granted to the director in fiscal year 2017 computed in accordance with FASB ASC Topic 718. See Note 9 to our consolidated financial statements included elsewhere in this prospectus for a discussion of the assumptions made by us in determining the grant date fair value of our equity awards. Amount consists of: (i) $41,750 with respect to the option granted to Ms. Falberg on September 19, 2017; and (ii) $33,233 with respect to the option granted to Dr. Kaneko on March 15, 2017, and $10,438 with respect to the option granted to Dr. Kaneko on September 19, 2017.

Both of Ms. Falberg and Dr. Kaneko have fully exercised their options and now hold restricted shares of our common stock. Such shares are subject to our right of repurchase, which right lapses in accordance with the vesting schedules described above. As a result, as of December 31, 2017, Ms. Falberg held 23,674 restricted shares of our common stock subject to the right of repurchase, and Dr. Kaneko held an aggregate of 25,796 restricted shares of our common stock subject to the right of repurchase. As of December 31, 2017, none of our non-employee directors held options to purchase shares of our common stock.

Under our non-employee director compensation program, non-employee directors will receive the compensation set forth below, and an annual stock option grant to be granted at our annual meeting of stockholders beginning in 2019. Each such option will vest in full following the completion of 12 months of continuous service following the grant date, provided that such option will become fully vested on the date of our next annual stockholder meeting following the date of grant. In addition, new non-employee directors will also be eligible for an initial stock option grant to be granted at our first board of directors meeting occurring on or following such director’s initial election to our board of directors. Such option will vest in equal monthly installments over 36 months of continuous service following the director’s election to our board of directors. Further, each option held by a non-employee director will become fully vested if we are subject to a change in control prior to the termination of a director’s service.

After the completion of this offering, each non-employee director will be eligible to receive compensation for service on our board of directors or committees thereof consisting of annual cash retainers, paid quarterly in arrears, as follows:

<table>
<thead>
<tr>
<th>Position</th>
<th>Retainer ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Member</td>
<td>35,000</td>
</tr>
<tr>
<td>Lead Independent Director</td>
<td>3,500</td>
</tr>
<tr>
<td>Audit Committee Chair</td>
<td>15,000</td>
</tr>
<tr>
<td>Compensation Committee Chair</td>
<td>10,000</td>
</tr>
<tr>
<td>Nominating and Corporate Governance Committee Chair</td>
<td>8,000</td>
</tr>
<tr>
<td>Audit Committee Member</td>
<td>7,500</td>
</tr>
<tr>
<td>Compensation Committee Member</td>
<td>5,000</td>
</tr>
<tr>
<td>Nominating and Corporate Governance Committee Member</td>
<td>4,000</td>
</tr>
</tbody>
</table>
EXECUTIVE COMPENSATION

Summary Compensation Table

The following table shows information regarding the compensation of our named executive officers for services performed in our fiscal year ended December 31, 2017.

<table>
<thead>
<tr>
<th>Name and principal position</th>
<th>Year</th>
<th>Salary ($)</th>
<th>Option Awards (1) ($)</th>
<th>Non-equity Incentive Plan Compensation ($)</th>
<th>All Other Compensation ($) (4)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terry Rosen, Ph.D., Chief Executive Officer and Director</td>
<td>2017</td>
<td>314,780(2)</td>
<td>110,775(3)</td>
<td>—</td>
<td>1,200</td>
<td>426,755</td>
</tr>
<tr>
<td>Juan Carlos Jaen, Ph.D., President and Director</td>
<td>2017</td>
<td>350,000</td>
<td>110,775(3)</td>
<td>—</td>
<td>1,200</td>
<td>461,975</td>
</tr>
<tr>
<td>Jennifer Jarrett, Chief Business Officer and Chief Financial Officer</td>
<td>2017</td>
<td>333,333</td>
<td>460,824(5)</td>
<td>100,000(6)</td>
<td>900</td>
<td>895,057</td>
</tr>
</tbody>
</table>

(1) Represents the aggregate grant date fair value of option awards granted to the officer in the applicable fiscal year, computed in accordance with FASB ASC Topic 718. See Note 9 to our consolidated financial statements included elsewhere in this prospectus for a discussion of the assumptions made by us in determining the grant date fair value of our equity awards.

(2) Dr. Rosen voluntarily agreed to reduce his salary by $35,220 to fund an employee meal program.

(3) Represents an option to purchase 63,131 shares of our common stock with an exercise price of $1.23 per share granted on March 15, 2017. Such option was exercised by the officer. Our right of repurchase with respect to the acquired shares acquired lapses over four years of service following March 1, 2017, in 48 substantially equal monthly installments, and lapses in full in certain circumstances, as described under “Severance and Change in Control Benefits” below.

(4) Reflects quarterly payment of $300 made to all employees to be used for wellness or commuter expenses.

(5) Represents an option to purchase 262,625 shares of our common stock with an exercise price of $1.23 per share granted on March 15, 2017. Such option vests in 48 substantially equal monthly installments following the completion of each month of continuous service provided by Ms. Jarrett following March 1, 2017. Such option may vest on an accelerated basis, as described under “Severance and Change in Control Benefits” below.

(6) Ms. Jarrett was eligible to earn an incentive bonus of $100,000 based on achievement of certain objectives including completion of the Company’s Series C Preferred Stock financing and first financial audit.

Narrative Explanation of Compensation Arrangements with our Named Executive Officers

The base salaries of all of our named executive officers are reviewed from time to time and adjusted when our board of directors or compensation committee determines an adjustment is appropriate. For our 2017 fiscal year, the base salary for Dr. Rosen was $314,780, $350,000 for Dr. Jaen and $400,000 for Ms. Jarrett.

On March 15, 2017, Ms. Jarrett was granted a stock option to purchase 262,625 shares of our common stock at an exercise price of $1.23 per share. Such option vests in 48 substantially equal monthly installments following the completion of each month of continuous service provided by Ms. Jarrett following March 1, 2017.

Pursuant to their amended and restated letter agreements with us, each of Drs. Rosen and Jaen and Ms. Jarrett is eligible to receive certain benefits if the officer’s employment is terminated under certain circumstances, as described in the footnotes to the “Outstanding Equity Awards at 2017 Fiscal Year-End” table and under “Severance and Change in Control Benefits” below.

Material Compensation Developments Occurring After 2017 Fiscal Year End

On January 4, 2018, we granted an option to purchase 126,262 shares of our common stock to each of Drs. Rosen and Jaen and to Ms. Jarrett, at an exercise price of $5.39 per share. Dr. Rosen and Dr. Jaen subsequently exercised their options, with the unvested shares remaining subject to our right of repurchase upon termination of
service. Such repurchase right lapses in 48 substantially equal monthly installments following completion of each month of continuous service after January 1, 2018. Ms. Jarrett’s option vests in 48 substantially equal monthly installments following January 1, 2018, subject to her continuous service through each such vesting date.

In February 2018, we entered into amended and restated letter agreements with each of our executive officers. Pursuant to such letter agreements, and effective January 1, 2018, the base salary for Dr. Rosen is $295,000, $350,000 for Dr. Jaen and $420,000 for Ms. Jarrett.

Our executive officers will also be eligible to participate in incentive bonus programs established by the Company. For our 2018 fiscal year, Ms. Jarrett will be eligible to earn an incentive bonus of up to $200,000. Such bonus will be earned based on achievement against certain 2018 corporate goals, including corporate financing objectives (such as completion of this offering), refining the Company’s commercialization strategy and business development objectives.

**Employee Benefits and Perquisites**

Our named executive officers are eligible to participate in our health and welfare plans to the same extent as are all full-time employees generally. We generally do not provide our named executive officers with perquisites or other personal benefits.

Dr. Rosen, as noted above, personally funds an employee meal program.

**Retirement Benefits**

We have established a 401(k) tax-deferred savings plan, which permits participants, including our named executive officers, to make contributions by salary deduction pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. We are responsible for administrative costs of the 401(k) plan. We may, at our discretion, make matching or profit sharing contributions to the 401(k) plan. No employer contributions have been made to date.

**Equity Compensation**

We offer stock options and restricted shares to our named executive officers as the long-term incentive component of our compensation program. We typically grant equity awards to new hires upon their commencing employment with us. Stock options allow employees to purchase shares of our common stock at a price per share at least equal to the fair market value of our common stock on the date of grant and may or may not be intended to qualify as “incentive stock options” for U.S. federal income tax purposes. In the past, our board of directors has determined the fair market value of our common stock based upon inputs including valuation reports prepared by third-party valuation firms. Generally, our equity awards vest over four years, subject to the employee’s continued employment with us on each vesting date.

As described in the footnotes to the “Outstanding Equity Awards at 2017 Fiscal Year-End” table and under “Severance and Change in Control Benefits” below, equity awards granted to our named executive officers are subject to accelerated vesting in the event such officer is subject to an involuntary termination. In addition, in December 2017, our Board of Directors approved a policy whereby the vesting of all options held by then-current employees will accelerate in the event of certain involuntary terminations of employment in connection with or following our change in control (as defined below under “Severance and Change in Control Benefits”), subject to such employee’s execution and nonrevocation of a general release of claims against us and certain related parties.

**Outstanding Equity Awards at 2017 Fiscal Year-End**

The following table provides information regarding each unexercised option and all unvested stock held by each of our named executive officers as of December 31, 2017.
The vesting schedule applicable to each outstanding award is described in the footnotes to the table below.

Options granted to our named executive officers are immediately exercisable with respect to all of the option shares, subject to our repurchase right in the event that the executive’s service terminates before vesting in such shares.

### Option Awards

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Securities Underlying Unexercised Options (#) Vested</th>
<th>Number of Securities Underlying Unexercised Options (#) Unvested</th>
<th>Option Exercise Price ($)</th>
<th>Option Expiration Date</th>
<th>Number of Shares Or Units of Stock That Have Not Vested (#)</th>
<th>Market Value of Shares Or Units Of Stock That Have Not Vested(*) ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terry Rosen, Ph.D.</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>491,903(1)(2)</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>51,296(2)(3)</td>
<td>—</td>
</tr>
<tr>
<td>Juan Carlos Jaen, Ph.D.</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>491,903(1)(2)</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>51,296(2)(3)</td>
<td>—</td>
</tr>
<tr>
<td>Jennifer Jarrett</td>
<td>49,239(4)</td>
<td>213,386(5)</td>
<td>$1.23</td>
<td>3/14/2027</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

* Market value is based on the fair market value of our common stock on December 31, 2017. As there was no public market for our common stock on December 31, 2017, we have assumed that the fair market value on such date was $14.00, which represents the midpoint of the range set forth on the cover page of this prospectus.

(1) Represents the unvested portion of 1,388,888 restricted shares acquired by the officer on May 8, 2015, at a purchase price of $0.000396 per share. Our right of repurchase lapses in 48 substantially equal monthly installments ending on May 1, 2019, provided the officer remains in our continuous service through each such vesting date.

(2) If the officer is either terminated by us without cause or voluntarily resigns for certain good reasons, in either case in connection with, or following, our change in control, and subject to the officer’s execution and non-revocation of a general release of claims, our right of repurchase will lapse in full.

(3) Represents the unvested portion of 63,131 restricted shares of our common stock acquired by the officer upon exercise of an option granted on March 15, 2017. Our right of repurchase lapses in 48 substantially equal monthly installments ending on April 30, 2021, provided the officer remains in our continuous service through each such vesting date.

(4) Represents an option to purchase 262,625 shares of our common stock granted on March 15, 2017. Such option vests in 48 substantially equal monthly installments ending on February 28, 2021, provided the officer remains in our continuous service through each such vesting date.

(5) If the officer is either terminated by us without cause or voluntarily resigns for certain good reasons, in either case in connection with, or following, our change in control, and subject to the officer’s execution and non-revocation of a general release of claims, such options may vest on an accelerated basis.

### Severance and Change in Control Benefits

Pursuant to agreements entered into with each of Drs. Rosen and Jaen, and Ms. Jarrett, if we terminate the respective officer’s employment for reasons other than cause, or if the officer voluntarily resigns for certain good reasons (which we refer to collectively as an involuntary termination), then the officer will be eligible to receive, contingent on returning all of our property in the officer’s possession, executing and not revoking a general release of claims against us and certain related parties, and resigning as a member of our board of directors, continued payment of base salary for a six-month period, at the rate in effect at the time of termination (but without giving effect to any reduction triggering a resignation for good reason).

Cause means the officer’s:

- willful failure to substantially perform his or her material duties and responsibilities after having received written notice and at least 30 days to remedy such failure;
- conviction of, or plea of no contest to, a felony;
- commission of any act of fraud, misappropriation or embezzlement against us;
• material breach of any confidentiality, invention assignment or proprietary information agreement with us; or
• willful failure to comply in any material respect with our lawful written policies of general applicability that have been communicated to the officer.

Good reason means a resignation of employment within two years after one of the following conditions has come into existence without the officer’s consent, which remains uncured more than 30 days after delivery of notice to us of such condition within 30 days following the initial existence of such condition:

• a material adverse change in the officer’s position causing such position to be of materially reduced stature or responsibility;
• a reduction in base salary compensation or other benefits; or
• a required relocation of the officer’s work facility or location by more than 25 miles.

Drs. Rosen and Jaen and Ms. Jarrett are also eligible to receive full vesting of all existing and future equity compensation awards; a lump-sum cash amount equal to his or her target bonus for the fiscal year in which such termination occurs, prorated for the number of days that he or she was employed during such year; and payment of healthcare continuation premiums under COBRA for six months; plus the continued base salary payments described above, in the event of an involuntary termination in connection with or following our change in control, subject to the conditions described above with respect to severance benefits.

Change in control means certain mergers or consolidations of us with or into another entity; a sale, conveyance or other disposition of all or substantially all of our assets, property or business; or the acquisition by any person or persons acting as a group of beneficial ownership (or a right to acquire beneficial ownership) of shares representing a majority of the voting power of the then-outstanding shares of our capital stock.

Equity Plans

2018 Equity Incentive Plan

General. Our board of directors adopted the 2018 Equity Incentive Plan (2018 Plan) in February 2018 and we expect it to be approved by our stockholders prior to the completion of this offering. The 2018 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights or other equity-based awards. Awards may be granted under the 2018 Plan beginning on the effective date of the registration statement to which this prospectus is a part. The 2018 Plan will replace our 2015 Stock Plan (2015 Plan); however, awards outstanding under the 2015 Plan will continue to be governed by their existing terms.

Share Reserve. The number of shares of our common stock reserved for issuance under the 2018 Plan is equal to 3,570,000 shares plus up to 3,066,870 shares remaining available for issuance under our 2015 Plan or subject to awards outstanding under our 2015 Plan that subsequently expire, lapse unexercised or are forfeited to or repurchased by us. The number of shares reserved for issuance under our 2018 Plan will automatically increase on the first day of each of our fiscal years during the term of the 2018 Plan, by a number equal to the smallest of (i) 3,570,000 shares, (ii) 4% of the shares of common stock outstanding on the last business day of the prior fiscal year or (iii) the number of shares determined by our board of directors.

In general, if awards granted under the 2018 Plan are forfeited, cancelled, repurchased or expire, if an award is settled in cash or if shares subject to an award are applied to the exercise price or tax withholding obligations related to the award, the corresponding shares will be available for future issuance under our 2018 Plan.

Administration. The 2018 Plan will be administered by our board of directors or one or more committees to which our board of directors delegates such administration (as applicable, the administrator). Subject to the terms
of the 2018 Plan, the administrator has the complete discretion to determine the eligible individuals who are to receive awards under the plan, to determine the terms and conditions of awards granted under the 2018 Plan and to make all decisions related to the 2018 Plan and awards granted thereunder. Our board of directors has delegated full authority to administer the 2018 Plan to its compensation committee.

**Eligibility.** Employees, non-employee directors and consultants are eligible to participate in the 2018 Plan. However, only employees are eligible to receive incentive stock options.

**Stock Options and Stock Appreciation Rights.** The exercise price of stock options and stock appreciation rights (SARs) granted under the 2018 Plan may not be less than 100% of the fair market value of our common stock on the date of grant. Subject to limited exceptions, options and SARs may have a maximum term of up to 10 years and will generally expire sooner if the optionee’s service terminates. The vesting schedule of each option and SAR is determined by the administrator, however, in general, we grant options that vest over four years. An optionee may pay the exercise price of an option in cash, or, with the administrator’s consent, with shares of common stock the optionee already owns, with proceeds from an immediate sale of the option shares through a broker approved by us, through a net exercise procedure or by any other method permitted by applicable law. The administrator has full authority to reprice (reduce the exercise price of) options and stock appreciation rights or to approve programs in which options and stock appreciation rights are exchanged for cash or other equity awards on terms the administrator determines.

**Restricted Stock and Restricted Stock Units.** Restricted stock may be awarded under the 2018 Plan for such consideration as the administrator determines, including cash or services provided to us. Typically no payment is required in connection with the grant of restricted stock units. Each award of restricted stock or restricted stock units may or may not be subject to vesting and vesting, if any, shall occur upon the satisfaction of the conditions specified by the administrator. Settlement of vested restricted stock units may be made in the form of cash, common stock or a combination of both.

**Certain Limitations.** No more than 6,636,870 shares may be issued under the 2018 Plan upon exercise of incentive stock options.

**Transferability of Awards.** Unless the administrator determines otherwise, an award generally will not be transferable other than by beneficiary designation, a will or the laws of descent and distribution.

**Corporate Transactions.** If we are party to a merger or certain change in control transactions, each outstanding award will be treated as described in the definitive transaction agreement or as the administrator determines, which may include the continuation, assumption or substitution of an outstanding equity award, the cancellation of an outstanding equity award after an opportunity to exercise or the cancellation of an outstanding equity award in exchange for a payment equal to the value of the shares subject to such award less any applicable exercise price. In general, if an equity award held by a participant who remains in service at the effective time of a change in control transaction is not continued, assumed or substituted, then the award will vest in full.

**Changes in Capitalization.** In the event of certain changes in our capitalization, including a stock split, reverse stock split or stock dividend, proportionate adjustments will be made in the number and kind of shares available for issuance under the 2018 Plan and the number and kind of shares subject to each outstanding award and/or the exercise price of outstanding award.

**Amendment or Termination.** The administrator may amend or terminate the 2018 Plan at any time. Any such amendment or termination will not affect outstanding awards. If not sooner terminated, the 2018 Plan will terminate automatically in 2028. Shareholder approval is not required for any amendment of the 2018 Plan, unless required by applicable law.
Amended and Restated 2015 Stock Plan

General. Our board of directors adopted our Amended and Restated 2015 Stock Plan (our 2015 Plan) in May 2015, and it was approved by our stockholders. The most recent amendment of our 2015 Plan was adopted by our board of directors in November 2017 and was subsequently approved by our stockholders. No further awards will be made under the 2015 Plan after this offering; however, awards outstanding under the 2015 Plan will continue to be governed by their existing terms.

Share Reserve. As of December 31, 2017, we have reserved 3,697,334 shares of our common stock for issuance under the 2015 Plan, all of which may be issued as incentive stock options. As of December 31, 2017, options to purchase 536,541 shares of common stock, at exercise prices ranging from $0.40 to $5.39 per share, or a weighted-average exercise price of $1.71 per share were outstanding under the 2015 Plan, and 1,855,240 shares of common stock remained available for future issuance. Unissued shares subject to awards that expire or are cancelled, shares reacquired by us and shares withheld in payment of the purchase price or exercise price of an award or in satisfaction of withholding taxes will again become available for issuance under the 2015 Plan or, following consummation of this offering, under our 2018 Equity Incentive Plan.

Administration. Our board of directors has administered the 2015 Plan since its adoption; however, following this offering, the compensation committee of our board of directors will generally administer the 2015 Plan. The administrator has complete discretion to make all decisions relating to the 2015 Plan and outstanding awards.

Eligibility. Employees, non-employee members of our board of directors and consultants are eligible to participate in the 2015 Plan. However, only employees are eligible to receive incentive stock options.

Types of Awards. The 2015 Plan provides for the grant of options to purchase shares of our common stock and the direct grant or sale of shares of our common stock. The 2015 Plan allows for the grant of both incentive and nonstatutory stock options.

Options. The exercise price of options granted under the 2015 Plan may not be less than 100% of the fair market value of our common stock on the grant date. Optionees may pay the exercise price in cash or cash equivalents or by one, or any combination of, the following forms of payment, as permitted by the administrator in its sole discretion:

- By delivery of a full-recourse promissory note, with the option shares pledged as security against the principal and accrued interest on the note;
- By surrender of shares of common stock that the optionee already owns;
- By an immediate sale through a company-approved broker of the option shares, if shares of our common stock are publicly traded;
- By surrendering a number of vested shares subject to the option having an aggregate fair market value no greater than the aggregate exercise price, or the sum of such exercise price plus all or a portion of the minimum amount required to be withheld under applicable law; or
- By other methods permitted by applicable law.

Options vest as determined by the administrator. In general, we have granted options that vest over a four-year period. Options expire at the time determined by the administrator, but in no event more than ten years after they are granted, and generally expire earlier if the optionee’s service terminates. We typically have granted options that are immediately exercisable, subject to our right to repurchase unvested shares upon termination of an optionee’s service.

Restricted Shares. Restricted shares may be awarded or sold under the 2015 Plan in return for cash or cash equivalents or, as permitted by the administrator in its sole discretion, in exchange for services rendered to us, by delivery of a full-recourse promissory note or through any other means permitted by applicable law. Restricted shares vest as determined by the administrator.
Corporate Transactions. In the event that we are a party to a merger or consolidation or in the event of a sale of all or substantially all of our stock or assets, all shares acquired under the 2015 Plan and all options and other plan awards outstanding on the effective date of the transaction will be subject to the agreement governing such transaction or, in the absence of such agreement, in the manner determined by the administrator. Such treatment may include, without limitation, one or more of the following with respect to outstanding awards:

- The continuation, assumption or substitution of an award by the surviving entity or its parent;
- Cancellation of the vested portion of the award in exchange for a per-share payment equal to the excess, if any, of the value of the property received by a holder of a share of our common stock as a result of the transaction over any exercise price per share applicable to the award; or
- Cancellation of the award without payment of any consideration.

The administrator is not obligated to treat all awards in the same manner. The administrator has the discretion, at any time, to provide that an award granted under the 2015 Plan will vest on an accelerated basis if we are subject to a change of control or if the participant is subject to an involuntary termination.

Changes in Capitalization. In the event of certain specified changes in the capital structure of our common stock, such as a stock split, reverse stock split, stock dividend, reclassification or any other increase or decrease in the number of issued shares of stock effective without receipt of consideration by us, proportionate adjustments will automatically be made in (i) each of the number and kind of shares available for future grants under the 2015 Plan, (ii) the number and kind of shares covered by each outstanding award, (iii) the exercise or purchase price per share subject to each outstanding award and (iv) any repurchase price applicable to shares acquired under the 2015 Plan. In the event of an extraordinary cash dividend that has a material effect on the fair market value of our common stock, a recapitalization, spin-off, or other similar occurrence, the administrator at its sole discretion may make appropriate adjustments to one or more of the items described above.

Amendments or Termination. The administrator may at any time amend, suspend or terminate the 2015 Plan, subject to stockholder approval in the case of an amendment if the amendment increases the number of shares available for issuance or materially changes the class of persons eligible to receive incentive stock options. The 2015 Plan will terminate automatically 10 years after the later of the date when our board of directors adopted the 2015 Plan or approved the latest share increase that was also approved by our stockholders and in any event, it will terminate upon completion of this offering, but as noted above, awards outstanding under the 2015 Plan will remain outstanding and will continue to be governed by their existing terms.

2018 Employee Stock Purchase Plan

General. Our board of directors adopted the 2018 Employee Stock Purchase Plan (ESPP) in February 2018, and expect our stockholders to approve it prior to completion of this offering. The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions and is intended to qualify under Section 423 of the Internal Revenue Code. It will become effective as of the effective date of the registration statement of which this prospectus is a part.

Share Reserve. We have reserved 714,000 shares of our common stock for issuance under the ESPP. The number of shares reserved for issuance under the ESPP will automatically increase on the first day of each fiscal year during the term of the ESPP, commencing in 2019, by a number of shares equal to the least of (i) 1% of our outstanding shares of common stock on the last day of the prior fiscal year, (ii) 1,071,000 shares or (iii) a number of shares determined by our board of directors. The number and class of shares reserved under the ESPP will be adjusted automatically in the event of a stock split, stock dividend or other changes in our capitalization.

Administration. Our board of directors or its compensation committee will administer the ESPP.

Eligibility. All of our employees or of any participating subsidiary are eligible to participate in the ESPP if they satisfy the eligibility requirements.
Offering Periods. Each offering period will last a number of months determined by the administrator, up to a maximum of 27 months. Unless otherwise determined by the administrator, the initial offering period will begin on the effective date of the registration statement to which this prospectus is a part and end on May 31, 2020, and new 24 month offering periods will begin on each June 1 and December 1 thereafter. Currently each offering period consists of 4 consecutive purchase periods, of approximately 6 months duration, at the end of which payroll contributions are used to purchase shares of our common stock.

Amount of Contributions. Participants may purchase our common stock through payroll deductions, up to a maximum of 15% of their eligible compensation. Each participant may purchase up to the number of shares determined by our administrator on any purchase date, not to exceed 3,000 shares. The value of the shares purchased in any calendar year may not exceed $25,000. Participants may withdraw from the ESPP and receive a refund of their accumulated payroll contributions at any time prior to a purchase date.

Purchase Price. Unless changed by the administrator, the purchase price for each share of our common stock purchased under the ESPP will be 85% of the lower of the fair market value per share on the first trading day of the applicable offering period (or, in the case of the initial offering period, the price at which one share of common stock is offered to the public in this offering) or the fair market value per share on the applicable purchase date.

Corporate Transactions. In the event of certain corporate transactions, any offering periods then in progress may be continued, assumed or substituted for by the acquiring corporation. If the acquiring corporation refuses to do so, a new purchase date will be set for each offering period prior to the effective time of the transaction and such offering periods will terminate.

Amendment or Termination. The administrator may amend, suspend or terminate the ESPP at any time. If not sooner terminated, the ESPP will automatically terminate in 2038. With the exception of increasing the number of shares reserved for issuance, shareholder approval is generally not required for any amendment of the ESPP unless required by applicable law.
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a description of transactions since our incorporation on April 30, 2015 to which we have been a party in which the amount involved exceeded $120,000 and in which any of our executive officers, directors or beneficial holders of more than 5% of our capital stock had or will have a direct or indirect material interest, other than compensation arrangements which are described in “Management—Director Compensation” and “Executive Compensation.”

Sale of Series A Preferred Stock

On May 29, 2015, we entered into a Series A preferred stock purchase agreement pursuant to which we issued, in a series of closings in May 2015, August 2015 and September 2015, an aggregate of 12,556,791 shares of our Series A preferred stock at a cash purchase price of $3.96 per share to accredited investors for an aggregate purchase price of approximately $49,725,000. Each share of our Series A preferred stock will convert automatically into one share of our common stock immediately prior to the completion of this offering.

The following table summarizes purchases of shares of our Series A preferred stock by our executive officers, directors and holders of more than 5% of our capital stock:

<table>
<thead>
<tr>
<th>Purchaser</th>
<th>Number of Shares</th>
<th>Aggregate Gross Cash Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entities and individuals affiliated with Terry Rosen, Ph.D. (1)</td>
<td>2,272,727</td>
<td>$9,000,000</td>
</tr>
<tr>
<td>Entities and individuals affiliated with Juan Carlos Jaen, Ph.D. (2)</td>
<td>2,020,202</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Foresite Capital Fund III, L.P. (3)</td>
<td>1,767,676</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Entities and individuals affiliated with The Column Group II, L.P. (4)</td>
<td>1,767,676</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Entities and individuals affiliated with Yasunori Kaneko, M.D. (5)</td>
<td>757,575</td>
<td>$3,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,585,856</strong></td>
<td><strong>$34,000,000</strong></td>
</tr>
</tbody>
</table>

(1) Consists of 2,272,727 shares of Series A preferred stock purchased by The Rosen 1996 Family Trust Dated June 28, 1996. Dr. Terry Rosen, our chief executive officer and a member of our board of directors, is the trustee, beneficiary and/or otherwise affiliated with the foregoing stockholder.

(2) Consists of 2,020,202 shares of Series A preferred stock purchased by Juan Carlos Jaen and Anita Galeana, Trustees of the Juan Carlos Jaen and Anita Galeana 2000 Trust. Dr. Juan Carlos Jaen, our president and a member of our board of directors, is the trustee, beneficiaryst and/or otherwise affiliated with the foregoing stockholder.

(3) Foresite Capital Fund III, L.P. holds more than 5% of our capital stock.

(4) Entities and individuals affiliated with The Column Group II, L.P. holds more than 5% of our capital stock.

(5) Consists of 757,575 shares of Series A preferred stock purchased by Yasunori Kaneko and Yumi Kaneko, Trustees of the Kaneko Family Trust U/D/T dated January 20, 1992. Dr. Yasunori Kaneko, a member of our board of directors, is affiliated with the foregoing stockholder.

Sale of Series B Preferred Stock

On August 15, 2016, we entered into a Series B preferred stock purchase agreement pursuant to which we issued, in a series of closings in August 2016, an aggregate of 8,750,852 shares of our Series B preferred stock at a cash purchase price of approximately $8.00 per share to accredited investors for an aggregate purchase price of approximately $70,000,000. Each share of our Series B preferred stock will convert automatically into one share of our common stock immediately prior to the completion of this offering.
The following table summarizes purchases of shares of our Series B preferred stock by our executive officers, directors and holders of more than 5% of our capital stock.

<table>
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<tr>
<th>Purchaser</th>
<th>Number of Shares</th>
<th>Aggregate Gross Cash Consideration</th>
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<tbody>
<tr>
<td>Entities and individuals affiliated with Terry Rosen, Ph.D. (1)</td>
<td>125,012</td>
<td>$1,000,001</td>
</tr>
<tr>
<td>Entities and individuals affiliated with Juan Carlos Jaen, Ph.D. (2)</td>
<td>125,012</td>
<td>$1,000,001</td>
</tr>
<tr>
<td>Foresite Capital Fund III, L.P. (3)</td>
<td>1,250,125</td>
<td>$9,999,999</td>
</tr>
<tr>
<td>Entities and individuals affiliated with The Column Group II, L.P. (4)</td>
<td>875,087</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Entities and individuals affiliated with Yasunori Kaneko, M.D. (5)</td>
<td>31,253</td>
<td>$249,999</td>
</tr>
<tr>
<td>Entities and individuals affiliates with GV 2016, L.P. (6)</td>
<td>3,125,312</td>
<td>$25,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>5,531,801</td>
<td>$44,250,000</td>
</tr>
</tbody>
</table>

(1) Consists of 125,012 shares of Series B preferred stock purchased by The Rosen 1996 Family Trust Dated June 28, 1996. Dr. Terry Rosen, our chief executive officer and a member of our board of directors, is the trustee, beneficiary and/or otherwise affiliated with the foregoing stockholder.

(2) Consists of 125,012 shares of Series B preferred stock purchased by Juan Carlos Jaen and Anita Galeana, as trustees of the Juan Carlos Jaen and Anita Galeana 2000 Trust. Dr. Juan Carlos Jaen, our president and a member of our board of directors, is the trustee, beneficiary and/or otherwise affiliated with the foregoing stockholder.

(3) Foresite Capital Fund III, L.P. holds more than 5% of our capital stock.

(4) Entities and individuals affiliated with The Column Group II, L.P. holds more than 5% of our capital stock. Consists of 875,087 shares of Series B preferred stock purchased by The Column Group II, L.P.

(5) 31,253 shares of Series B preferred stock purchased by Yasunori Kaneko and Yumi Kaneko, Trustees of the Kaneko Family Trust U/D/T dated January 20, 1992. Dr. Yasunori Kaneko, a member of our board of directors, is the trustee, beneficiary and/or otherwise affiliated with the foregoing stockholder.

(6) Entities and individuals affiliates with GV 2016, L.P. GV 2016, L.P. holds more than 5% of our capital stock. Consists of 3,125,312 shares of Series B preferred stock purchased by GV 2016, L.P.

**Sale of Series C Preferred Stock**

On November 3, 2017, we entered into a Series C preferred stock purchase agreement pursuant to which we issued, in a series of closings in November 2017 an aggregate of 9,151,931 shares of our Series C preferred stock at a cash purchase price of approximately $11.69 per share to accredited investors for an aggregate purchase price of approximately $107,000,000. Each share of our Series C preferred stock will convert automatically into one share of our common stock immediately prior to the completion of this offering.

The following table summarizes purchases of shares of our Series C preferred stock by our executive officers, directors and holders of more than 5% of our capital stock.

<table>
<thead>
<tr>
<th>Purchaser</th>
<th>Number of Shares</th>
<th>Aggregate Gross Cash Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entities and individuals affiliated with Terry Rosen, Ph.D. (1)</td>
<td>82,966</td>
<td>$969,999</td>
</tr>
<tr>
<td>Entities and individuals affiliated with Juan Carlos Jaen, Ph.D. (2)</td>
<td>29,936</td>
<td>$350,001</td>
</tr>
<tr>
<td>Foresite Capital Fund III, L.P. (3)</td>
<td>427,660</td>
<td>$4,999,998</td>
</tr>
<tr>
<td>Entities and individuals affiliated with The Column Group II, L.P. (4)</td>
<td>898,087</td>
<td>$10,500,000</td>
</tr>
<tr>
<td>Entities and individuals affiliated with Yasunori Kaneko, M.D. (5)</td>
<td>2,565</td>
<td>$29,999</td>
</tr>
<tr>
<td>Entities and individuals affiliated with GV 2016, L.P. (6)</td>
<td>1,924,474</td>
<td>$22,500,001</td>
</tr>
<tr>
<td>Entities and individuals affiliated with Kathryn Falberg (7)</td>
<td>17,106</td>
<td>$199,999</td>
</tr>
<tr>
<td>Total</td>
<td>3,382,794</td>
<td>$39,549,996</td>
</tr>
</tbody>
</table>
Agreements with PACT Pharma, Inc.

In September 2016, we purchased approximately 3.6 million shares of common stock of PACT Pharma, Inc. (PACT Pharma), a privately funded, early-stage biopharmaceutical company focused on adoptive cell therapy, for a nominal amount. In December 2016, we and PACT Pharma entered into a Master Services Agreement (the PACT Agreement) under which we provide PACT Pharma with general and administrative support, including finance, human resources, legal, and other operational support. We also received certain warrants to purchase PACT Pharma common stock exercisable upon PACT Pharma’s achievement of certain valuation thresholds pursuant to the PACT Agreement. Also in December 2016, we purchased 1.0 million shares of Series A preferred stock of PACT Pharma for $1.0 million. After this investment, we owned an aggregate of approximately 12% of the total equity of PACT Pharma on an as-converted basis. As part of our support under the PACT Agreement, Dr. Terry Rosen, our Chief Executive Officer and a member of our board of directors, previously served as Chief Executive Officer of PACT Pharma on an interim basis. Dr. Juan Carlos Jaen, our President and a member of our board of directors, previously served as President of PACT Pharma on an interim basis. Dr. Rosen and Dr. Jaen are also minority stockholders and members of the board of directors of PACT Pharma. The PACT Agreement will terminate no later than December 31, 2018.

Amended and Restated Voting Agreement

On November 3, 2017, we entered into an amended and restated voting agreement with certain holders of our common stock and the holders of our preferred stock, including entities with which our chief executive officer, president and certain of our directors are affiliated, with respect to the election of our directors and certain other matters. All of our current directors were elected pursuant to the terms of this agreement. The amended and restated voting agreement will terminate upon the completion of this offering.

Amended and Restated First Refusal and Co-Sale Agreement

On November 3, 2017, we entered into an amended and restated first refusal and co-sale agreement with holders of our common stock and holders of our preferred stock, including entities with which our chief executive officer, president and certain of our directors are affiliated. This agreement provides the holders of preferred stock a right of purchase and of co-sale in respect of sales of securities by certain holders of our common stock. The rights of purchase and co-sale will terminate upon the completion of this offering.
Amended and Restated Investors’ Rights Agreement

On November 3, 2017, we entered into an amended and restated investors’ rights agreement with holders of our preferred stock, including entities with which our chief executive officer, president and certain of our directors are affiliated. These stockholders are entitled to rights with respect to the registration of their shares following this offering under the Securities Act. For a description of these registration rights, see “Description of Capital Stock—Registration Rights.”

Management Rights Letters

In connection with our sale of our preferred stock, we entered into management rights letters with certain purchasers of our preferred stock, including holders of more than 5% of our capital stock and entities with which certain of our directors are affiliated, pursuant to which such entities were granted certain management rights, including the right to consult with and advise our management on significant business issues, review our operating plans, examine our books and records and inspect our facilities. These management rights will terminate upon completion of this offering.

Indemnification Agreements

Our amended and restated certificate of incorporation, which will be effective upon the completion of this offering, will contain provisions limiting the liability of directors, and our amended and restated bylaws, which will be effective upon the completion of this offering, will provide that we will indemnify each of our directors to the fullest extent permitted under Delaware law. Our amended and restated certificate of incorporation and amended and restated bylaws will also provide our board of directors with discretion to indemnify our officers and employees when determined appropriate by our board of directors.

We intend to enter into indemnification agreements with each of our directors and executive officers and certain other key employees. The indemnification agreements will provide that we will indemnify each of our directors, executive officers and such other key employees against any and all expenses incurred by that director, executive officer or other key employee because of his or her status as one of our directors, executive officers or other key employees, to the fullest extent permitted by Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws. In addition, the indemnification agreements will provide that, to the fullest extent permitted by Delaware law, we will advance all expenses incurred by our directors, executive officers and other key employees in connection with a legal proceeding involving his or her status as a director, executive officer or key employee.

Other Transactions

The son of Terry Rosen, Ph.D., our Chief Executive Officer and member of our board of directors, has been employed by us as a Senior Scientist, and previously as a Scientist, since February 2016. In 2017, he earned approximately $120,000 in annual salary and other cash compensation, was granted an option to purchase 1,767 shares of common stock with an exercise price of $1.23 and received other benefits consistent with other employees serving in the same capacity.

Policies and Procedures for Related Party Transactions

Our audit committee has the primary responsibility for the review, approval and oversight of any “related party transaction,” which is any transaction, arrangement or relationship (or series of similar transactions, arrangements, or relationships) in which we are, were or will be a participant and the amount involved exceeds $120,000, and in which the related person has, had or will have a direct or indirect material interest. We intend to adopt a written related party transaction policy to be effective upon the completion of this offering. Under our related party transaction policy, our management will be required to submit any related person transaction not previously approved or ratified by our audit committee to our audit committee. In approving or rejecting the proposed transactions, our audit committee will take into account all of the relevant facts and circumstances available.
Potential Insider Participation

Several of our existing stockholders, including a principal stockholder, our Chief Executive Officer and our President, have indicated an interest in purchasing up to an aggregate of approximately $40.0 million in shares of our common stock in this offering at the initial public offering price. However, because indications of interest are not binding agreements or commitments to purchase, the underwriters could determine to sell more, less or no shares to any of these stockholders and any of these stockholders could determine to purchase more, less or no shares in this offering.
The following table sets forth certain information with respect to the beneficial ownership of our common stock as of February 1, 2018, and as adjusted to reflect the sale of common stock offered by us in this offering, for:

- each of our named executive officers;
- each of our directors;
- all of our executive officers and directors as a group; and
- each stockholder known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock.

We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Except as indicated in the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 35,257,538 shares of common stock outstanding at February 1, 2018, after giving effect to the conversion of all outstanding shares of preferred stock as of that date into an aggregate of 30,459,574 shares of our common stock. For purposes of computing percentage ownership after this offering, we have assumed that (i) 7,100,000 shares of common stock will be issued by us in this offering; (ii) the underwriters will not exercise their option to purchase up to 1,065,000 additional shares and (iii) none of our executive officers, directors or stockholders who beneficially own more than five percent of our common stock will participate in this offering. In computing the number of shares of common stock beneficially owned by a person or entity and the percentage ownership of that person or entity, we deemed to be outstanding all shares of common stock subject to options held by that person or entity that are currently exercisable or that will become exercisable within 60 days of February 1, 2018. We did not deem these shares outstanding, however, such shares were included for the purpose of computing the percentage ownership of any other person or entity. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Arcus Biosciences, Inc., 3928 Point Eden Way, Hayward, CA 94545.

Several of our existing stockholders, including a principal stockholder, our Chief Executive Officer and our President, have indicated an interest in purchasing up to an aggregate of approximately $40.0 million in shares of our common stock in this offering at the initial public offering price. However, because indications of interest are not binding agreements or commitments to purchase, the underwriters could determine to sell more, less or no shares to any of these stockholders and any of these stockholders could determine to purchase more, less or no shares in this offering. The following table does not reflect any potential purchases by of these stockholders, which purchases, if any, will increase the percentage of shares owned after the offering of such stockholders from that set forth in the table below.
 Named Executive Officers and Directors:

<table>
<thead>
<tr>
<th>Name of Beneficial Owner</th>
<th>Number Of Shares Beneficially Owned</th>
<th>Percent Of Shares Beneficially Owned Before The Offering</th>
<th>Percent Of Shares Beneficially Owned After The Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terry Rosen, Ph.D. (1)</td>
<td>4,007,471</td>
<td>11.4%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Juan Carlos Jaen, Ph.D. (2)</td>
<td>2,856,967</td>
<td>8.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Jennifer Jarrett (3)</td>
<td>388,886</td>
<td>1.1%</td>
<td>*</td>
</tr>
<tr>
<td>Yasunori Kaneko, M.D. (4)</td>
<td>854,522</td>
<td>2.4%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Kathryn Falberg (5)</td>
<td>67,610</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>David William Beier (6)</td>
<td>50,505</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

All Executive Officers and Directors as a Group (six persons) (7) 7,937,101 23.1% 19.3%

5% Stockholders:

Entities and individuals affiliated with GV 2016, L.P. (8) 5,049,786 14.3% 11.9%

Entities and individuals affiliated with The Column Group II, L.P. (9) 3,540,850 10.0% 8.4%

Foresite Capital Fund III, L.P. (10) 3,445,461 9.8% 8.1%

* Represents beneficial ownership of less than one percent.

(1) Consists of (i) 189,393 shares of common stock held by Terry Rosen, (ii) 2,475,654 shares of common stock upon the deemed conversion of our preferred stock held by The Rosen 1996 Family Trust Dated June 28, 1996 and (iii) 1,342,424 shares of common stock held by The Rosen 1996 Family Trust Dated June 28, 1996.

(2) Consists of (i) 189,393 shares of common stock held by Juan Jaen, (ii) 2,175,150 shares of common stock upon the deemed conversion of our preferred stock held by Juan Carlos Jaen and Anita Galeana, as trustees of the Juan Carlos Jaen and Anita Galeana 2000 Trust and (iii) 492,424 shares of common stock held by Juan Carlos Jaen and Anita Galeana, as trustees of the Juan Carlos Jaen and Anita Galeana 2000 Trust.

(3) Consists of (i) 100,026 shares of common stock held by Jennifer Jarrett and (ii) 288,860 shares of common stock underlying options held by Jennifer Jarrett that are exercisable as of February 1, 2018 or will become exercisable within 60 days after such date.

(4) Consists of (i) 63,130 shares of common stock held by Yasunori Kaneko & Yumi Kaneko, Trustees of The Kaneko Family Trust dated January 20, 1992, (ii) 505,050 shares of common stock upon the deemed conversion of our preferred stock held by Kaneko Capital, LLC, (iii) 252,524 shares of common stock upon the deemed conversion of our preferred stock held by Kaneko Investments, LLC and (iv) 33,818 shares of common stock upon the deemed conversion of our preferred stock held by Yasunori Kaneko and Yumi Kaneko, Trustees of The Kaneko Family Trust U/D/T dated January 20, 1992.

(5) Consists of (i) 50,505 shares of common stock held by Kathryn Falberg and (ii) 17,106 shares of common stock upon the deemed conversion of our preferred stock held by Kathryn E. Falberg, trustee of the Falberg-Predovich Family Trust dated 6-11-12.

(6) Consists of 50,505 shares of common stock held by David Beier.

(7) Includes 288,860 shares of common stock underlying options that are exercisable as of February 1, 2018 or will become exercisable within 60 days after such date.


(9) Consists of 3,540,850 shares of common stock upon the deemed conversion of our preferred stock held by The Column Group II, LP and Ponoi Capital, LP. The Column Group II GP, LP is the general partner of The Column Group II, LP. Ponoi Management, LLC is the general partner of Ponoi Capital, LP. The managing partners of The Column Group II GP, LP are David Goeddel and Peter Svennilson. The managing partners of The Column Group II GP, LP are David Goeddel and Peter Svemnillon, and Tim Kutzkey. The managing partners of The Column Group II GP, LP and Ponoi Management, LLC may be deemed to have voting and investment power with respect to such shares. The address of The Column Group II, LP and Ponoi Capital, LP is 1700 Owens Street, Suite 500, San Francisco, California 94138.

(10) Consists of 3,445,461 shares of common stock upon the deemed conversion of our preferred stock held by Foresite Capital Fund III, L.P. (FCF III). Foresite Capital Management III, LLC (FCF III) is the general partner of FCF III. The managing director of FCF III, James Tananbaum, may be deemed to have voting and investment power with respect to such shares. The address of FCF III is c/o Foresite Capital Management, LLC, 101 California Street, Suite 4100, San Francisco, California 94111.
DESCRIPTION OF CAPITAL STOCK

A description of our capital stock and the material terms and provisions of our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect upon the completion of this offering and affecting the rights of holders of our capital stock is set forth below. The forms of our amended and restated certificate of incorporation and our amended and restated bylaws to be adopted in connection with this offering are filed as exhibits to the registration statement relating to this prospectus.

Upon the completion of this offering, our amended and restated certificate of incorporation will authorize shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by our board of directors.

Upon the completion of this offering, our authorized capital stock will consist of 410,000,000 shares, all with a par value of $0.0001 per share, of which:

- 400,000,000 shares are designated common stock; and
- 10,000,000 shares are designated preferred stock.

As of February 1, 2018, after giving effect to the conversion of all outstanding shares of preferred stock into an aggregate of 30,459,574 shares of our common stock, there were outstanding:

- 35,257,538 shares of our common stock held of record by 197 stockholders, including 2,264,386 shares of restricted common stock that are subject to our right of repurchase; and
- 957,655 shares of our common stock issuable upon exercise of outstanding stock options.

Common Stock

Dividend Rights

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of funds legally available if our board of directors, in its discretion, determines to issue dividends and only then at the times and in the amounts that our board of directors may determine. See “Dividend Policy” for more information.

Voting Rights

The holders of our common stock are entitled to one vote per share. Stockholders do not have the ability to cumulate votes for the election of directors. Our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect upon the completion of this offering will provide for a classified board of directors consisting of three classes of approximately equal size, each serving staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

No Preemptive or Similar Rights

Our common stock is not entitled to preemptive rights and is not subject to conversion, redemption or sinking fund provisions.

Right to Receive Liquidation Distributions

Upon our dissolution, liquidation or winding-up, the assets legally available for distribution to our stockholders are distributable ratably among the holders of our common stock, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights and payment of liquidation preferences, if any, on any outstanding shares of preferred stock.
Preferred Stock

Upon the completion of this offering, no shares of preferred stock will be outstanding, but we will be authorized, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series and to fix the designation, powers and rights of the shares of each series and any associated qualifications, limitations or restrictions. Our board of directors also can increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by our stockholders. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company and may adversely affect the market price of our common stock and the voting and other rights of the holders of common stock. We have no current plan to issue any shares of preferred stock.

Options

As of February 1, 2018, there were options to purchase 957,655 shares of our common stock outstanding, of which 950,080 were subject to options granted under our 2015 Stock Plan and 7,575 were subject to an option granted outside of the 2015 Stock Plan.

Registration Rights

Following the completion of this offering, the holders of 30,459,574 shares of our common stock issued upon the conversion of our preferred stock will be entitled to contractual rights to require us to register those shares under the Securities Act. These registration rights are provided under the terms of our amended and restated investors’ rights agreement between us and the holders of these shares, which was entered into on November 3, 2017. Pursuant to this agreement, trusts associated with our Chief Executive Officer and director, Dr. Rosen, and our President and director, Dr. Jaen, along with affiliates of such trusts holding common stock not issued upon conversion of our preferred stock, are entitled to the piggyback registration rights described below with respect to their shares of outstanding common stock not issued upon the conversion of our preferred stock, but are not entitled to either the demand or Form S-3 registration rights described below with respect to such shares of common stock. These trusts, along with their affiliates, collectively held 2,213,634 shares of such outstanding common stock as of February 1, 2018.

We will pay all expenses relating to any demand, piggyback or Form S-3 registration described below, other than underwriting discounts and commissions. The registration rights terminate upon the earliest to occur of: (i) the fourth anniversary of the completion of this offering; (ii) a liquidation event; or (iii) with respect to the registration rights of an individual holder, such earlier time after this offering at which the holder (a) can sell all of its shares in compliance with Rule 144(b)(1)(i) or (b) holds one percent or less of our outstanding common stock and all shares held by the holder can be sold in any three-month period without registration in compliance with Rule 144.

Demand Registration Rights

The holders of the registrable securities will be entitled to certain demand registration rights. At any time beginning on the earlier of November 3, 2022 or six months following the effectiveness of this offering, the holders of 50% or more of the registrable securities then outstanding may make a written request that we register some or all of their registrable securities, subject to certain specified conditions and exceptions. We are required to use commercially reasonable efforts to effect the registration and will pay all registration expenses, other than underwriting discounts and commissions, related to any demand registration. Such request for registration must cover securities with an aggregate offering price of at least $20,000,000. We are not obligated to effect more than two of these registrations.
Piggyback Registration Rights

In connection with this offering, holders of our registrable securities were entitled to, and the necessary percentage of holders waived, their rights to notice of this offering and to include their registrable securities in this offering. If we propose to register any of our securities under the Securities Act either for our own account or for the account of other stockholders in another offering, the holders of shares having registration rights will, subject to certain exceptions, be entitled to include their shares in our registration statement, provided that the underwriters of any such offering have the right to limit the number of shares included in the registration. These registration rights are subject to specified other conditions and limitations as set forth in our amended and restated investors’ rights agreement.

Form S-3 Registration Rights

At any time after we are qualified to file a registration statement on Form S-3, and subject to limitations and conditions specified in the amended and restated investors’ rights agreement, the holders of 30% or more of the registrable securities then outstanding may make a written request that we prepare and file a registration statement on Form S-3 under the Securities Act covering their shares, so long as the aggregate price to the public is at least $10,000,000. We are not obligated to effect more than two of these Form S-3 registrations in any 12-month period or more than a total of three of these Form S-3 registrations.

Anti-Takeover Provisions

Delaware Law

Upon the completion of this offering, we will be governed by the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents some Delaware corporations from engaging, under some circumstances, in a business combination, which includes a merger or sale of at least 10% of the corporation’s assets with any interested stockholder, meaning a stockholder who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of the corporation’s outstanding voting stock, unless:

- the transaction is approved by the board of directors prior to the time that the interested stockholder became an interested stockholder;
- upon closing of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding for purposes of determining the voting stock outstanding those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- subsequent to such time that the stockholder became an interested stockholder the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

A Delaware corporation may “opt out” of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or amended and restated bylaws resulting from a stockholders’ amendment approved by at least a majority of the outstanding voting shares. We have not opted out of these provisions. As a result, mergers or other takeover or change in control attempts of us may be discouraged or prevented.
Certificate of Incorporation and Bylaw Provisions

Upon the completion of this offering, our amended and restated certificate of incorporation and our amended and restated bylaws will include a number of provisions that may have the effect of deterring hostile takeovers or delaying or preventing changes in control of our management team, including the following:

- **Board of Directors Vacancies.** Our amended and restated certificate of incorporation and amended and restated bylaws will authorize our board of directors to fill vacant directorships, including newly-created seats. In addition, the number of directors constituting our board of directors will be set only by resolution adopted by a majority vote of our entire board of directors. These provisions will prevent a stockholder from increasing the size of our board of directors and gaining control of our board of directors by filling the resulting vacancies with its own nominees.

- **Classified Board.** Our amended and restated certificate of incorporation and amended and restated bylaws will provide that our board of directors will be classified into three classes of directors, each of which will hold office for a three-year term. In addition, directors may only be removed from the board of directors for cause and only by the approval of 66 2/3% of our then-outstanding shares of our common stock. A third party may be discouraged from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time consuming for stockholders to replace a majority of the directors on a classified board of directors.

- **Stockholder Action; Special Meeting of Stockholders.** Our amended and restated certificate of incorporation will provide that stockholders will not be able to take action by written consent, and will only be able to take action at annual or special meetings of our stockholders. Stockholders will not be permitted to cumulate their votes for the election of directors. Our amended and restated bylaws will further provide that special meetings of our stockholders may be called only by a majority vote of our entire board of directors, the chairman of our board of directors or our chief executive officer.

- **Advance Notice Requirements for Stockholder Proposals and Director Nominations.** Our amended and restated bylaws will provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at any meeting of stockholders. Our amended and restated bylaws will also specify certain requirements regarding the form and content of a stockholder’s notice. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our meetings of stockholders.

- **Issuance of Undesignated Preferred Stock.** Our board of directors will have the authority, without further action by the holders of common stock, to issue up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the board of directors. The existence of authorized but unissued shares of preferred stock will enable our board of directors to render more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.

Choice of Forum

Upon the completion of this offering, our amended and restated certificate of incorporation will provide that the Court of Chancery of the State of Delaware will be the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws or any action asserting a claim against us that is governed by the internal affairs doctrine. The enforceability of similar choice of forum provisions in other companies’ certificates of incorporation has been challenged in legal proceedings, and it is possible that a court could find these types of provisions in our certificate of incorporation to be inapplicable or unenforceable.
Transfer Agent and Registrar

Upon the completion of this offering, the transfer agent and registrar for our common stock will be Computershare Trust Company, N.A. The transfer agent’s address is 250 Royall Street, Canton, Massachusetts 02021, and its telephone number is (800) 962-4284.

Listing

We have applied to list our common stock on the New York Stock Exchange under the symbol “RCUS.”
SHARES ELIGIBLE FOR FUTURE SALE

Before this offering, there has not been a public market for shares of our common stock. Future sales of substantial amounts of shares of our common stock, including shares issued upon the exercise of outstanding options, in the public market following this offering or the possibility of these sales occurring, could cause the prevailing market price for our common stock to fall or impair our ability to raise equity capital in the future.

Following this offering, we will have outstanding 42,357,538 shares of our common stock, based on the number of shares outstanding as of February 1, 2018. This includes 7,100,000 shares of common stock that we are selling in this offering, which shares may be resold in the public market immediately unless purchased by our affiliates, and assumes no additional exercise of outstanding options other than as described elsewhere in this prospectus.

The remaining 35,257,538 shares of common stock that are not sold in this offering will be “restricted securities,” as that term is defined in Rule 144 under the Securities Act of 1933, as amended. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act, which are summarized below.

In addition, we, our executive officers and directors, and substantially all of our security holders have entered into market standoff agreements with us or lock-up agreements with the underwriters under which they have agreed, subject to specific exceptions, not to sell any of our capital stock until at least 181 days after the date of this prospectus, as described below. As a result of these agreements and the provisions of our investors’ rights agreement disclosed in “Description of Capital Stock—Registration Rights,” subject to the provisions of Rule 144 or Rule 701, based on the number of shares outstanding as of February 1, 2018, shares will be available for sale in the public market as follows:

- beginning on the date of this prospectus, the 7,100,000 shares sold in this offering will be immediately available for sale in the public market, unless purchased by our affiliates;
- beginning 181 days after the date of this prospectus, approximately 35,257,538 additional shares will become eligible for sale in the public market, of which approximately 12,986,887 shares will be held by affiliates (assuming that our existing stockholders do not participate in this offering) and subject to the volume and other restrictions of Rule 144, as described below; and
- the remainder of the shares will be eligible for sale in the public market from time to time thereafter, subject in some cases to the volume and other restrictions of Rule 144, as described below.

Rule 144

In general, under Rule 144 as currently in effect, a person who has beneficially owned shares of our restricted common stock for at least six months would be entitled to sell their securities provided that such person is not deemed to have been one of our affiliates at the time of, or at any time during the 90 days preceding, a sale, and we are subject to the periodic reporting requirements of the Exchange Act, for at least 90 days before the sale. In addition, under Rule 144, any person who is not an affiliate of ours and has held their shares for at least one year, including the holding period of any prior owner other than one of our affiliates, would be entitled to sell an unlimited number of shares immediately upon the completion of this offering without regard to whether current public information about us is available. Persons who have beneficially owned shares of our restricted common stock for at least six months but who are our affiliates at the time of, or any time during the 90 days preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of either of the following:

- 1% of the number of common shares then outstanding, which will equal approximately 423,575 shares immediately after this offering assuming no exercise of the underwriters’ option to purchase additional shares, based on the number of common shares outstanding as of February 1, 2018; or
• the average weekly trading volume of our common shares during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale;

provided, in each case, that we have been subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Such sales both by affiliates and by non-affiliates must also comply with the manner of sale, current public information and notice provisions of Rule 144.

Rule 701

Any of our service providers who purchased shares under a written compensatory plan or contract prior to this offering may be entitled to rely on the resale provisions of Rule 701. Rule 701, as currently in effect, permits resales of shares, including by affiliates, in reliance upon Rule 144 but without compliance with certain restrictions, including the holding period requirement, of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the public information, volume limitation or notice provisions of Rule 144. All holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling such shares if such resale is pursuant to Rule 701. All Rule 701 shares are, however, subject to lock-up agreements and will only become eligible for sale upon the expiration of these lock-up agreements.

Lock-Up Agreements

In connection with this offering, we and all directors and officers and the holders of substantially all of our outstanding stock and stock options have agreed with the underwriters, subject to certain exceptions, not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, shares of our common stock or any securities convertible into or exchangeable for shares of our common stock or enter into any swap or other arrangement that transfers to another any of the economic consequences of ownership of our common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the Company or the underwriters. These agreements are subject to certain exceptions, as set forth in “Underwriting.”

Certain of our employees, including our executive officers, and directors may enter into written trading plans that are intended to comply with Rule 10b5-1 under the Exchange Act. Sales under these trading plans would not be permitted until the expiration of the lock-up agreements relating to our initial public offering described above.

Registration Rights

Upon completion of this offering, the holders of 30,459,574 shares of our common stock will be entitled to rights with respect to the registration of the sale of such shares of common stock under the Securities Act. An additional 2,213,634 shares of our common stock will be entitled to piggyback but not demand or S-3 registration rights. See “Description of Capital Stock—Registration Rights.” All such shares are covered by lock-up agreements. Following the expiration of the lock-up period, registration of these shares under the Securities Act would result in the shares becoming freely tradeable without restriction under the Securities Act immediately upon the effectiveness of the registration.

Equity Plans

We intend to file a registration statement on Form S-8 under the Securities Act covering all of the shares of our common stock subject to options outstanding or reserved for issuance under our equity plans. We expect to file this registration statement as soon as practicable after the completion of this offering. This registration statement will become effective immediately upon filing, and shares covered by this registration statement will thereupon be eligible for sale in the public markets, subject to vesting restrictions, the lock-up agreements described above and Rule 144 limitations applicable to affiliates. For a more complete discussion of our stock plans, see “Executive Compensation—Equity Plans.”
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS
FOR NON-U.S. HOLDERS OF COMMON STOCK

The following is a general discussion of the material U.S. federal income tax considerations applicable to non-U.S. holders (as defined below) with respect to their ownership and disposition of shares of our common stock issued pursuant to this offering. For purposes of this discussion, a non-U.S. holder means a beneficial owner of our common stock (other than an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes) that is not, for U.S. federal income tax purposes, any of the following:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) such trust has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986 (the Code) existing and proposed U.S. Treasury Regulations promulgated thereunder, judicial opinions, published positions of the Internal Revenue Service (IRS) and other applicable authorities, all of which are subject to change or to differing interpretation, possibly with retroactive effect. This discussion assumes that a non-U.S. holder holds shares of our common stock as a capital asset (generally, property held for investment) for U.S. federal income tax purposes. This discussion does not address the tax considerations arising under the laws of any non-U.S., state or local jurisdiction, or, except to the limited extent provided below, under U.S. federal estate and gift tax laws. This discussion also does not consider any specific facts or circumstances that may apply to a non-U.S. holder and does not address the special tax rules applicable to particular non-U.S. holders, such as:

- banks, insurance companies or other financial institutions;
- corporations that accumulate earnings to avoid U.S. federal income tax;
- persons subject to the alternative minimum tax or the Medicare contribution tax;
- tax-exempt entities (including private foundations) or tax-qualified retirement plans;
- controlled foreign corporations or passive foreign investment companies;
- persons who acquired our common stock as compensation for services;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock (except to the extent specifically set forth below);
- certain former citizens or long term residents of the United States;
- persons who hold our common stock as a position in a hedging transaction, “straddle,” “conversion transaction,” or other risk reduction transaction; or
- persons deemed to sell our common stock under the constructive sale provisions of the Code.
In addition, this discussion does not address the tax treatment of partnerships or other entities that are pass-through entities for U.S. federal income tax purposes or persons who hold our common stock through partnerships or other pass-through entities. A partner in a partnership or other pass-through entity that will hold our common stock should consult his, her or its own tax advisor regarding the tax consequences of the ownership and disposition of our common stock through a partnership or other pass-through entity, as applicable.

INVESTORS CONSIDERING THE PURCHASE OF OUR COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME AND ESTATE TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF NON-U.S., STATE, OR LOCAL LAWS AND TAX TREATIES.

Dividends

We do not expect to declare or make any distributions on our common stock in the foreseeable future. If we do pay dividends on shares of our common stock, however, such distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will constitute a return of capital that is applied against and reduces, but not below zero, a non-U.S. holder’s adjusted tax basis in shares of our common stock. Any such gain will be subject to the treatment described below under “—Gain on Sale or Other Disposition of Common Stock.” Any such distributions will also be subject to the discussion below under “—Backup Withholding and Information Reporting” and “—Foreign Account Tax Compliance Act.”

Any dividend paid to a non-U.S. holder on our common stock that is not effectively connected with a non-U.S. holder’s conduct of a trade or business in the United States will generally be subject to U.S. withholding tax at a 30% rate. The withholding tax might apply at a reduced rate, however, under the terms of an applicable income tax treaty between the United States and the non-U.S. holder’s country of residence. You should consult your own tax advisors regarding your entitlement to benefits under a relevant income tax treaty. Generally, in order for us or our paying agent to withhold tax at a lower treaty rate, a non-U.S. holder must certify its entitlement to treaty benefits. A non-U.S. holder generally can meet this certification requirement by providing an IRS Form W-8BEN, W-8BENE or other appropriate form (or any successor or substitute form thereof) to us or our paying agent. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the holder’s behalf, the holder will be required to provide appropriate documentation to the holder’s agent. The holder’s agent will then be required to provide certification to us or our paying agent, either directly or through other intermediaries. If you are eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty, you may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS in a timely manner.

Dividends received by a non-U.S. holder that are effectively connected with a U.S. trade or business conducted by the non-U.S. holder, and if required by an applicable income tax treaty between the United States and the non-U.S. holder’s country of residence, are attributable to a permanent establishment maintained by the non-U.S. holder in the United States, are not subject to U.S. withholding tax. To obtain this exemption, a non-U.S. holder must provide us or our paying agent with an IRS Form W-8ECI properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition to being taxed at graduated tax rates, dividends received by a corporate non-U.S. holder that are effectively connected with a U.S. trade or business of the corporate non-U.S. holder may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable tax treaty.
Gain on Sale or Other Disposition of Common Stock

Subject to the discussion below under “—Backup Withholding and Information Reporting” and “—Foreign Account Tax Compliance Act,” non-U.S. holders will generally not be subject to U.S. federal income tax on any gains realized on the sale, exchange or other disposition of our common stock unless:

• the gain (i) is effectively connected with the conduct by the non-U.S. holder of a U.S. trade or business and (ii) if required by an applicable income tax treaty between the United States and the non-U.S. holder’s country of residence, is attributable to a permanent establishment maintained by the non-U.S. holder in the United States (in which case the special rules described below apply);
• the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition of our common stock, and certain other requirements are met (in which case the gain would be subject to a flat 30% tax, or such reduced rate as may be specified by an applicable income tax treaty, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States); or
• the rules of the Foreign Investment in Real Property Tax Act (FIRPTA) treat the gain as effectively connected with a U.S. trade or business.

The FIRPTA rules may apply to a sale, exchange or other disposition of our common stock if we are, or were within the shorter of the five-year period preceding the disposition and the non-U.S. holder’s holding period, a “U.S. real property holding corporation,” or USRPHC. In general, we would be a USRPHC if interests in U.S. real estate comprised at least half of the value of our business assets. We do not believe that we are a USRPHC and we do not anticipate becoming one in the future. Even if we become a USRPHC, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if beneficially owned by a non-U.S. holder that actually or constructively owned more than 5% of our outstanding common stock at some time within the five-year period preceding the disposition.

If any gain from the sale, exchange or other disposition of our common stock, (i) is effectively connected with a U.S. trade or business conducted by a non-U.S. holder and (ii) if required by an applicable income tax treaty between the United States and the non-U.S. holder’s country of residence, is attributable to a permanent establishment maintained by such non-U.S. holder in the United States, then the gain generally will be subject to U.S. federal income tax at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. If the non-U.S. holder is a corporation, under certain circumstances, that portion of its earnings and profits that is effectively connected with its U.S. trade or business, subject to certain adjustments, generally would be subject also to a “branch profits tax” at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

U.S. Federal Estate Tax

The estates of nonresident alien individuals generally are subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be U.S. situs property and therefore will be included in the taxable estate of a nonresident alien decedent, unless an applicable estate tax treaty between the United States and the decedent’s country of residence provides otherwise.

Backup Withholding and Information Reporting

The Code and the U.S. Treasury Regulations require those who make specified payments to report the payments to the IRS. Among the specified payments are dividends and proceeds paid by brokers to their customers. The required information returns enable the IRS to determine whether the recipient properly included the payments in income. This reporting regime is reinforced by “backup withholding” rules. These rules require the payors to withhold tax from payments subject to information reporting if the recipient fails to cooperate with the reporting regime by failing to provide his taxpayer identification number to the payor, furnishing an incorrect identification
number, or failing to report interest or dividends on his returns. The backup withholding tax rate is currently 28%. The backup withholding rules do not apply to payments to foreign corporations, provided they establish such exemption.

Payments to non-U.S. holders of dividends on common stock generally will not be subject to backup withholding, and payments of proceeds made to non-U.S. holders by a broker upon a sale of common stock will not be subject to information reporting or backup withholding, in each case so long as the non-U.S. holder certifies its nonresident status (and we or the applicable paying agent do not have actual knowledge or reason to know the holder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied) or otherwise establishes an exemption. The certification procedures to claim treaty benefits described under “—Dividends” above will generally satisfy the certification requirements necessary to avoid the backup withholding tax. We must report annually to the IRS any dividends paid to each non-U.S. holder and the tax withheld, if any, with respect to these dividends. Copies of these reports may be made available to tax authorities in the country where the non-U.S. holder resides.

Under the U.S. Treasury Regulations, the payment of proceeds from the disposition of shares of our common stock by a non-U.S. holder made to or through a U.S. office of a broker generally will be subject to information reporting and backup withholding unless the beneficial owner certifies, under penalties of perjury, among other things, its status as a non-U.S. holder (and the broker does not have actual knowledge or reason to know the holder is a U.S. person) or otherwise establishes an exemption. The payment of proceeds from the disposition of shares of our common stock by a non-U.S. holder made to or through a non-U.S. office of a broker generally will not be subject to backup withholding and information reporting. Information reporting, but not backup withholding, however, will apply to a payment of proceeds, even if that payment is made outside of the United States, if you sell our common stock through a non-U.S. office of a broker that is:

- a U.S. person (including a foreign branch or office of such person);
- a “controlled foreign corporation” for U.S. federal income tax purposes;
- a foreign person 50% or more of whose gross income from certain periods is effectively connected with a U.S. trade or business; or
- a foreign partnership if at any time during its tax year (a) one or more of its partners are U.S. persons who, in the aggregate, hold more than 50% of the income or capital interests of the partnership or (b) the foreign partnership is engaged in a U.S. trade or business;

unless the broker has documentary evidence that the beneficial owner is a non-U.S. holder and certain other conditions are satisfied, or the beneficial owner otherwise establishes an exemption (and the broker has no actual knowledge or reason to know to the contrary).

Backup withholding is not an additional tax. Any amounts withheld from a payment to a holder of common stock under the backup withholding rules can be credited against any U.S. federal income tax liability of the holder, if any, and may entitle the holder to a refund, provided that the required information is furnished to the IRS in a timely manner.

**Foreign Account Tax Compliance Act**

The Foreign Account Tax Compliance Act (FATCA) generally imposes a U.S. federal withholding tax at a rate of 30% on payments of dividends on, or gross proceeds from the sale or other disposition of, our common stock paid to a foreign entity unless (i) if the foreign entity is a “foreign financial institution,” such foreign entity undertakes certain due diligence, reporting, withholding, and certification obligations, (ii) if the foreign entity is not a “foreign financial institution,” such foreign entity identifies certain of its U.S. investors, if any, or (iii) the foreign entity is otherwise exempt under FATCA. Under applicable U.S. Treasury Regulations, withholding under FATCA currently applies to payments of dividends on our common stock, but will only apply to payments...
of gross proceeds from a sale or other disposition of our common stock made after December 31, 2018. Under certain circumstances, a non-U.S. holder may be eligible for refunds or credits of this withholding tax. An intergovernmental agreement between the United States and an applicable foreign country may modify the requirements described in this paragraph. Non-U.S. holders should consult their own tax advisors regarding the possible implications of this legislation on their investment in our common stock and the entities through which they hold our common stock, including, without limitation, the process and deadlines for meeting the applicable requirements to prevent the imposition of the 30% withholding tax under FATCA.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE POTENTIAL APPLICATION OF WITHHOLDING UNDER FATCA TO THEIR INVESTMENT IN OUR COMMON STOCK. THE PRECEDING DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION PURPOSES ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, GIFT, ESTATE, STATE, LOCAL, AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, HOLDING, AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.
Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and Leerink Partners LLC are acting as joint book-running managers of this offering and as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the number of shares of common stock set forth opposite the underwriter’s name in the following table.

<table>
<thead>
<tr>
<th>Underwriters</th>
<th>Number of Shares</th>
</tr>
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<tbody>
<tr>
<td>Citigroup Global Markets Inc.</td>
<td>7,100,000</td>
</tr>
<tr>
<td>Goldman Sachs &amp; Co. LLC</td>
<td></td>
</tr>
<tr>
<td>Leerink Partners LLC</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7,100,000</td>
</tr>
</tbody>
</table>

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the underwriters’ option to purchase additional shares described below) if they purchase any of the shares.

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price not to exceed $ per share. If all the shares are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms. The representatives have advised us that the underwriters do not intend to make sales to discretionary accounts. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters’ right to reject any order in whole or in part.

If the underwriters sell more shares than the total number set forth in the table above, we have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 1,065,000 additional shares at the public offering price less the underwriting discount. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter’s initial purchase commitment. Any shares issued or sold under the option will be issued and sold on the same terms and conditions as the other shares that are the subject of this offering.

We, our officers, directors and substantially all of our securityholders have agreed that, subject to specified limited exceptions, for a period of 180 days from the date of this prospectus, we and they will not, without the prior written consent of Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and Leerink Partners LLC, dispose of or hedge any shares or any securities convertible into or exchangeable for shares of our common stock. Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and Leerink Partners LLC, in their sole discretion, may release any of the securities subject to these lock-up agreements at any time, which, in the case of officers and directors, shall be with notice.

Prior to this offering, there has been no public market for our shares. Consequently, the initial public offering price for the shares will be determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price will be our results of operations, our current financial condition, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to our company. We cannot ensure however, that the price at which the shares will sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market in our shares will develop and continue after this offering.
We have applied to have our shares listed on the New York Stock Exchange under the symbol “RCUS.”

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters’ option to purchase additional shares.

<table>
<thead>
<tr>
<th>Per share</th>
<th>Paid by Arcus Biosciences, Inc.</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>No Exercise</td>
</tr>
<tr>
<td>Total</td>
<td></td>
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</table>

We estimate that our portion of the total expenses of this offering will be approximately $3.5 million. We have also agreed to reimburse the underwriters for certain Financial Industry Regulatory Authority-related and other expenses incurred by them in connection with this offering in an amount up to $35,000.

Several of our existing stockholders, including a principal stockholder, our Chief Executive Officer and our President, have indicated an interest in purchasing up to an aggregate of approximately $40.0 million in shares of our common stock in this offering at the initial public offering price. However, because indications of interest are not binding agreements or commitments to purchase, the underwriters could determine to sell more, less or no shares to any of these stockholders and any of these stockholders could determine to purchase more, less or no shares in this offering. The underwriters will receive the same underwriting discount on any shares purchased by these stockholders as they will on any other shares sold to the public in this offering.

In connection with the offering, the underwriters may purchase and sell shares in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, which may include purchases pursuant to the underwriters’ option to purchase additional shares, and stabilizing purchases.

- Short sales involve secondary market sales by the underwriters of a greater number of shares than they are required to purchase in the offering.
  - “Covered” short sales are sales of shares in an amount up to the number of shares represented by the underwriters’ option to purchase additional shares.
  - “Naked” short sales are sales of shares in an amount in excess of the number of shares represented by the underwriters’ option to purchase additional shares.

- Covering transactions involve purchases of shares either pursuant to the underwriters’ option to purchase additional shares or in the open market in order to cover short positions.
  - To close a naked short position, the underwriters must purchase shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
  - To close a covered short position, the underwriters must purchase shares in the open market or must exercise the option to purchase additional shares. In determining the source of shares to close the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option to purchase additional shares.

- Stabilizing transactions involve bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum.
The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the shares. They may also cause the price of the shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the New York Stock Exchange, in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Relationships

The underwriters are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The underwriters and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and short positions in such securities and instruments.

Affiliates of Leerink Partners LLC purchased an aggregate of 85,532 shares of our Series C convertible preferred stock in our November 2017 private placement and such purchases will be considered underwriting compensation in connection with this offering. Those shares of Series C convertible preferred stock will automatically convert into an aggregate of 85,532 shares of common stock immediately prior to and in connection with the completion of this offering. All such shares are subject to the 180-day lock-up restrictions described above.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area, no offer of shares which are the subject of the offering has been, or will be made to the public in that Member State, other than under the following exemptions under the Prospectus Directive:

a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the representatives for any such offer; or

c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,
provided that no such offer of shares referred to in (a) to (c) above shall result in a requirement for the company or any representative to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person located in a Member State to whom any offer of shares is made or who receives any communication in respect of an offer of shares, or who initially acquires any shares will be deemed to have represented, warranted, acknowledged and agreed to and with each representative and the company that (1) it is a “qualified investor” within the meaning of the law in that Member State implementing Article 2(1)(e) of the Prospectus Directive; and (2) in the case of any shares acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, the shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the representatives has been given to the offer or resale; or where shares have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons.

The company, the representatives and their respective affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgments and agreements.

This prospectus has been prepared on the basis that any offer of shares in any Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly any person making or intending to make an offer in that Member State of shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the company or any of the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the company nor the representatives have authorized, nor do they authorize, the making of any offer of shares in circumstances in which an obligation arises for the company or the representatives to publish a prospectus for such offer. For the purposes of this provision, the expression an “offer of shares to the public” in relation to any shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended) and includes any relevant implementing measure in each Member State.

The above selling restriction is in addition to any other selling restrictions set out below.

**Notice to Prospective Investors in Canada**

The shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.
Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in the United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order) and/or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order and other persons to whom it may lawfully be communicated (each such person being referred to as a “relevant person”).

This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this prospectus nor any other offering material relating to the shares described in this prospectus has been submitted to the clearance procedures of the Autorité des Marchés Financiers or of the competent authority of another member state of the European Economic Area and notified to the Autorité des Marchés Financiers. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus nor any other offering material relating to the shares has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (investisseurs qualifiés) or to a restricted circle of investors (cercle restreint d’investisseurs), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code monétaire et financier;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French Code monétaire et financier and article 211-2 of the General Regulations (Règlement Général) of the Autorité des Marchés Financiers, does not constitute a public offer (appel public à l’épargne).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French Code monétaire et financier.

Notice to Prospective Investors in Hong Kong

No securities have been offered or sold, and no securities may be offered or sold, in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent; or to professional investors, as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (SFO) and any rules made under that Ordinance; or in other circumstances which do not result in the document being a prospectus, as defined in the Companies Ordinance (Cap. 32) of Hong Kong (CO) or which do
not constitute an offer or invitation to the public for the purpose of the CO or the SFO. No document, invitation or advertisement relating to the securities has been issued or may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors, as defined in the SFO and any rules made under that Ordinance.

This prospectus has not been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may not be issued, circulated or distributed in Hong Kong, and the securities may not be offered for subscription to members of the public in Hong Kong. Each person acquiring the securities will be required, and is deemed by the acquisition of the securities, to confirm that he is aware of the restriction on offers of the securities described in this prospectus and the relevant offering documents and that he is not acquiring, and has not been offered any securities in circumstances that contravene any such restrictions.

Notice to Prospective Investors in Japan

The offering has not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948 of Japan, as amended) (FIEL) and the initial purchaser will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to Prospective Investors in Singapore

This prospectus has not been and will not be lodged or registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:
  - to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
  - where no consideration is or will be given for the transfer;
  - where the transfer is by operation of law;
Notice to Prospective Investors in Australia

This prospectus is not a disclosure document for the purposes of Australia’s Corporations Act 2001 (Cth) of Australia (Corporations Act) has not been lodged with the Australian Securities & Investments Commission and is only directed to the categories of exempt persons set out below. Accordingly, if you receive this prospectus in Australia:

You confirm and warrant that you are either:

• a “sophisticated investor” under section 708(8)(a) or (b) of the Corporations Act;
• a “sophisticated investor” under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant’s certificate to the Company which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
• a person associated with the Company under Section 708(12) of the Corporations Act; or
• a “professional investor” within the meaning of section 708(11)(a) or (b) of the Corporations Act.

To the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this prospectus is void and incapable of acceptance.

You warrant and agree that you will not offer any of the securities issued to you pursuant to this prospectus for resale in Australia within 12 months of those securities being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

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LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, Redwood City, California. As of the date of this prospectus, an investment fund associated with Gunderson Dettmer Stough Villeneuve Franklin & Hachigan, LLP beneficially owned less than 0.2% of the outstanding shares of our common stock. Cooley LLP is representing the underwriters in this offering.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements at December 31, 2016 and 2017, and for each of the two years in the period ended December 31, 2017, as set forth in their report. We have included our consolidated financial statements in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP’s report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the shares of common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules to the registration statement. Please refer to the registration statement and exhibits for further information with respect to the common stock offered by this prospectus. Statements contained in this prospectus regarding the contents of any contract or other document are only summaries. With respect to any contract or document that is filed as an exhibit to the registration statement, you should refer to the exhibit for a copy of the contract or document, and each statement in this prospectus regarding that contract or document is qualified by reference to the exhibit. You may read and copy the registration statement and its exhibits and schedules at the SEC’s public reference room, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding issuers, like us, that file documents electronically with the SEC. The address of that website is www.sec.gov. The information on the SEC’s web site is not part of this prospectus, and any references to this web site or any other web site are inactive textual references only.

Upon completion of this offering, we will become subject to the information and reporting requirements of the Exchange Act, and, in accordance with this law, will be required to file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC’s public reference facilities and the website of the SEC referred to above. We also maintain a website at www.arcusbio.com, at which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The information contained on, or that can be accessed through, our website is not a part of this prospectus. Investors should not rely on any such information in deciding whether to purchase our common stock. We have included our website address in this prospectus solely as an inactive textual reference.
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**ARCUS BIOSCIENCES, INC.**

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<th>Page</th>
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</thead>
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<td>F-7</td>
</tr>
</tbody>
</table>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Arcus Biosciences, Inc.

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Arcus Biosciences, Inc. (the Company) as of December 31, 2016 and 2017, the related consolidated statements of operations and comprehensive loss, changes in convertible preferred stock and stockholders’ deficit, and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2016 and 2017, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion
These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst & Young LLP
We have served as the Company’s auditor since 2016.

Redwood City, California
February 16, 2018, except for the third paragraph of Note 2 and the first paragraph of Note 14, as to which the date is March 5, 2018

The foregoing report is in the form that will be signed upon the completion of the reverse stock split described in the third paragraph of Note 2 to the consolidated financial statements.

/s/ Ernst & Young LLP
Redwood City, California
March 5, 2018
# ARCUS BIOSCIENCES, INC.

## Consolidated Balance Sheets

(In thousands, except share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
<th>December 31, 2017 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$65,160</td>
<td>$98,426</td>
<td></td>
</tr>
<tr>
<td>Short-term investments</td>
<td>33,736</td>
<td>77,277</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>390</td>
<td>1,141</td>
<td></td>
</tr>
<tr>
<td>Amounts owed by a related party</td>
<td>405</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>99,691</td>
<td>176,869</td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>8,608</td>
<td>11,230</td>
<td></td>
</tr>
<tr>
<td>Equity investment in related party</td>
<td>1,000</td>
<td>682</td>
<td></td>
</tr>
<tr>
<td>Restricted cash</td>
<td>203</td>
<td>203</td>
<td></td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>200</td>
<td>1,502</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$109,702</td>
<td>$190,486</td>
<td></td>
</tr>
</tbody>
</table>

| **Liabilities, Convertible Preferred Stock and Stockholders’ (Deficit) Equity** |                   |                   |                             |
| Current liabilities:      |                   |                   |                             |
| Accounts payable          | 3,867             | 3,820             |                             |
| Accrued liabilities       | 997               | 3,137             |                             |
| Deferred revenue, current | —                 | 5,000             |                             |
| Other current liabilities | 682               | 769               |                             |
| Total current liabilities | 5,546             | 12,726            |                             |
| Deferred revenue, noncurrent | —                | 18,587            |                             |
| Deferred rent             | 4,531             | 4,740             |                             |
| Other long-term liabilities | 165             | 565               |                             |
| Total liabilities         | 10,242            | 36,618            |                             |

| Commitments (Note 12)    |                   |                   |                             |
| Convertible preferred stock, $0.0001 par value, 120,958,867 shares authorized; 21,307,643 and 30,459,574 shares issued and outstanding as of December 31, 2016 and 2017; no shares issued and outstanding as of December 31, 2017 pro forma (unaudited); aggregate liquidation preference of $226,725 as of December 31, 2017 | 119,454 | 226,196 | $ — |

| Stockholders’ (deficit) equity: |                   |                   |                             |
| Common stock; $0.0001 par value; 153,993,227 shares authorized; 3,508,569 and 4,090,898 shares issued and outstanding as of December 31, 2016 and 2017 respectively; 34,550,472 shares issued and outstanding pro forma (unaudited) | — | — | 3 |
| Additional paid-in capital     | 184               | 948               | 227,141                     |
| Accumulated deficit            | (20,152)          | (73,234)          | (73,234)                    |
| Accumulated other comprehensive loss | (26)             | (42)             | (42)                        |
| Total stockholders’(deficit) equity | (19,994) | (72,328) | $153,868 |

| Total liabilities, convertible preferred stock and stockholders’ deficit | $109,702 | $190,486 |

See accompanying notes to consolidated financial statements

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ARCUS BIOSCIENCES, INC.

Consolidated Statements of Operations and Comprehensive Loss

(In thousands except for share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2016</th>
<th>Year Ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaboration and license revenue</td>
<td>$ —</td>
<td>$ 1,413</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>14,247</td>
<td>47,218</td>
</tr>
<tr>
<td>General and administrative</td>
<td>3,935</td>
<td>7,636</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>18,182</td>
<td>54,854</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(18,182)</td>
<td>(53,441)</td>
</tr>
<tr>
<td>Interest and other income, net</td>
<td>212</td>
<td>359</td>
</tr>
<tr>
<td>Net loss</td>
<td>(17,970)</td>
<td>(53,082)</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>(26)</td>
<td>(16)</td>
</tr>
<tr>
<td>Comprehensive loss</td>
<td>$ (17,996)</td>
<td>$ (53,098)</td>
</tr>
<tr>
<td>Net loss per share, basic and diluted</td>
<td>$ (20.80)</td>
<td>$ (29.03)</td>
</tr>
<tr>
<td>Weighted-average number of shares used to compute basic and diluted net loss per share</td>
<td>863,983</td>
<td>1,828,262</td>
</tr>
<tr>
<td>Pro forma net loss per share basic and diluted (unaudited)</td>
<td>$</td>
<td>(2.16)</td>
</tr>
<tr>
<td>Pro forma weighted-average number of shares used to compute basic and diluted net loss per share (unaudited)</td>
<td></td>
<td>24,554,674</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements

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## ARCUS BIOSCIENCES, INC.

Consolidated Statements of Convertible Preferred Stock and Stockholders’ Deficit

(In thousands, except share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Convertible Preferred Stock</th>
<th>Common stock</th>
<th>Additional Paid-In Capital</th>
<th>Accumulated Deficit</th>
<th>Accumulated Other Comprehensive Loss</th>
<th>Total Stockholders’ Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
</tr>
<tr>
<td>Balance at December 31, 2015</td>
<td>12,556,791</td>
<td>$ 49,637</td>
<td>2,798,146</td>
<td>$ 11</td>
<td>(2,182)</td>
<td>11</td>
</tr>
<tr>
<td>Issuance of Series B convertible preferred stock for $8.00 per share, net of issuance costs of $183</td>
<td>8,750,852</td>
<td>69,817</td>
<td>137,050</td>
<td>63</td>
<td>(17,970)</td>
<td>63</td>
</tr>
<tr>
<td>Vesting of early exercised stock options</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Issuance of common stock upon exercise of stock options, net of amounts related to unvested shares</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Balance at December 31, 2016</td>
<td>21,307,643</td>
<td>119,454</td>
<td>2,982,772</td>
<td>184</td>
<td>(20,152)</td>
<td>26</td>
</tr>
<tr>
<td>Issuance of Series C convertible preferred stock for $11.6915 per share, net of issuance costs of $258</td>
<td>9,151,931</td>
<td>106,742</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Vesting of early exercised stock options and restricted stock</td>
<td>—</td>
<td>—</td>
<td>269,752</td>
<td>235</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>495</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Issuance of common stock upon exercise of stock options, net of amounts related to unvested shares</td>
<td>—</td>
<td>—</td>
<td>25,605</td>
<td>34</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Balance at December 31, 2017</td>
<td>30,459,574</td>
<td>$226,196</td>
<td>3,278,129</td>
<td>$ 948</td>
<td>(73,234)</td>
<td>42</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements

F-5
## ARCUS BIOSCIENCES, INC.

### Consolidated Statements of Cash Flows

(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2016</th>
<th>Year Ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$(17,970)</td>
<td>$(53,082)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used in operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>90</td>
<td>495</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,314</td>
<td>2,612</td>
</tr>
<tr>
<td>Share of loss from equity method investee</td>
<td></td>
<td>416</td>
</tr>
<tr>
<td>Other non-operating income</td>
<td></td>
<td>(98)</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts owed by a related party</td>
<td></td>
<td>380</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td></td>
<td>(751)</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td></td>
<td>(6)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td>3,569</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td></td>
<td>1,582</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td></td>
<td>647</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td></td>
<td>23,587</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>(600)</td>
<td>209</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td>$(12,944)</td>
<td>$(25,059)</td>
</tr>
<tr>
<td><strong>Cash flow from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of short-term investments</td>
<td>$(33,762)</td>
<td>$(96,830)</td>
</tr>
<tr>
<td>Proceeds from maturities of short-term investments</td>
<td></td>
<td>53,273</td>
</tr>
<tr>
<td>Investment in a related party</td>
<td></td>
<td>(1,000)</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>$(4,099)</td>
<td>(5,514)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>$(38,861)</td>
<td>$(49,071)</td>
</tr>
<tr>
<td><strong>Cash flow from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of preferred stock, net of issuance costs</td>
<td>69,817</td>
<td>106,877</td>
</tr>
<tr>
<td>Proceeds from issuance of common stock upon exercise of stock options, net of repurchases</td>
<td>283</td>
<td>892</td>
</tr>
<tr>
<td>Deferred initial public offering costs</td>
<td></td>
<td>(373)</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td>70,100</td>
<td>107,396</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>18,295</td>
<td>33,266</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>46,865</td>
<td>65,160</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>$65,160</td>
<td>$98,426</td>
</tr>
<tr>
<td><strong>Non-cash investing and financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment purchases included in accounts payable and accrued liabilities</td>
<td>$618</td>
<td>$338</td>
</tr>
<tr>
<td>Unpaid financing costs included in accounts payable and accrued liabilities</td>
<td></td>
<td>1,058</td>
</tr>
<tr>
<td>Vesting of early exercised options and restricted stock</td>
<td>$63</td>
<td>$235</td>
</tr>
</tbody>
</table>

*See accompanying notes to consolidated financial statements*

F-6
Note 1. Organization

Description of Business

Arcus Biosciences, Inc. (Company or the Company) was incorporated in Delaware in April 2015 and is headquartered in Hayward, California. The Company is a clinical-stage biopharmaceutical company focused on creating innovative cancer immunotherapies by leveraging underexploited biological opportunities. Specifically, the Company targets well-characterized biological pathways with significant scientific data supporting their importance in regulating the immune response against cancer and for which either there are no molecules in development or those that exist have suboptimal profiles. To exploit these pathways, the Company has built a robust and highly efficient discovery capability to create and optimize highly differentiated small-molecule immuno-oncology product candidates. Since its inception in 2015, the Company has built a broad portfolio of small molecule and antibody product candidates that it plans to develop together as intra-portfolio combinations.

Liquidity and Capital Resources

The Company has incurred losses and negative cash flows from operations since inception and had an accumulated deficit of $73.2 million as of December 31, 2017. Since inception through December 31, 2017, the Company has funded operations primarily with the net proceeds from the issuance of convertible preferred stock and through proceeds received under an option and licensing agreement. The Company expects to incur substantial operating losses for the next several years and will need to obtain additional financing in order to complete clinical trials and launch and commercialize any product candidates for which it receives regulatory approval. There can be no assurance that such financing will be available or will be at terms acceptable to the Company.

As of December 31, 2017, the Company had cash, cash equivalents, and short-term investments of $175.7 million, which it believes will be sufficient to fund its planned operations for a period of at least twelve months from the date of the issuance of these consolidated financial statements.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and include all adjustments necessary for the fair presentation of the Company’s financial position for the periods presented.

Principles of Consolidation

During 2017, the Company established a wholly-owned subsidiary in Australia. The consolidated financial statements include the Company’s accounts and those of its wholly-owned subsidiary. All intercompany accounts, transactions and balances have been eliminated.

Reverse Stock Split

Prior to the Company’s initial public offering of its common stock (IPO), the Company intends to effect a reverse split of all shares of its common and preferred stock at a ratio of 1-for-3.96. The par values and the authorized shares of the common and preferred stock were not adjusted as a result of the reverse split. All issued and outstanding common stock and preferred stock share amounts and outstanding common stock per share amounts contained in the consolidated financial statements have been retroactively adjusted to reflect this reverse split for all periods presented, and the original issue price of each series of the convertible preferred stock was adjusted accordingly.
Unaudited Pro forma Information

Immediately prior to the completion of this offering, all outstanding shares of convertible preferred stock will automatically convert into common stock. Unaudited pro forma balance sheet information as of December 31, 2017 assumes the conversion of all outstanding convertible preferred stock into shares of common stock. The shares of common stock issuable and the proceeds expected to be received in the initial public offering are excluded from such pro forma financial information. Pro forma basic and diluted net loss per share has been computed to give effect to the conversion of all outstanding convertible preferred stock into shares of common stock. The unaudited pro forma net loss per share does not include the shares expected to be sold and related proceeds to be received from the initial public offering. The unaudited pro forma net loss per share for the year ended December 31, 2017 was computed using the weighted-average number of shares of common stock outstanding, including the pro forma effect of the conversion of all outstanding shares of convertible preferred stock into shares of common stock, as if such conversion had occurred at the beginning of the period, or their issuance dates if later.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. Estimates are used to determine the fair value of common stock and stock-based awards and other issuances, accruals for research and development costs, useful lives of long-lived assets, and uncertain tax positions. Actual results could differ materially from the Company’s estimates.

Risk and Uncertainties

The Company’s future results of operations involve a number of risks and uncertainties. Factors that could affect the Company’s future operating results and cause actual results to vary materially from expectations include, but are not limited to, uncertainty of results of clinical trials and reaching milestones, uncertainty of regulatory approval of the Company’s potential drug candidates, uncertainty of market acceptance of the Company’s product candidates, competition from substitute products and larger companies, securing and protecting proprietary technology, strategic relationships and dependence on key individuals and sole source suppliers.

The Company’s product candidates require approvals from the U.S. Food and Drug Administration (FDA) and comparable foreign regulatory agencies prior to commercial sales in their respective jurisdictions. There can be no assurance that any product candidates will receive the necessary approvals. If the Company was denied approval, approval was delayed or the Company was unable to maintain approval for any product candidate, it could have a materially adverse impact on the Company.

Segments

The Company operates and manages its business as one reportable and operating segment, which is the business of developing and commercializing immunotherapies. The Company’s chief executive officer, who is the chief operating decision maker, reviews financial information on an aggregate basis for purposes of allocating and evaluating financial performance. All long-lived assets are maintained in the United States of America.

Cash Equivalents and Short-Term Investments

Cash equivalents include marketable securities having an original maturity of three months or less at the time of purchase. Short-term investments are investments in marketable securities with maturities of greater than three
months at the time of purchase. Collectively, cash equivalents and short-term investments are considered available-for-sale and are recorded at fair value. Unrealized gains and losses are recorded in accumulated other comprehensive loss in the consolidated statements of convertible preferred stock and stockholders’ deficit. Realized gains and losses are included in interest and other income, net in the consolidated statements of operations and comprehensive loss.

**Restricted Cash**

Restricted cash at December 31, 2016 and 2017, comprises cash balances primarily held as security in connection with the Company’s facility lease agreement and are included in long term assets on its consolidated balance sheets.

**Receivable From a Related Party**

Receivable from a related party is recorded net of any allowances. Estimates of the Company’s allowance for doubtful accounts are determined based on existing contractual payment terms. As of December 31, 2016 and 2017, the outstanding amount is due from PACT Pharma, Inc. (PACT Pharma) for equipment and expenses the Company paid for on its behalf. The Company is exposed to credit risk in the event of a default by PACT Pharma. To date, the Company has not experienced any losses related to these receivables (see Note 5).

**Fair Value Measurements**

Fair value accounting is applied for all financial assets and liabilities, including short-term and long-term investments, and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). The carrying amount of the Company’s financial instruments, including receivable from a related party, accounts payable and accrued expenses and other current liabilities approximate fair value due to their short-term maturities.

**Concentration of Credit Risk**

Cash equivalents and short-term investments are financial instruments that potentially subject the Company to concentrations of credit risk. The Company invests in money market funds, treasury bills and notes, government bonds, commercial paper and corporate notes. The Company limits its credit risk associated with cash equivalents and short-term investments by placing them with banks and institutions it believes are highly credit worthy and in highly rated investments.

**Property and Equipment**

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, ranging from one to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term. Upon retirement or sale, the cost and related accumulated depreciation are removed from the consolidated balance sheet and the resulting gain or loss is reflected in the consolidated statement of operations and comprehensive loss.

**Impairment of Long-Lived Assets**

The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment charge would be recorded when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, is assessed using discounted cash flows or other appropriate measures of fair value. The Company did not recognize any impairment charges for the years ended December 31, 2016 and 2017.
Deferred Offering Costs
Deferred offering costs, consisting of direct legal, accounting, filing and other fees directly related to the Company’s IPO, are capitalized. The deferred offering costs will be reclassified to additional paid-in capital upon completion of the IPO. No amounts were deferred as of December 31, 2016. The Company deferred $1.3 million as of December 31, 2017, which is recorded as other long-term assets in the accompanying consolidated balance sheets. In the event the IPO is aborted, including postponement of 90 days or greater, all capitalized deferred offering costs will be expensed.

Revenue Recognition
The Company generates revenue from its option and license agreement for the development and commercialization of its product candidates. Option and license agreements may include non-refundable upfront research and development fees, option fees to obtain development and commercialization licenses for the Company’s products, milestone payments based on achievement of defined development, regulatory and sales targets, and royalties on sales of commercialized products. To date, the Company has not recognized revenue from sales of its product candidates.

The Company recognizes revenue when all four of the following criteria have been met: (i) collectability is reasonably assured; (ii) delivery has occurred or services have been rendered; (iii) persuasive evidence of an arrangement exists; and (iv) the fee is fixed or determinable. Revenue under option and license arrangements is recognized based on evaluation of the performance obligations of the contract. Collectability is assessed based on evaluation of payment criteria as stated in the contract as well as the creditworthiness of the customer. Determination of whether delivery has occurred or services rendered are based on management’s evaluation of the performance obligations as stated in the contract and progress made against those obligations. Evidence of arrangement is deemed to exist upon execution of the contract. Fees are considered fixed and determinable when the amount payable to the Company is no longer subject to any acceptance, refund rights or other contingencies that would alter the fixed nature of the fees charged for the deliverables.

Option and license agreements may contain multiple elements as evaluated under Accounting Standards Codification (ASC) 605-25, Revenue Recognition-Multiple-Element Arrangements, including agreements to provide research and development services, participation in development and/or steering committees, manufacturing services, sharing of know-how and other information, and grants of licenses to develop and commercialize product candidates. Each deliverable under the agreement is evaluated to determine whether it qualifies as a separate unit of accounting based on whether the deliverable has standalone value to the customer. The arrangement’s consideration that is fixed or determinable is then allocated to each separate unit of accounting based on the following hierarchy: (i) vendor-specific objective evidence of the fair value of the deliverable, if it exists; (ii) third-party evidence of selling price, if vendor-specific objective evidence is not available; or (iii) the best estimate of selling price if neither vendor-specific objective evidence or third-party evidence is available.

A delivered item or items that do not qualify as a separate unit of accounting within the arrangement are combined with the other applicable undelivered items within the arrangement. The allocation of arrangement consideration and the recognition of revenue is then determined for those combined deliverables as a single unit of accounting. For a combined unit of accounting, non-refundable upfront fees are recognized as performance obligations related to the final deliverable are completed. In the case of research and development services, performance would generally be expected to be ratable over the estimated performance period unless the Company determines there is a discernible pattern of performance other than straight-line, in which case the Company uses a proportionate performance method to recognize the revenue over the estimated performance period.
period. Amounts received in advance of performance are recorded as deferred revenue. If any of the initial deliverables are determined to have standalone value separate from the research and development services, then the allocated consideration is recorded as revenue when those items are delivered.

Option and license agreements may also contain milestone payments that become due upon the achievement of certain milestones. The Company applies ASC 605-28, Revenue Recognition—Milestone Method. Under the milestone method, payments that are contingent upon achievement of a substantive milestone are recognized in the period in which the milestone is achieved. Milestones are defined as an event that can only be achieved based on the Company’s performance and there is substantive uncertainty about whether the event will be achieved at the inception of the arrangement. Events that are contingent only on the passage of time or only on counterparty performance are not considered milestones subject to this guidance. Further, for the milestone to be considered substantive, the amounts received must relate solely to prior performance, be reasonable relative to all of the deliverables, and the consideration must be commensurate with the Company’s performance to achieve the milestone. Non-substantive milestone payments are recognized as revenue over the estimated period of any remaining performance obligations.

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development expenses consist primarily of personnel costs for the Company’s research and product development employees. Also included are non-personnel costs such as professional fees payable to third parties for preclinical and clinical studies and research services, laboratory supplies and equipment maintenance, product licenses, and other consulting costs.

The Company estimates preclinical and clinical study and research expenses based on the services performed, pursuant to contracts with research institutions that conduct and manage preclinical and clinical studies and research services on its behalf. The Company estimates these expenses based on discussions with internal management personnel and external service providers as to the progress or stage of completion of services and the contracted fees to be paid for such services. If the actual timing of the performance of services or the level of effort varies from the original estimates, the Company will adjust the accrual accordingly. Payments associated with licensing agreements to acquire exclusive licenses to develop, use, manufacture and commercialize products that have not reached technological feasibility and do not have alternate commercial use are expensed as incurred. Payments made to third parties under these arrangements in advance of the performance of the related services by the third parties are recorded as prepaid expenses until the services are rendered.

Leases and Rent Expense

The Company records rent expense on a straight-line basis over the life of the lease. In cases where there is a free rent period or future fixed rent escalations, the Company records a deferred rent liability. Additionally, the receipt of any lease incentives is recorded as a deferred rent liability which is amortized over the lease term as a reduction of rent expense. Any lease incentives that are due from the landlord but have not been collected are recorded as a receivable in Prepaid expenses and other current assets. Building improvements made with the lease incentives or tenant allowances are capitalized as leasehold improvements and included in property and equipment in the consolidated balance sheets.

Stock-Based Compensation

The Company accounts for stock-based compensation arrangements with employees in accordance with ASC 718, Stock Compensation. Stock-based awards granted include stock options with time-based vesting. ASC 718
requires the recognition of compensation expense, using a fair value-based method, for costs related to all stock-based payments. The Company’s determination of the fair value of stock options with time-based vesting on the date of grant utilizes the Black-Scholes option-pricing model, and is impacted by its common stock price as well as other variables including, but not limited to, expected term that options will remain outstanding, expected common stock price volatility over the term of the option awards, risk-free interest rates and expected dividends.

The fair value of a stock-based award is recognized over the period during which an optionee is required to provide services in exchange for the option award, known as the requisite service period (usually the vesting period) on a straight-line basis. Stock-based compensation expense is recognized based on the fair value determined on the date of grant and is reduced for forfeitures as they occur.

Equity instruments issued to non-employees are accounted for in accordance with ASC 505-50, Equity Based Payments to Non-Employees, and are recorded at their fair value on the measurement date and are subject to periodic adjustments as the underlying equity instruments vest. The fair value of options granted to consultants is expensed when vested. Non-employee stock-based compensation expense was not material for all periods presented.

Estimating the fair value of equity-settled awards as of the grant date using valuation models, such as the Black-Scholes option pricing model, is affected by assumptions regarding a number of complex variables. Changes in the assumptions can materially affect the fair value and ultimately how much stock-based compensation expense is recognized. These inputs are subjective and generally require significant analysis and judgment to develop.

Convertible Preferred Stock

The Company records all shares of convertible preferred stock at their respective fair values less issuance costs on the dates of issuance. The convertible preferred stock is recorded outside of stockholders’ (deficit) equity because, in the event of certain deemed liquidation events considered not solely within the Company’s control, such as a merger, acquisition and sale of all or substantially all of the Company’s assets, the convertible preferred stock will become redeemable at the option of the holders. In the event of a change of control of the Company, proceeds received from the sale of such shares will be distributed in accordance with the liquidation preferences set forth in the Company’s Amended and Restated Certificate of Incorporation unless the holders of convertible preferred stock have converted their shares of convertible preferred stock into shares of common stock. The Company has determined not to adjust the carrying values of the convertible preferred stock to the liquidation preferences of such shares because of the uncertainty of whether or when such an event would occur.

Income Taxes

The Company provides for income taxes under the asset and liability method. Current income tax expense or benefit represents the amount of income taxes expected to be payable or refundable for the current year. Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and net operating loss and credit carryforwards, and are measured using the enacted tax rates and laws that will be in effect when such items are expected to reverse. Deferred income tax assets are reduced, as necessary, by a valuation allowance when management determines it is more likely than not that some or all of the tax benefits will not be realized.

The Company accounts for uncertain tax positions in accordance with ASC 740-10, Accounting for Uncertainty in Income Taxes. The Company assesses all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities.
authorities. Assessing an uncertain tax position begins with the initial determination of the position’s sustainability and is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and the Company will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit might change as new information becomes available.

The Company includes any penalties and interest expense related to income taxes as a component of other expense and interest expense, net, as necessary.

Comprehensive Loss
Comprehensive loss is defined as a change in equity of a business enterprise during a period, resulting from transactions from non-owner sources. The Company had unrealized loss from its available-for-sale securities during the years ended December 31, 2016 and 2017, which meets the criteria as other comprehensive loss and, therefore, the Company has reported comprehensive loss and net loss.

Net Loss per Share
Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period, without consideration for potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares and potentially dilutive securities outstanding for the period. For purposes of the diluted net loss per share calculation, convertible preferred stock, and common stock options are considered to be potentially dilutive securities. Because the Company reported a net loss for the years ended December 31, 2016 and 2017, and the inclusion of the potentially dilutive securities would be antidilutive, diluted net loss per share is the same as basic net loss per share for both periods.

Recent Accounting Pronouncements
From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB), or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on the Company’s consolidated financial statements upon adoption. Under the Jumpstart Our Business Startups Act of 2012, as amended (the JOBS Act), the Company meets the definition of an emerging growth company, and has elected the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

Recently Adopted Accounting Standards Updates
In November 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-17 (Topic 740), Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires deferred tax liabilities and assets to be classified as noncurrent in the consolidated balance sheets. For public entities, the standard will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted for financial statements that have not been previously issued. The ASU may be applied either
prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company early adopted this ASU during 2016 on a retrospective basis and the adoption had no impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02 (Topic 810), Consolidation, Amendments to the Consolidations Analysis, which amends the consolidation requirements in ASC 810. The ASU modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities and significantly amends the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. For public business entities, the guidance is effective for annual periods and interim periods beginning after December 15, 2015. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company early adopted the ASU in 2016 and the adoption did not have a material impact on the Company’s consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern. The new standard provides guidance around management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for all entities for annual periods ending after December 15, 2016, and interim periods with annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard in 2016 did not have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718), which simplifies the accounting for employee share-based transactions. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the consolidated statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification, and the classification of those taxes paid on the consolidated statement of cash flows. For public entities, ASU 2016-09 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company early adopted ASU 2016-09 in 2017 and the adoption did not have any impact on the Company’s consolidated financial statements.

Recently Issued Accounting Standards or Updates Not Yet Effective

In November 2016, the FASB issued ASU No. 2016-18 (Topic 230), Restricted Cash, Statement of Cash Flows. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash and, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. ASU 2016-18 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2018 and interim periods beginning after December 15, 2019. Early adoption is permitted. The amendments in this ASU should be applied using a retrospective transition method to each period presented. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

F-14
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, becomes effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption is permitted. ASU 2014-09 also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method).

The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. generally accepted accounting pronouncements. The Company is still in the process of evaluating the effect that this guidance will have on revenue recognition for our option and license agreement with Taiho Pharmaceutical Co., Ltd. (Taiho), specifically as it pertains to the non-refundable, non-creditable cash payments to the Company totaling $35.0 million and the future contingent payments the Company may become entitled to. The Company expects its evaluation to be completed during 2018.

In February 2016, the FASB issued ASU No. 2016-02 (Topic 842), Leases. ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases. The ASU will also require new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early adoption is permitted. The Company has not yet determined the potential effects of this ASU on its consolidated financial statements.

Note 3. Fair Value Measurements

Financial assets and liabilities are recorded at fair value. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2—Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

Level 3—Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.
Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

During the periods presented, the Company has not changed the manner in which it values assets and liabilities that are measured at fair value. The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the hierarchy during the years ended December 31, 2016 and 2017. The following tables set forth the Company’s financial instruments that were measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands):

<table>
<thead>
<tr>
<th>Assets</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Level 1</td>
</tr>
<tr>
<td>Money market funds</td>
<td>$ 50,565</td>
<td>$ 50,565</td>
</tr>
<tr>
<td>U.S. government agency obligations</td>
<td>4,020</td>
<td>—</td>
</tr>
<tr>
<td>Corporate debt securities and commercial paper</td>
<td>44,311</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>$ 98,896</td>
<td>$ 50,565</td>
</tr>
</tbody>
</table>

The investments are classified as available-for-sale securities. At December 31, 2016 and 2017, the balance in the Company’s accumulated other comprehensive loss was comprised solely of activity related to the Company’s available-for-sale securities. There were no realized gains or losses recognized on the sale or maturity of available-for-sale securities for the years ended December 31, 2016 and 2017, and as a result, the Company did not reclassify any amounts out of accumulated other comprehensive loss for the years then ended. The Company has a limited number of available-for-sale securities in insignificant loss positions as of December 31, 2017, which the Company does not intend to sell and has concluded it will not be required to sell before recovery of the amortized cost for the investment at maturity.
ARCUS BIOSCIENCES, INC.

Notes to Consolidated Financial Statements

Fair Value Measurements at December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>Amortized Cost</th>
<th>Unrealized Gain</th>
<th>Unrealized Loss</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market funds</td>
<td>$50,565</td>
<td>$ —</td>
<td>$ —</td>
<td>$50,565</td>
</tr>
<tr>
<td>U.S. government agency obligations</td>
<td>4,020</td>
<td>$ —</td>
<td>$ —</td>
<td>4,020</td>
</tr>
<tr>
<td>Corporate debt securities and commercial paper</td>
<td>44,337</td>
<td>$ —</td>
<td>(26)</td>
<td>44,311</td>
</tr>
<tr>
<td></td>
<td>$98,922</td>
<td>$ —</td>
<td>$ (26)</td>
<td>$98,896</td>
</tr>
</tbody>
</table>

Fair Value Measurements at December 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Amortized Cost</th>
<th>Unrealized Gain</th>
<th>Unrealized Loss</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market funds</td>
<td>$66,478</td>
<td>$ —</td>
<td>$ —</td>
<td>$66,478</td>
</tr>
<tr>
<td>U.S. government agency obligations</td>
<td>57,183</td>
<td>$ —</td>
<td>(30)</td>
<td>57,153</td>
</tr>
<tr>
<td>Corporate debt securities and commercial paper</td>
<td>52,084</td>
<td>$ —</td>
<td>(12)</td>
<td>52,072</td>
</tr>
<tr>
<td></td>
<td>$175,745</td>
<td>$ —</td>
<td>$ (42)</td>
<td>$175,703</td>
</tr>
</tbody>
</table>

Note 4: Consolidated Balance Sheet Components

Property and Equipment

Property and equipment, net consisted of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific equipment</td>
<td>$2,812</td>
<td>$5,053</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>584</td>
<td>625</td>
</tr>
<tr>
<td>Capitalized software</td>
<td>79</td>
<td>131</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>6,499</td>
<td>9,280</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>$ —</td>
<td>119</td>
</tr>
<tr>
<td>Total</td>
<td>9,974</td>
<td>15,208</td>
</tr>
<tr>
<td>Less: Accumulated depreciation and amortization</td>
<td>(1,366)</td>
<td>(3,978)</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>$8,608</td>
<td>$11,230</td>
</tr>
</tbody>
</table>

Depreciation and amortization expense was $1.3 million and $2.6 million for the years ended December 31, 2016 and 2017, respectively.

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>$291</td>
<td>$1,026</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>443</td>
<td>1,193</td>
</tr>
<tr>
<td>Professional fees</td>
<td>$ —</td>
<td>706</td>
</tr>
<tr>
<td>Other</td>
<td>263</td>
<td>212</td>
</tr>
<tr>
<td>Total</td>
<td>$997</td>
<td>$3,137</td>
</tr>
</tbody>
</table>
Note 5: Equity Investment

In September 2016, the Company purchased approximately 3.6 million shares of common stock of PACT Pharma, a privately funded, early-stage biopharmaceutical company focused on adoptive cell therapy. The Company determined the fair value of such investment to be insignificant to the Company’s 2016 financial statements given the start-up nature of operations of PACT Pharma, and it was recorded at a nominal amount. In December 2016, the Company and PACT Pharma entered into a Master Services Agreement (the PACT Agreement) under which the Company provides PACT Pharma with general administrative support, including finance, human resources, legal, and other operational support. The Company also received certain warrants to purchase PACT Pharma common stock exercisable upon PACT Pharma’s achievement of certain valuation thresholds pursuant to the PACT Agreement. The PACT Agreement will terminate no later than December 31, 2018. Also, in December 2016, the Company purchased 1.0 million shares of Series A preferred stock of PACT Pharma for $1.0 million. The Company determined PACT Pharma to be a variable interest entity, and that the Company has a variable interest in PACT. However, because the Company is not the primary beneficiary of PACT Pharma, it is not consolidating the results of operations of PACT Pharma in its consolidated financial statements.

The Company’s investment in PACT Pharma is accounted for as an equity method investment, and as a result the Company records its share of PACT Pharma’s operating results in interest and other income, net, in its consolidated statement of operations and comprehensive loss.

For the year ended December 31, 2017, the Company recorded $0.4 million relating to its share of PACT Pharma’s operating loss. For the year ended December 31, 2016, the Company’s share of PACT Pharma’s operating results was not significant. The Company monitors the investment for events or circumstances indicative of potential other-than-temporary impairment, and makes appropriate reductions in carrying values if determined that an impairment charge is required. For the years ended December 31, 2016 and 2017, no impairment charge was recorded. The Company also determined that the fair value of the warrants to be insignificant to the Company’s 2016 and 2017 consolidated financial statements. As of December 31, 2016 and 2017, the Company had a $0.4 million and $25,000 receivable from PACT Pharma, respectively, for equipment and expenses the Company paid for on its behalf.

Note 6. License Agreements

Taiho Pharmaceutical Co., Ltd

In September 2017, the Company and Taiho entered into an option and license agreement (the Taiho Agreement) to collaborate on the potential development and commercialization of certain product candidates from the Company’s portfolio in Japan and certain other territories in Asia (excluding China) (the Taiho Territory). The Taiho Agreement provides Taiho with exclusive options, over a five-year period (the Option Period), to obtain an exclusive development and commercialization license to clinical stage product candidates from the Company’s programs (each, an Arcus Program).

In consideration for the exclusive options and other rights contained in the Taiho Agreement, Taiho will make non-refundable, non-creditable cash payments to the Company totaling $35.0 million, of which the Company received $25.0 million during 2017. An additional $5.0 million is payable by Taiho and expected to be received in both 2018 and 2019.

In the event that the Company has not initiated IND enabling studies for at least five Arcus Programs prior to the expiration of the Option Period, Taiho may elect to extend the Option Period, up to a maximum of seven years for the Option Period, subject to an extension fee. If Taiho elects to exercise an option they will be obligated to
make an exercise option payment for each option exercise of between $3.0 million to $15.0 million, dependent on the development stage of the applicable Arcus Program for which the option is exercised. In addition, the Taiho Agreement provides that the Company is eligible to receive additional clinical and, regulatory milestones totaling up to $130.0 million per Arcus Program, and it will be eligible to receive contingent payments of up to $145.0 million per Arcus Program associated with the achievement of specified levels of Taiho net sales in the Taiho Territory.

In addition, the Company will receive royalties ranging from high single-digits to mid-teens on net sales of licensed products in the Taiho Territory. Royalties will be payable on a licensed product-by-licensed product and country-by-country basis during the period of time commencing on the first commercial sale of a licensed product in a country and ending upon the later of: (a) ten (10) years from the date of first commercial sale of such licensed product in such country; and (b) expiration of the last-to-expire valid claim of the Company’s patents covering the manufacture, use or sale or exploitation of such licensed product in such country (the Royalty Term).

The Taiho Agreement contains multiple elements, and the deliverables under the Taiho Agreement consist of (1) the research and development services, in which the Company will use commercially reasonable efforts to initiate IND enabling studies for at least five Arcus Programs, as well as further develop such Arcus Programs during the term of the Agreement, and (2) the obligation to participate on the joint steering committee. These deliverables are non-contingent in nature. The Company determined that the obligation to participate in the joint steering committee does not have stand-alone value to Taiho because the committee’s primary purpose is to monitor and govern the research and development activities and, hence, it is inseparable from the research and development services. The Company also concluded that, at the inception of the agreement, Taiho’s exclusive options are contingent deliverables as the exclusive options have significant uncertainty and are outside of the control of the Company, since Taiho has sole discretion to determine whether or not to exercise such options. Further, the Company concluded that the exclusive options do not contain a significant and incremental discount.

The Company determined that the level of effort required for it to meet its obligations under the Taiho Agreement is not expected to vary significantly over the Company’s performance period. Accordingly, the Company combined these deliverables into a single unit of accounting and allocated the entire arrangement consideration to that combined unit of accounting. As a result, the $25.0 million non-refundable, non-creditable cash payments received by the Company are being recognized ratably over the estimated performance period of five years, and the remaining $10.0 million of non-refundable, non-creditable cash payments will be recognized ratably over the estimated remaining performance period as they become due and payable by Taiho. During the year ended December 31, 2017, the Company recognized $1.4 million of revenue under the Taiho Agreement. As of December 31, 2017, related to the Taiho Agreement, the Company recorded as deferred revenue, current and deferred revenue, noncurrent of $5.0 million and $18.6 million, respectively, in its consolidated balance sheet.

The Company determined that the clinical and regulatory milestone payments under the Taiho Agreement do not constitute substantive milestones and, therefore, will not be accounted for under the milestone method of revenue recognition. The events leading to these payments do not meet the definition of a substantive milestone because the achievement of these events depends primarily on Taiho’s performance. Accordingly, any revenue from these payments would be recognized over the remaining period of the performance obligations, if any, relating to this arrangement. If there are no remaining performance obligations under the arrangement at the time the milestone payment is triggered, then such milestone payment will be recognized as revenue in full upon the triggering event being achieved. The Company considers the contingent payments due from Taiho upon the achievement of specified sales volumes to be similar to royalty payments. The Company will recognize royalty payments as revenue in the period when such royalty payments are earned, i.e. in the period when sales of the licensed products in Taiho Territory occur.
The Taiho Agreement shall remain in effect until (a) expiration of the last exercise period if Taiho has not exercised any of its exclusive options prior to such expiration or (b) if Taiho has exercised any of its exclusive options prior to the expiration of the applicable exercise period, expiry of all Royalty Terms for the licensed products, in each case subject to certain exceptions.

**WuXi Biologics License Agreement**

In August 2017, the Company entered into a license agreement (the WuXi Agreement) with WuXi Biologics (Cayman) Inc. (WuXi Biologics) in which it obtained an exclusive license to develop, use, manufacture, and commercialize products including an anti-PD-1 antibody in North America, Europe, Japan and certain other territories. The Company paid upfront and milestone payments of $18.5 million during 2017 which were recorded within research and development expenses on our consolidated statements of operations, as the products have not reached technological feasibility and do not have alternate commercial use. The WuXi Agreement also provides for clinical and regulatory milestone payments, commercialization milestone payments of up to $375.0 million, and tiered royalty payments to be made to WuXi Biologics that range from the high single-digits to low teens of net sales by the Company of licensed products.

**Abmuno License Agreement**

In December 2016, the Company entered into a license agreement (the Abmuno Agreement) with Abmuno Therapeutics LLC (Abmuno) in which it obtained a worldwide exclusive license to develop, use, manufacture, and commercialize products that include an anti-TIGIT antibody. The Company made upfront and milestone payments of $3.8 million during 2017 which were recorded within research and development expenses on our consolidated statements of operations, as the products have not reached technological feasibility and do not have alternate commercial use and are expensed as incurred. The Abmuno Agreement also provides for additional clinical, regulatory and commercialization milestone payments up to $103.8 million.

**Note 7: Stockholders’ Deficit**

The Company’s Certificate of Incorporation, as amended and restated, authorizes the Company to issue 153,993,327 shares, of $0.0001 par value common stock. Each share of common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when and if declared by the board of directors, subject to the prior rights of holders of all classes of preferred stock outstanding. The Company has never declared any dividends on common stock.

As of December 31, 2016 and 2017, the Company had reserved common stock, on an if-converted basis, for issuance as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convertible preferred stock</td>
<td>21,307,643</td>
<td>30,459,574</td>
</tr>
<tr>
<td>Common stock options issued and outstanding</td>
<td>129,918</td>
<td>544,116</td>
</tr>
<tr>
<td>Remaining shares available for issuance under 2015 Stock Plan</td>
<td>1,283,371</td>
<td>1,855,240</td>
</tr>
<tr>
<td>Total</td>
<td>22,720,932</td>
<td>32,858,930</td>
</tr>
</tbody>
</table>
Note 8: Convertible Preferred Stock

As of December 31, 2016 the outstanding convertible preferred stock was as follows (in thousands, except share amounts):

<table>
<thead>
<tr>
<th>Series</th>
<th>Shares Authorized</th>
<th>Shares Issued and Outstanding</th>
<th>Liquidation Value</th>
<th>Carrying Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A</td>
<td>49,725,000</td>
<td>12,556,791</td>
<td>$49,725</td>
<td>$49,637</td>
</tr>
<tr>
<td>Series B</td>
<td>35,150,000</td>
<td>8,750,852</td>
<td>70,000</td>
<td>69,817</td>
</tr>
<tr>
<td>Total</td>
<td>84,875,000</td>
<td>21,307,643</td>
<td>$119,725</td>
<td>$119,454</td>
</tr>
</tbody>
</table>

As of December 31, 2017, the outstanding convertible preferred stock was as follows (in thousands, except share amounts):

<table>
<thead>
<tr>
<th>Series</th>
<th>Shares Authorized</th>
<th>Shares Issued and Outstanding</th>
<th>Liquidation Value</th>
<th>Carrying Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A</td>
<td>49,725,000</td>
<td>12,556,791</td>
<td>$49,725</td>
<td>$49,637</td>
</tr>
<tr>
<td>Series B</td>
<td>34,653,462</td>
<td>8,750,852</td>
<td>70,000</td>
<td>69,817</td>
</tr>
<tr>
<td>Series C</td>
<td>36,580,405</td>
<td>9,151,931</td>
<td>107,000</td>
<td>106,742</td>
</tr>
<tr>
<td>Total</td>
<td>120,958,867</td>
<td>30,459,574</td>
<td>$226,725</td>
<td>$226,196</td>
</tr>
</tbody>
</table>

The significant rights and preferences of the outstanding convertible preferred stock are as follows:

**Dividends** — The holders of the convertible preferred stock are entitled to receive dividends, out of assets legally available prior and in preference to any declaration or payment of any other dividends, at the rates of $0.24, $0.48 and $0.71 per share (as adjusted for stock splits, stock dividends, reclassifications, and the like) per annum on each outstanding share of Series A, Series B and Series C convertible preferred stock, respectively, when, as and if, declared by the board of directors. Such dividends are not cumulative. To date, no dividends have been declared.

**Liquidation Preference** — In the event of any liquidation, dissolution, or winding up of the Company, either voluntary or involuntary, the holders of Series A, Series B and Series C convertible preferred stock shall be entitled to receive on a pari passu basis and in preference to any distribution to the common shareholders, the greater of their stated liquidation preference or the amount such holders would have received had they converted their preferred stock into common stock immediately prior to such dissolution. For each series of convertible preferred stock, the stated liquidation preference per share is equal to $3.96, $8.00 and $11.6915 per share, respectively, plus any declared but unpaid dividends. Any remaining assets shall be distributed among the holders of common stock pro rata, based on the number of shares of common stock held by each.

**Voting Rights** — Each share of convertible preferred stock is entitled to one vote for each share of common stock into which such share of convertible preferred stock is convertible.

**Conversion** — Each share of convertible preferred stock is convertible, at the option of the holder, into the number of shares of common stock that result from dividing the applicable original share price per share by the applicable conversion price per share at the time of conversion, as adjusted for stock splits, stock dividends, reclassification and the like. At December 31, 2016 and 2017, the conversion price equaled the original share price.
price. Each share of convertible preferred stock shall automatically convert upon the earlier of (i) a vote of at least 65% of the then-outstanding shares of preferred stock or, (ii) a public offering of the Company’s common stock which results in gross proceeds of at least $30.0 million.

Note 9: Stock-Based Compensation

In May 2015, the Company adopted the 2015 Stock Plan, which was amended and restated in November 2015 (as amended from time to time, the 2015 Plan). The 2015 Plan provides for the granting of stock awards to employees, non-employee directors, and consultants of the Company. Pursuant to the 2015 Plan, the Company may grant stock awards to purchase up to 3,697,334 shares of common stock, of which 1,855,240 remain available for grant at December 31, 2017. Outside of the 2015 Plan, the Company has granted an option to purchase 7,575 shares of common stock at $1.23 per share (the Non-Plan Option). The Non-Plan Option expires in October 2026. The Company has options outstanding to purchase a total of 544,116 shares of common stock when the Non-Plan Option is added to the total number of options outstanding under the 2015 Plan.

The 2015 Plan permits the granting of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock or restricted stock units to employees, non-employee directors, and service providers at exercise prices not less than the 100% of fair value at the date of grant. The Board of Directors, at its sole discretion, shall determine the exercise price. These options expire 10 years from the date of grant. Incentive stock options and nonstatutory options generally vest monthly and ratably over four years. Upon termination of service, any unvested options are automatically returned to Company. Vested options that are not exercised within three months after termination as an employee, consultant, or service provider to the Company are surrendered back to the Company. Those shares are added back to the 2015 Plan and made available for future grants. Upon vesting of restricted shares and exercise of options, the Company issues common stock from its authorized shares.

The terms of the 2015 Plan permit option holders to exercise stock options before they are vested, subject to certain limitations. Such unvested shares are subject to repurchase by the Company at the original exercise price in the event the option holder’s service to the Company is terminated either voluntarily or involuntarily. As a result of early exercises under the 2015 Plan, approximately 525,797 and 812,769 shares had not vested and were subject to repurchase as of December 31, 2016 and 2017, respectively. The Company treats cash received from the exercise of unvested options as a refundable deposit and classifies such amounts as a liability in its consolidated balance sheets. As of December 31, 2016 and 2017, the Company included cash received for the early exercise of unvested options of $0.2 million and $0.9 million, respectively, in other current and long-term liabilities, based on the timing of their expected vesting. Amounts included in liabilities are transferred into common stock and additional paid-in capital as the shares vest, which is generally over a period of 48 months.
The following table, which includes options granted under the 2015 Plan and the Non-Plan Option, summarizes option activity:

<table>
<thead>
<tr>
<th>Shares Available for Grant</th>
<th>Shares Subject to Outstanding Options</th>
<th>Weighted Average Exercise Price Per Share</th>
<th>Weighted Average Remaining Contractual Term (in years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 31, 2015</td>
<td>871,226</td>
<td>20,200</td>
<td>$0.40</td>
</tr>
<tr>
<td>Options authorized</td>
<td>1,133,987</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options granted</td>
<td>(746,825)</td>
<td>746,825</td>
<td>$0.59</td>
</tr>
<tr>
<td>Options exercised</td>
<td></td>
<td>(637,107)</td>
<td>$0.48</td>
</tr>
<tr>
<td>Options repurchased</td>
<td>24,987</td>
<td></td>
<td>$0.40</td>
</tr>
<tr>
<td>Balance at December 31, 2016</td>
<td>1,283,375</td>
<td>129,918</td>
<td>$1.20</td>
</tr>
<tr>
<td>Options authorized</td>
<td>1,568,397</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options granted</td>
<td>(1,063,019)</td>
<td>1,063,019</td>
<td>$1.61</td>
</tr>
<tr>
<td>Options exercised</td>
<td></td>
<td>(643,024)</td>
<td>$1.45</td>
</tr>
<tr>
<td>Options forfeited or canceled</td>
<td>5,797</td>
<td>(5,797)</td>
<td>$1.28</td>
</tr>
<tr>
<td>Options repurchased</td>
<td>60,690</td>
<td></td>
<td>$0.49</td>
</tr>
<tr>
<td>Balance at December 31, 2017</td>
<td>1,855,240</td>
<td>544,116</td>
<td>$1.71</td>
</tr>
</tbody>
</table>

The following table summarizes employee and non-employee stock-based compensation expense for the years ended December 31, 2016 and 2017, and also the allocation within the consolidated statements of operations and comprehensive loss (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2016</th>
<th>Year Ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development</td>
<td>$67</td>
<td>$222</td>
</tr>
<tr>
<td>General and administrative</td>
<td>23</td>
<td>273</td>
</tr>
<tr>
<td>Total stock-based compensation</td>
<td>$90</td>
<td>$495</td>
</tr>
</tbody>
</table>

The Company estimates the fair value of stock-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables, such as expected term, volatility, risk-free interest rate, and expected dividends. Each of these inputs is subjective and generally requires significant judgment to determine. Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense, net of forfeitures, over the requisite service period, which is generally the vesting period of the respective award. The Company recognizes compensation on a straight-line basis over the requisite vesting period for each award. The following assumptions were used to calculate the fair value of stock-based compensation as of December 31, 2016 and 2017:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2016</th>
<th>Year Ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free interest rate</td>
<td>1.2% - 2.45%</td>
<td>1.66% - 2.20%</td>
</tr>
<tr>
<td>Expected term (in years)</td>
<td>6.25 - 9.84</td>
<td>5.95-9.99</td>
</tr>
<tr>
<td>Volatility</td>
<td>67.0% - 77.8%</td>
<td>67.0%-71.7%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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**Expected Term** — The Company has opted to use the “simplified method” for estimating the expected term of options, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the option (generally 10 years).

**Expected Volatility** — Due to the Company’s limited operating history and a lack of company specific historical and implied volatility data, the Company has based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. The historical volatility data was computed using the daily closing prices for the selected companies’ shares during the equivalent period of the calculated expected term of the stock-based awards.

**Risk-Free Interest Rate** — The risk-free rate assumption is based on the U.S. Treasury instruments with maturities similar to the expected term of the Company’s stock options.

**Expected Dividend** — The Company has not issued any dividends in its history and does not expect to issue dividends over the life of the options and therefore has estimated the dividend yield to be zero.

**Fair value of Common Stock** — The fair value of the shares of common stock underlying the stock-based awards has historically been determined by the board of directors, with input from management. Because there has been no public market for the Company’s common stock, the board of directors has determined the fair value of the common stock on the grant-date of the stock-based award by considering a number of objective and subjective factors, including enterprise valuations of the Company’s common stock performed by an unrelated third-party specialist, valuations of comparable companies, sales of the Company’s convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of the Company’s capital stock, and general and industry-specific economic outlook. The board of directors intended all options granted to be exercisable at a price per share not less than the estimated per share fair value of common stock underlying those options on the date of grant.

As of December 31, 2016 and 2017, there was a total of $0.4 million and $1.9 million, respectively, of unrecognized employee compensation costs related to non-vested stock option awards. During the years ended December 31, 2016 and 2017, the intrinsic value of shares exercised was $1.2 million and $2.5 million, respectively, and the fair value of shares vested during the respective years was $0.1 million and $0.5 million.

**Non-employee stock-based compensation**

As of December 31, 2016 and 2017, 37,311 and 63,878, respectively, of vested stock options and 47,971 and 77,466, respectively, of unvested stock options were held by non-employees. The Company remeasures the estimated fair value of the unvested portion of the award each period, until the award is fully vested. The Company believes that the fair value of the stock options is more reliably measurable than the fair value of services received. The fair value of options granted to non-employees was estimated using the Black-Scholes method. The amount of stock-based compensation expense related to non-employees recognized in the consolidated financial statements for the years ended December 31, 2016 and 2017 was immaterial.

**Restricted stock awards**

In 2015, in conjunction with the incorporation of the Company, the Company issued a total of 2,777,776 shares of common stock at $0.0004 per share to its two founders, the Chief Executive Officer and the President, under restricted stock agreements. At the date of grant, the shares had an estimated fair value of $0.0004 per share. Under the terms of the restricted stock agreements, shares vest monthly over four years. Upon the termination of service of these individuals, unvested shares are subject to repurchase by the Company at the original issue price.
A summary of the Company’s non-vested restricted stock for the periods presented is as follows:

<table>
<thead>
<tr>
<th>Balance, December 31, 2015</th>
<th>Number of Shares</th>
<th>Weighted Average Grant Date Fair Value</th>
<th>Remaining Contractual Term (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,372,684</td>
<td>$ 0.000396</td>
<td>3.4</td>
</tr>
<tr>
<td>Vested during the year</td>
<td>694,444</td>
<td>$ 0.000396</td>
<td></td>
</tr>
<tr>
<td>Balance, December 31, 2016</td>
<td>1,678,240</td>
<td>$ 0.000396</td>
<td>2.4</td>
</tr>
<tr>
<td>Vested during the year</td>
<td>694,444</td>
<td>$ 0.000396</td>
<td></td>
</tr>
<tr>
<td>Balance, December 31, 2017</td>
<td>983,796</td>
<td>$ 0.000396</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Note 10. Net Loss per Share

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except share and per share data):

<table>
<thead>
<tr>
<th>Year Ended December 31, 2016</th>
<th>Year Ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numerator:</td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (17,970)</td>
</tr>
<tr>
<td>Denominator:</td>
<td></td>
</tr>
<tr>
<td>Weighted-average common shares outstanding</td>
<td>3,374,609</td>
</tr>
<tr>
<td>Less: weighted-average common shares subject to repurchase</td>
<td>(2,510,626)</td>
</tr>
<tr>
<td>Weighted-average common shares used to compute basic and diluted net loss per share</td>
<td>863,983</td>
</tr>
<tr>
<td>Net loss per share, basic and diluted</td>
<td>$ (20.80)</td>
</tr>
</tbody>
</table>

The following potentially dilutive securities were excluded from the computation of diluted net loss per share for the periods presented because including them would have been antidilutive:

<table>
<thead>
<tr>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convertible preferred stock</td>
<td>21,307,643</td>
</tr>
<tr>
<td>Common stock options issued and outstanding</td>
<td>129,918</td>
</tr>
<tr>
<td>Unvested restricted common stock</td>
<td>1,678,240</td>
</tr>
<tr>
<td>Unvested early exercised common stock options</td>
<td>525,797</td>
</tr>
<tr>
<td>Total</td>
<td>23,641,598</td>
</tr>
</tbody>
</table>

Unaudited Pro Forma Basic and Diluted Net Loss Per Share

The unaudited pro forma basic and diluted loss per share for the year ended December 31, 2017, gives effect to the conversion of all shares of convertible preferred stock upon the closing of the planned IPO by treating all shares of convertible preferred stock as if they had been converted to common stock at the beginning of the earliest period presented, or the date of the original issuance, if later. Shares to be sold in the planned IPO are excluded from the unaudited pro forma basic and diluted net loss per share calculation.
ARCUS BIOSCIENCES, INC.

Notes to Consolidated Financial Statements

Numerator:  

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$ (53,082)</td>
</tr>
</tbody>
</table>

Denominator:  

<table>
<thead>
<tr>
<th>Description</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted-average common shares used to compute basic and diluted net loss per share</td>
<td>1,828,262</td>
</tr>
<tr>
<td>Pro forma adjustment to reflect assumed conversion of preferred stock</td>
<td>22,726,412</td>
</tr>
<tr>
<td>Pro forma weighted average common shares outstanding, basic and diluted</td>
<td>24,554,674</td>
</tr>
</tbody>
</table>

Pro forma net loss per share, basic and diluted  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$ (2.16)</td>
</tr>
</tbody>
</table>

Note 11: Provision for Income Taxes

The provision for income taxes differs from the amount expected by applying the federal statutory rate to the loss before taxes as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal statutory income tax rate</td>
<td>34.00%</td>
<td>34.00%</td>
</tr>
<tr>
<td>Non-deductible expenses and other</td>
<td>(0.22)%</td>
<td>(1.23)%</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>(33.78)%</td>
<td>(16.46)%</td>
</tr>
<tr>
<td>Remeasurement of federal tax rate change</td>
<td>—</td>
<td>(16.32)%</td>
</tr>
<tr>
<td>Total</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

As of December 31, 2016 and 2017, the components of the Company’s deferred tax assets are as follows (in thousands):

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal and state net operating loss carryforwards</td>
<td>$ 6,343</td>
<td>$ 11,101</td>
</tr>
<tr>
<td>Research and development credits carryforwards</td>
<td>599</td>
<td>2,706</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,384</td>
<td>3,489</td>
</tr>
<tr>
<td>Other</td>
<td>98</td>
<td>1,292</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>8,424</td>
<td>18,588</td>
</tr>
<tr>
<td>Less valuation allowance</td>
<td>(8,424)</td>
<td>(18,588)</td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td>$ —</td>
<td>$ —</td>
</tr>
</tbody>
</table>

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating losses and tax credit carryforwards.
The Company’s accounting for deferred taxes involves the evaluation of a number of factors concerning the realizability of its net deferred tax assets. The Company primarily considered such factors as its history of operating losses, the nature of the Company’s deferred tax assets, and the timing, likelihood and amount, if any, of future taxable income during the periods in which those temporary differences and carryforwards become deductible. At present, the Company does not believe that it is more likely than not that the deferred tax assets will be realized; accordingly, a full valuation allowance has been established and no deferred tax asset is shown in the accompanying consolidated balance sheets. The valuation allowance increased by approximately $7.6 million and $10.2 million, respectively, for the years ended December 31, 2016 and 2017.

In December 2017, the 2017 Tax Cuts and Jobs Act (2017 Tax Act) was enacted and includes a broad range of provisions, many of which differ significantly from those contained in previous U.S. tax law. Changes in tax law are accounted for in the period of enactment. As such, the Company’s consolidated financial statements as of December 31, 2017 reflect the impact of this 2017 Tax Act, which primarily consisted of measuring the Company’s deferred tax assets and valuation allowance using the newly enacted U.S. corporate tax rate.

At December 31, 2017, the Company has net operating loss carryforwards for federal income tax purposes of approximately $47.4 million that begin to expire in 2035, and federal research tax credits of approximately $1.9 million that begin to expire in 2035. The Company also has state net operating loss carryforwards of approximately $15.4 million that begin to expire in 2035, and state research tax credits of approximately $1.8 million that have no expiration date. Use of the net operating loss and credit carryforwards may be subject to a substantial annual limitation due to the ownership change provisions of U.S. tax law and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before use.

Uncertain Tax Positions

The Company has not been audited by the Internal Revenue Service, any state or foreign tax authority. The Company is subject to taxation in the United States and also beginning in 2017, in Australia. Because of the net operating loss and research credit carryforwards, all of the Company’s tax years, from 2015 to 2017, remain open to U.S. federal and California state tax examinations. The 2017 tax year is open to examination in Australia. There were no interest or penalties accrued at December 31, 2016 and December 31, 2017.

The Company follows the provisions of FASB Accounting Standards Codification (ASC 740-10), Accounting for Uncertainty in Income Taxes. ASC 740-10 prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of uncertain tax positions that have been taken or expected to be taken on a tax return. No liability related to uncertain tax positions is recorded in the consolidated financial statements. The Company’s reserve for unrecognized tax benefits is approximately $0.2 million and $0.6 million at December 31, 2016 and 2017, respectively.

Due to the full valuation allowance at December 31, 2016 and 2017, current adjustments to the unrecognized tax benefit will have no impact on the Company’s effective income tax rate; any adjustments made after the valuation allowance is released will have an impact on the tax rate.
A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2016</th>
<th>Year Ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>$19</td>
<td>$242</td>
</tr>
<tr>
<td>Additions for tax positions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>taken in a prior year</td>
<td>—</td>
<td>29</td>
</tr>
<tr>
<td>Additions for tax positions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>taken in current year</td>
<td>223</td>
<td>351</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$242</td>
<td>$622</td>
</tr>
</tbody>
</table>

The Company does not anticipate material changes to its uncertain tax positions through the next 12 months.

Note 12: Commitments

Purchase Commitments

The Company has contractual arrangements with research and development organizations and suppliers; however, these contracts are generally cancelable on 30 days’ notice and the obligations under these contracts are largely based on services performed.

Leases

The Company leases office space in Hayward, California under non-cancelable operating leases with expiration in 2025. Rent expense was $0.6 million and $0.9 million for the years ended December 31, 2016 and 2017, respectively. Future minimum lease payments under non-cancelable operating leases as of December 31, 2017 are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year ending December 31:</th>
<th>Operating Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$1,952</td>
</tr>
<tr>
<td>2019</td>
<td>2,041</td>
</tr>
<tr>
<td>2020</td>
<td>2,105</td>
</tr>
<tr>
<td>2021</td>
<td>2,195</td>
</tr>
<tr>
<td>2022</td>
<td>2,265</td>
</tr>
<tr>
<td>2023 and beyond</td>
<td>6,826</td>
</tr>
<tr>
<td>Total</td>
<td>$17,384</td>
</tr>
</tbody>
</table>

The Company has provided deposits for letters of credit totaling $0.2 million to secure its obligations under its leases, which have been classified as long-term assets on the Company’s consolidated balance sheet as of December 31, 2017.

Indemnification

As permitted under Delaware law and in accordance with the Company’s bylaws, the Company is required to indemnify its officers and directors for certain events or occurrences while the officer or director is or was serving in such capacity. The Company is also party to indemnification agreements with its directors and officers. The Company believes the fair value of the indemnification rights and agreements is minimal. Accordingly, the Company has not recorded any liabilities for these indemnification rights and agreements as of December 31, 2016 and 2017.
Note 13: Employee Benefit Plan

The Company sponsors a 401(k) defined contribution plan for its employees. This plan provides for tax-deferred salary deductions for all employees. Employee contributions are voluntary. Employees may contribute up to 100% of their annual compensation to this plan, as limited by an annual maximum amount as determined by the Internal Revenue Service. The Company may match employee contributions in amounts to be determined at the Company’s sole discretion. The Company made no contributions to the plan for the years ended December 31, 2016 and 2017.

Note 14: Subsequent Events

Since December 31, 2017, the Company has granted options for the purchase of 1.2 million shares of common stock at a weighted average exercise price of $5.49 per share. These options vest monthly on a straight-line basis over a range of 12 to 48 months.

Management has reviewed and evaluated material subsequent events from the consolidated balance sheet date of December 31, 2017, through the date of the report of the Independent Registered Public Accounting Firm. No subsequent events have been identified for disclosure, other than the matters noted above.
7,100,000 Shares

Arcus Biosciences, Inc.

Common Stock

PRELIMINARY PROSPECTUS

Citigroup
Goldman Sachs & Co. LLC
Leerink Partners

, 2018

Through and including , 2018 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer’s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.
## INFORMATION NOT REQUIRED IN PROSPECTUS

### Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses expected to be incurred and payable by us in connection with the sale and distribution of our common stock, other than underwriting discounts and commissions. All amounts are estimates except for the Securities and Exchange Commission (SEC) registration fee, the Financial Industry Regulatory Authority (FINRA) filing fee and the New York Stock Exchange listing fee.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Payable By Us</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEC registration fee</td>
<td>$ 15,249</td>
</tr>
<tr>
<td>FINRA filing fee</td>
<td>18,872</td>
</tr>
<tr>
<td>New York Stock Exchange listing fee</td>
<td>250,000</td>
</tr>
<tr>
<td>Blue sky fees and expenses</td>
<td>35,000</td>
</tr>
<tr>
<td>Accounting fees and expenses</td>
<td>960,000</td>
</tr>
<tr>
<td>Legal fees and expenses</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Printing and engraving expenses</td>
<td>450,000</td>
</tr>
<tr>
<td>Registrar and transfer agent fees and expenses</td>
<td>10,000</td>
</tr>
<tr>
<td>Miscellaneous fees and expenses</td>
<td>160,879</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 3,500,000</strong></td>
</tr>
</tbody>
</table>

* To be filed by amendment

### Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation’s board of directors to grant, indemnity to directors and officers under certain circumstances and subject to certain limitations. The terms of Section 145 of the Delaware General Corporation Law are sufficiently broad to permit indemnification under certain circumstances for liabilities, including reimbursement of expenses incurred, arising under the Securities Act.

As permitted by the Delaware General Corporation Law, our amended and restated certificate of incorporation and amended and restated bylaws contain provisions relating to the limitation of liability and indemnification of directors and officers. The amended and restated certificate of incorporation provides that our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duty as a director, except for liability:

- for any breach of the director’s duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- in respect of unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- for any transaction from which the director derives any improper personal benefit.

Our amended and restated certificate of incorporation also provides that if Delaware law is amended after the approval by our stockholders of the certificate of incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law.
Our amended and restated bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with their service for or on our behalf. Our amended and restated bylaws provide that we shall advance the expenses incurred by a director or officer in advance of the final disposition of an action or proceeding, and permit us to secure insurance on behalf of any director, officer, employee or other enterprise agent for any liability arising out of his or her action in that capacity, whether or not Delaware law would otherwise permit indemnification.

We intend to enter into indemnification agreements with each of our directors and executive officers and certain other key employees, a form of which is attached as Exhibit 10.1. The form of agreement provides that we will indemnify each of our directors, executive officers and such other key employees against any and all expenses incurred by that director, executive officer or other key employee because of his or her status as one of our directors, executive officers or other key employees, to the fullest extent permitted by Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws. In addition, the form agreement provides that, to the fullest extent permitted by Delaware law, we will advance all expenses incurred by our directors, executive officers and other key employees in connection with a legal proceeding.

Reference is made to the underwriting agreement contained in Exhibit 1.1 to this registration statement, indemnifying our directors and officers against limited liabilities. In addition, Section 1.10 of our amended and restated investors’ rights agreement (IRA) contained in Exhibit 4.2 to this registration statement provides for indemnification of certain of our stockholders against liabilities described in our IRA.

We maintain insurance policies that indemnify our directors and officers against various liabilities under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, that might be incurred by any director or officer in his or her capacity as such.

**Item 15. Recent Sales of Unregistered Securities**

The following sets forth information regarding all unregistered securities sold since April 30, 2015, the date of our incorporation, giving effect to a 1-for-3.96 reverse stock split of our common stock and preferred stock to be completed prior to the effective date of this registration statement:

- We have granted options to purchase 3,054,848 shares of our common stock to directors, officers and employees under our 2015 Stock Plan, with per share exercise prices ranging from $0.40 to $8.95.
- We have granted an option to purchase 7,575 shares of our common stock to an advisor outside of our 2015 Stock Plan, with a per share exercise price of $1.23.
- We have issued and sold an aggregate of 2,098,861 shares of our common stock upon exercise of options issued under our 2015 Stock Plan for aggregate consideration of $4,571,640.22, with per share exercise prices ranging from $0.40 to $5.39.
- In May 2015, August 2015, and September 2015, we issued and sold an aggregate of 12,556,791 shares of our Series A preferred stock at a purchase price of $3.96 per share to 56 accredited investors for an aggregate purchase price of $49,725,000. In connection with the completion of this offering, all 12,556,791 shares of Series A preferred stock will automatically convert into an equivalent number of shares of common stock.
- In August 2016, we issued and sold an aggregate of 8,750,852 shares of our Series B preferred stock at a purchase price of $7.9992 per share to 44 accredited investors for an aggregate purchase price of approximately $69,999,993. In connection with the completion of this offering, all 8,750,852 shares of Series B preferred stock will automatically convert into an equivalent number of shares of common stock.
- In November 2017, we issued and sold an aggregate of 9,151,931 shares of our Series C preferred stock at a purchase price of $11.691504 per share to 32 accredited investors for an aggregate purchase...
price of approximately $106,999,989. In connection with the completion of this offering, all 9,151,931 shares of Series C preferred stock will automatically convert into an equivalent number of shares of common stock.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. We believe that the offers, sales and issuances of the above securities were exempt from registration under the Securities Act by virtue of Section 4(a)(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving any public offering, or in reliance on Rule 701 promulgated under Section 3(b) of the Securities Act because the transactions were pursuant to compensatory benefit plans or contracts relating to compensation as provided under Rule 701. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. We believe all recipients had adequate information about us or had adequate access, through their relationships with us, to information about us.
### Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits.

<table>
<thead>
<tr>
<th>Exhibit no.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Form of Underwriting Agreement.</td>
</tr>
<tr>
<td>3.1#</td>
<td>Restated Certificate of Incorporation of Registrant.</td>
</tr>
<tr>
<td>3.2#</td>
<td>Form of Amended and Restated Certificate of Incorporation of Registrant, to be effective immediately prior to the completion of this offering.</td>
</tr>
<tr>
<td>3.3#</td>
<td>Bylaws of Registrant.</td>
</tr>
<tr>
<td>3.4#</td>
<td>Form of Amended and Restated Bylaws of Registrant, to be effective immediately prior to the completion of this offering.</td>
</tr>
<tr>
<td>4.1#</td>
<td>Amended and Restated Investors’ Rights Agreement, dated November 3, 2017, between the Registrant and the parties thereto.</td>
</tr>
<tr>
<td>5.1</td>
<td>Opinion of Gunderson Dettmer Stough Villeneuve Franklin &amp; Hachigian, LLP.</td>
</tr>
<tr>
<td>10.1#</td>
<td>Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.</td>
</tr>
<tr>
<td>10.2</td>
<td>Arcus Biosciences, Inc. 2015 Stock Plan and forms of agreements thereunder.</td>
</tr>
<tr>
<td>10.3</td>
<td>Arcus Biosciences, Inc. 2018 Equity Incentive Plan, including form agreements, to be in effect upon completion of the offering.</td>
</tr>
<tr>
<td>10.4</td>
<td>Arcus Biosciences, Inc. 2018 Employee Stock Purchase Plan, to be in effect upon the completion of the offering.</td>
</tr>
<tr>
<td>10.5#</td>
<td>Amended and Restated Letter Agreement, dated February 14, 2018, between the Registrant and Terry Rosen, Ph.D.</td>
</tr>
<tr>
<td>10.6#</td>
<td>Amended and Restated Letter Agreement, dated February 14, 2018, between the Registrant and Juan Carlos Jaen, Ph.D.</td>
</tr>
<tr>
<td>10.7#</td>
<td>Amended and Restated Letter Agreement, dated February 14, 2018, between the Registrant and Jennifer Jarrett.</td>
</tr>
<tr>
<td>10.8#</td>
<td>Lease, dated September 30, 2015, between the Registrant and Hayward Point Eden I Limited Partnership, as amended on July 22, 2016 and October 12, 2017.</td>
</tr>
<tr>
<td>10.9#</td>
<td>Compensation Program for Non-Employee Directors.</td>
</tr>
<tr>
<td>10.10†#</td>
<td>License Agreement, dated December 8, 2016, between the Registrant and Abmuno Therapeutics LLC.</td>
</tr>
<tr>
<td>10.11†#</td>
<td>License Agreement, dated August 16, 2017, between the Registrant and WuXi Biologics (Cayman) Inc.</td>
</tr>
<tr>
<td>10.12†#</td>
<td>Option and License Agreement, dated September 19, 2017, between the Registrant and Taiho Pharmaceutical Co., Ltd.</td>
</tr>
<tr>
<td>10.13#</td>
<td>Arcus Biosciences, Inc. Management Cash Incentive Plan.</td>
</tr>
<tr>
<td>10.14#</td>
<td>Form of Severance and Change in Control Agreement.</td>
</tr>
<tr>
<td>23.1</td>
<td>Consent of Independent Registered Public Accounting Firm.</td>
</tr>
<tr>
<td>23.2</td>
<td>Consent of Gunderson Dettmer Stough Villeneuve Franklin &amp; Hachigian, LLP (contained in Exhibit 5.1).</td>
</tr>
<tr>
<td>24.1#</td>
<td>Power of Attorney.</td>
</tr>
</tbody>
</table>

# Previously filed.
† Registrant has requested confidential treatment for certain portions of this exhibit. This exhibit omits the information subject to this confidentiality request. Omitted portions have been filed separately with the Securities and Exchange Commission.

(b) Financial Statement Schedules. All schedules have been omitted because the information required to be presented in them is not applicable or is shown in the consolidated financial statements or related notes, which is incorporated herein by reference.

**Item 17. Undertakings**

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-5
Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Hayward, State of California, on the 5th day of March, 2018.

ARCUS BIOSCIENCES, INC.

By: __________________________ /s/ Terry Rosen
   Terry Rosen, Ph.D.
   Chief Executive Officer
Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>/s/ Terry Rosen</td>
<td>Chief Executive Officer and Director (Principal Executive Officer)</td>
<td>March 5, 2018</td>
</tr>
<tr>
<td>Terry Rosen, Ph.D.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Juan Carlos Jaen</td>
<td>President and Director</td>
<td>March 5, 2018</td>
</tr>
<tr>
<td>Juan Carlos Jaen, Ph.D.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Jennifer Jarrett</td>
<td>Chief Business Officer and Chief Financial Officer (Principal Financial Officer)</td>
<td>March 5, 2018</td>
</tr>
<tr>
<td>Jennifer Jarrett</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Steven Chan</td>
<td>Principal Accounting Officer</td>
<td>March 5, 2018</td>
</tr>
<tr>
<td>Steven Chan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*</td>
<td>Director</td>
<td>March 5, 2018</td>
</tr>
<tr>
<td>Yasunori Kaneko, M.D.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*</td>
<td>Director</td>
<td>March 5, 2018</td>
</tr>
<tr>
<td>Kathryn Falberg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*</td>
<td>Director</td>
<td>March 5, 2018</td>
</tr>
<tr>
<td>David William Beier</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*By:</td>
<td>/s/ Terry Rosen</td>
<td></td>
</tr>
<tr>
<td>Terry Rosen, P.h.D.</td>
<td>Attorney-in-fact</td>
<td></td>
</tr>
</tbody>
</table>
Arcus Biosciences, Inc.

[●] Shares
Common Stock
($0.0001 par value per share)

Underwriting Agreement

New York, New York [insert date], 2018

Citigroup Global Markets Inc.
Goldman Sachs & Co. LLC
Leerink Partners LLC
As Representatives of the several Underwriters,
c/o Citigroup Global Markets Inc.
388 Greenwich Street
New York, New York 10013
c/o Goldman Sachs & Co. LLC
200 West Street
New York, New York 10282
c/o Leerink Partners LLC
One Federal Street, 37th Floor
Boston, Massachusetts 02110

Ladies and Gentlemen:

Arcus Biosciences, Inc., a Delaware corporation (the “Company”), proposes to sell to the several underwriters named in Schedule I hereto (the “Underwriters”), for whom you (the “Representatives”) are acting as representatives, [●] shares of common stock, $0.0001 par value per share (“Common Stock”), of the Company (said shares to be issued and sold by the Company being hereinafter called the “Underwritten Securities”). The Company also proposes to grant to the Underwriters an option to purchase up to [●] additional shares of Common Stock (the “Option Securities,” the Option Securities, together with the Underwritten Securities, being hereinafter called the “Securities”). To the extent there are no additional Underwriters listed on Schedule I other than you, the term Representatives as used herein shall mean you, as Underwriters, and the terms Representatives and Underwriters shall mean either the singular or plural as the context requires.

As used in this underwriting agreement (this “Agreement”), the “Registration Statement,” means the registration statement referred to in paragraph 1(a) hereof, including the exhibits, schedules, if any, and financial statements and any prospectus supplement relating to the Securities that is filed with the Securities and Exchange Commission (the “SEC”) pursuant
to Rule 424(b) under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the “Securities Act”) and deemed part of such registration statement pursuant to Rule 430A under the Securities Act (“Rule 430A”), as amended at the date and time that this Agreement is executed and delivered by the parties hereto (the “Execution Time”), and, in the event any post-effective amendment thereto or any registration statement and any amendments thereto filed pursuant to Rule 462(b) under the Securities Act (a “Rule 462(b) Registration Statement”) becomes effective prior to the Closing Date (as defined in Section 3 hereof), shall also mean such registration statement as so amended or such Rule 462(b) Registration Statement, as the case may be; the “Effective Date” means each date and time that the Registration Statement, any post-effective amendment or amendments thereto or any Rule 462(b) Registration Statement became effective; the “Preliminary Prospectus” means any preliminary prospectus referred to in paragraph 1(a) hereof and any preliminary prospectus included in the Registration Statement at the Effective Date that omits information with respect to the Securities and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A (the “Rule 430A Information”); and the “Prospectus” means the prospectus relating to the Securities that is first filed pursuant to Rule 424(b) under the Securities Act (“Rule 424(b)”) after the Execution Time.

As used in this Agreement, the “Disclosure Package” shall mean (i) the Preliminary Prospectus that is generally distributed to investors and used to offer the Securities, (ii) any issuer free writing prospectus, as defined in Rule 433 under the Securities Act (an “Issuer Free Writing Prospectus”), identified in Schedule II hereto, and (iii) any other free writing prospectus, as defined in Rule 405 under the Securities Act (a “Free Writing Prospectus”), that the parties hereto shall hereafter expressly agree in writing to treat as part of the Disclosure Package.

1. Representations and Warranties. The Company represents and warrants to, and agrees with, each Underwriter as set forth below in this Section 1.

   (a) The Company has prepared and filed with the SEC a registration statement (file number 333-223086) on Form S-1, including a related preliminary prospectus, for the registration of the offering and sale of the Securities under the Securities Act. Such Registration Statement, including any amendments thereto filed prior to the Execution Time, has become effective. The Company may have filed one or more amendments thereto, including a related preliminary prospectus, each of which has previously been furnished to you. The Company will file with the SEC a final prospectus relating to the Securities in accordance with Rule 424(b) after the Execution Time. As filed, such final prospectus shall contain all information required by the Securities Act and the rules thereunder and, except to the extent the Representatives shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond that contained in the latest Preliminary Prospectus) as the Company has advised you, prior to the Execution Time, will be included or made therein.

   (b) On the Effective Date, the Registration Statement did, and when the Prospectus is first filed in accordance with Rule 424(b) and on the Closing Date (as
defined herein) and on any date on which Option Securities are purchased, if such date is not the Closing Date (a “settlement date”), the Prospectus (and any supplement thereto) will, comply in all material respects with the applicable requirements of the Securities Act and the rules thereunder; on the Effective Date, at the Execution Time and on the Closing Date, the Registration Statement did not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and on the date of any filing pursuant to Rule 424(b) and on the Closing Date and any settlement date, the Prospectus (together with any supplement thereto) will not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter specifically for inclusion in the Registration Statement or the Prospectus (or any supplement thereto), it being understood and agreed that the only such information furnished by or on behalf of any Underwriter consists of the information described as such in Section 8(b) hereof.

(c) (i) The Disclosure Package and the price to the public, the number of Underwritten Securities and the number of Option Securities to be included on the cover page of the Prospectus, when taken together as a whole, (ii) each electronic road show, when taken together as a whole with the Disclosure Package and the price to the public, the number of Underwritten Securities and the number of Option Securities to be included on the cover page of the Prospectus, and (iii) any individual Written Testing-the-Waters Communication, when taken together as a whole with the Disclosure Package and the price to the public, the number of Underwritten Securities and the number of Option Securities to be included on the cover page of the Prospectus, does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The preceding sentence does not apply to statements in or omissions from the Disclosure Package based upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter specifically for use therein, it being understood and agreed that the only such information furnished by or on behalf of any Underwriter consists of the information described as such in Section 8(b) hereof.

(d) (i) At the time of filing the Registration Statement and (ii) as of the Execution Time (with such date being used as the determination date for purposes of this clause (ii)), the Company was not and is not an Ineligible Issuer (as defined in Rule 405 under the Securities Act (“Rule 405.”)), without taking account of any determination by the SEC pursuant to Rule 405 that it is not necessary that the Company be considered an Ineligible Issuer.

(e) From the time of initial confidential submission of the Registration Statement to the SEC (or, if earlier, the first date on which the Company engaged directly or through any Person authorized to act on its behalf in any Testing-the-Waters
Communication) through the Execution Time, the Company has been and is an “emerging growth company,” as defined in Section 2(a) of the Securities Act (an “Emerging Growth Company”). “Testing-the-Waters Communication” means any oral or written communication by the Company or by any person authorized to act on behalf of the Company with potential investors undertaken in reliance on Section 5(d) of the Securities Act.

(f) The Company (i) has not alone engaged in any Testing-the-Waters Communication other than Testing-the-Waters Communications with the consent of the Representatives with entities that are qualified institutional buyers within the meaning of Rule 144A under the Securities Act or institutions that are accredited investors within the meaning of Rule 501 under the Securities Act and (ii) has not authorized anyone other than the Representatives to engage in Testing-the-Waters Communications. The Company reconfirms that the Representatives have been authorized to act on its behalf in undertaking Testing-the-Waters Communications. The Company has not distributed any Written Testing-the-Waters Communications other than those listed on Schedule III hereto. “Written Testing-the-Waters Communication” means any Testing-the-Waters Communication that is a written communication within the meaning of Rule 405.

(g) Each Issuer Free Writing Prospectus does not include any information that conflicts with the information contained in the Registration Statement. The foregoing sentence does not apply to statements in or omissions from any Issuer Free Writing Prospectus based upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter specifically for use therein, it being understood and agreed that the only such information furnished by or on behalf of any Underwriter consists of the information described as such in Section 8(b) hereof.

(h) Each of the Company and its subsidiaries has been duly incorporated or organized and is validly existing as a corporation or proprietary limited company in good standing under the laws of the jurisdiction in which it is incorporated or organized with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Disclosure Package and the Prospectus, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification, except where the failure to so qualify or be in good standing would not reasonably be expected to have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business (a “Material Adverse Effect”).

(i) All the outstanding shares of capital stock of each subsidiary have been duly and validly authorized and issued and are fully paid and non-assessable (to the extent applicable under the relevant jurisdiction of incorporation or organization), and, except as otherwise set forth in the Disclosure Package and the Prospectus, all outstanding shares of capital stock of the subsidiaries are owned by the Company either directly or through wholly owned subsidiaries free and clear of any perfected security interest or any other security interests, claims, liens or encumbrances.
(j) There is no franchise, contract or other document of a character required to be described in the Registration Statement or Prospectus, or to be filed as an exhibit thereto, which is not described or filed as required (and the Preliminary Prospectus contains in all material respects the same description of the foregoing matters contained in the Prospectus); and the statements in the Preliminary Prospectus and the Prospectus under the headings “Risk Factors – Risks Related to Intellectual Property,” “Risk Factors – Risks Related to the Discovery and Development of our Product Candidates,” “Business – Intellectual Property,” “Business – Government Regulation,” “Description of Capital Stock,” “Shares Eligible for Future Sale” and “Material U.S. Federal Income Tax Considerations for Non-U.S. Holders of Common Stock,” insofar as such statements summarize legal matters, agreements, documents or proceedings discussed therein, are accurate and fair summaries of such legal matters, agreements, documents or proceedings.

(k) This Agreement has been duly authorized, executed and delivered by the Company.

(l) The Company is not and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Disclosure Package and the Prospectus, will not be an “investment company” as defined in the Investment Company Act of 1940, as amended.

(m) No consent, approval, authorization, filing with or order of any court or governmental agency or body is required in connection with the transactions contemplated herein, except such as have been obtained under the Securities Act, the listing rules of the New York Stock Exchange, applicable Financial Industry Regulatory Authority, Inc. rules and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters in the manner contemplated herein and in the Disclosure Package and the Prospectus.

(n) Neither the issue and sale of the Securities nor the consummation of any other of the transactions herein contemplated nor the fulfillment of the terms hereof will conflict with, result in a breach or violation of, or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, (i) the charter or by-laws of the Company or any of its subsidiaries, (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which the Company or any of its subsidiaries is a party or bound or to which its or their property is subject, or (iii) any statute, law, rule, regulation, judgment, order or decree applicable to the Company or any of its subsidiaries of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or any of its subsidiaries or any of its or their properties, except in the case of clauses (ii) and (iii) as would not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.
(o) No holders of securities of the Company have rights to the registration of such securities under the Registration Statement, except for such rights that have been effectively waived and the holders of outstanding shares of capital stock of the Company are not entitled to statutory preemptive or other similar contractual rights to subscribe for or purchase the Securities.

(p) The consolidated historical financial statements and schedules of the Company and its consolidated subsidiaries included in the Preliminary Prospectus, the Prospectus and the Registration Statement present fairly in all material respects the financial condition, results of operations and cash flows of the Company as of the dates and for the periods indicated, comply as to form in all material respects with the applicable accounting requirements of the Securities Act and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved, except as otherwise noted therein. The selected financial data set forth under the caption “Selected Financial Data” in the Preliminary Prospectus, the Prospectus and the Registration Statement fairly present in all material respects, on the basis stated in the Preliminary Prospectus, the Prospectus and the Registration Statement, the information included therein.

(q) Neither the Company nor any of its subsidiaries has, since the date of the latest audited financial statements included in the Preliminary Prospectus, the Prospectus and the Registration Statement, (i) sustained any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree or (ii) entered into any transaction or agreement (whether or not in the ordinary course of business) that is material to the Company and its subsidiaries taken as a whole or (iii) incurred any liability or obligation, direct or contingent, that is material to the Company and its subsidiaries taken as a whole, except in each case as set forth or contemplated in the Preliminary Prospectus, the Prospectus and the Registration Statement; and, since the respective dates as of which information is given in the Preliminary Prospectus, the Prospectus and the Registration Statement, there has not been (x) any change in the capital stock (other than as a result of (i) the exercise, if any, of stock options or the award, if any, of stock options or restricted stock in the ordinary course of business pursuant to the Company’s equity plans that are described in the Disclosure Package and the Prospectus or the exercise of contractual repurchase rights for shares of Common Stock upon the termination of service of an employee or independent contractor at a price per share no greater than the original purchase price or (ii) the issuance, if any, of stock upon conversion of Company securities as described in the Disclosure Package and the Prospectus) or long term debt of the Company or any of its subsidiaries or (y) any Material Adverse Effect.

(r) No action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries or its or their property is pending or, to the knowledge of the Company, threatened that (i) would reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of any of the transactions contemplated herein or (ii) would reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto).
Each of the Company and each of its subsidiaries owns or leases all such properties as are necessary to the conduct of its operations as presently conducted, except as would not reasonably be expected to have a Material Adverse Effect.

Neither the Company nor any subsidiary is in violation or default of (i) any provision of its charter or bylaws, (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which it is a party or bound or to which its property is subject, or (iii) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or such subsidiary or any of its properties, as applicable, except in the case of clauses (ii) and (iii), for such breach, violation or default as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Ernst & Young LLP, who has certified certain financial statements of the Company and its consolidated subsidiaries and delivered its report with respect to the audited consolidated financial statements and schedules, if any, included in the Disclosure Package and the Prospectus, is an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the applicable published rules and regulations thereunder.

There are no transfer taxes or other similar fees or charges under Federal law or the laws of any state, or any political subdivision thereof, required to be paid in connection with the execution and delivery of this Agreement or the issuance by the Company or sale by the Company of the Securities.

The Company has filed all tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto)) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto).

No labor problem or dispute with the employees of the Company or any of its subsidiaries exists or is threatened or imminent, and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its or its subsidiaries’ principal suppliers, contractors or customers, that would reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto).
The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as the Company reasonably believes are prudent and customary in the businesses in which they are engaged; all policies of insurance and fidelity or surety bonds insuring the Company or any of its subsidiaries or their respective businesses, assets, employees, officers and directors are in full force and effect; the Company and its subsidiaries are in compliance with the terms of such policies and instruments in all material respects; and there are no claims by the Company or any of its subsidiaries under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto).

No subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distribution on such subsidiary’s capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary’s property or assets to the Company or any other subsidiary of the Company, except as described in or contemplated by the Disclosure Package and the Prospectus (exclusive of any supplement thereto).

The Company and its subsidiaries possess all licenses, certificates, permits and other authorizations (collectively, “Permits”) issued by, and have made all declarations and filings with, the applicable federal, state, local or foreign governmental or regulatory authorities that are necessary for the ownership or lease of their properties or the conduct of their businesses as described in the Registration Statement, the Disclosure Package and the Prospectus, or to permit all clinical and nonclinical studies and trials conducted by or on behalf of the Company and its subsidiaries, including, without limitation, all necessary U.S. Food & Drug Administration (“FDA”) and comparable foreign regulatory agency approvals, except where the failure to possess or make the same would not reasonably be expected to have a Material Adverse Effect; the Company and its subsidiaries are not in violation of, or in default under, any such Permit, except where such violation or default would not reasonably be expected to have a Material Adverse Effect; and the Company and its subsidiaries have not received notice of any revocation or modification of any such Permit and do not have any reason to believe that any such Permit will not be renewed in the ordinary course, in each case which would have a Material Adverse Effect.

The Company and each of its subsidiaries maintain a system of internal accounting controls designed to, and which the Company believes is sufficient to, provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorizations; (ii) transactions are recorded as necessary to permit
preparation of financial statements in conformity with generally accepted accounting principles in the United States and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company’s and its subsidiaries’ internal controls over financial reporting are effective and the Company and its subsidiaries are not aware of any material weakness in their internal controls over financial reporting.

(cc) The Company and its subsidiaries maintain “disclosure controls and procedures” (as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act 1934, as amended, and the rules and regulations promulgated thereunder (the “Exchange Act”)); such disclosure controls and procedures are effective at the reasonable assurance level.

(dd) The Company has not taken, directly or indirectly (without giving effect to the activities of the Underwriters), any action designed to or that would constitute or that would reasonably be expected to cause or result in, under the Exchange Act or otherwise, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(ee) The Company and its subsidiaries are (i) in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants (“Environmental Laws”), (ii) have received and are in compliance with all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) have not received notice of any actual or potential liability under any Environmental Law, except where such non-compliance with Environmental Laws, failure to receive required permits, licenses or other approvals, or liability would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto). Except as set forth in the Disclosure Package and the Prospectus, neither the Company nor any of the subsidiaries has been named as a “potentially responsible party” under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

(ff) Nothing has come to the attention of the Company that has caused the Company to believe that the statistical and market-related data included in the Registration Statement, the Disclosure Package and the Prospectus is not based on or derived from sources that are reliable and accurate in all material respects, and, to the extent required by such sources, the Company has obtained the written consent to the use of such data from such sources.

(gg) None of the following events has occurred or exists: (i) a failure to fulfill the obligations, if any, under the minimum funding standards of Section 302 of the United States Employee Retirement Income Security Act of 1974, as amended.
(“ERISA”), and the regulations and published interpretations thereunder with respect to a Plan, determined without regard to any waiver of such obligations or extension of any amortization period that would reasonably be expected to have a Material Adverse Effect; (ii) an audit or investigation by the Internal Revenue Service, the U.S. Department of Labor, the Pension Benefit Guaranty Corporation or any other federal or state governmental agency or any foreign regulatory agency with respect to the employment or compensation of employees by any of the Company or any of its subsidiaries that would reasonably be expected to have a Material Adverse Effect; (iii) any breach of any contractual obligation, or any violation of law or applicable qualification standards, with respect to the employment or compensation of employees by the Company or any of its subsidiaries that would reasonably be expected to have a Material Adverse Effect. None of the following events has occurred or is reasonably likely to occur: (i) a material increase in the aggregate amount of contributions required to be made to all Plans in the current fiscal year of the Company and its subsidiaries compared to the amount of such contributions made in the most recently completed fiscal year of the Company and its subsidiaries, other than increases in the ordinary course resulting from an increase in the number of eligible participants in such Plans or increases resulting from increased participation by eligible participants in such Plans; (ii) a material increase in the “accumulated post-retirement benefit obligations” (within the meaning of Statement of Financial Accounting Standards 106) of the Company and its subsidiaries compared to the amount of such obligations in the most recently completed fiscal year of the Company and its subsidiaries; (iii) any event or condition giving rise to a liability under Title IV of ERISA that would reasonably be expected to have a Material Adverse Effect; or (iv) the filing of a claim by one or more employees or former employees of the Company or any of its subsidiaries related to their employment that would reasonably be expected to have a Material Adverse Effect. For purposes of this paragraph, the term “Plan” means a plan (within the meaning of Section 3(3) of ERISA) subject to Title IV of ERISA with respect to which the Company or any of its subsidiaries may have any liability.

(hh) There is and has been no failure on the part of the Company and any of the Company’s directors or officers, in their capacities as such, to comply with any provision of the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations promulgated in connection therewith (the “Sarbanes-Oxley Act”), that are in effect and with which the Company is required to comply as of the Effective Date including Section 402 relating to loans.

(ii) Neither the Company nor any of its subsidiaries, or, to the knowledge of the Company, any director, officer, agent, employee, affiliate or other person acting on behalf of the Company or any of its subsidiaries, is aware of or has taken any action, directly or indirectly, that would result in a violation or a sanction for violation by such persons of the Foreign Corrupt Practices Act of 1977 or the U.K. Bribery Act 2010, each as may be amended, or similar law of any other relevant jurisdiction, or the rules or regulations thereunder; and the Company and its subsidiaries have instituted and maintain policies and procedures to ensure compliance therewith. No part of the proceeds of the offering will be used, directly or indirectly, in violation of the Foreign Corrupt Practices Act of 1977 or the U.K. Bribery Act 2010, each as may be amended, or similar law of any other relevant jurisdiction, or the rules or regulations thereunder.
(jj) The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements and the money laundering statutes and the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the “Money Laundering Laws”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

(kk) Neither the Company nor any of its subsidiaries, or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries (i) is, or is controlled or 50% or more owned in the aggregate by or is acting on behalf of, one or more individuals or entities that are currently the subject of any sanctions administered or enforced by the United States (including any administered or enforced by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State or the Bureau of Industry and Security of the U.S. Department of Commerce), the United Nations Security Council, the European Union, a member state of the European Union (including sanctions administered or enforced by Her Majesty’s Treasury of the United Kingdom) or other relevant sanctions authority (collectively, “Sanctions,” and such persons, “Sanctioned Persons,” and each such person, a “Sanctioned Person”), (ii) is located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions that broadly prohibit dealings with that country or territory (collectively, “Sanctioned Countries” and each, a “Sanctioned Country”) or (iii) will, directly or indirectly, use the proceeds of this offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity in any manner that would result in a violation of any Sanctions by, or would result in the imposition of Sanctions against, any individual or entity (including any individual or entity participating in the offering, whether as underwriter, advisor, investor or otherwise).

(ll) Neither the Company nor any of its subsidiaries has engaged in any dealings or transactions with or for the benefit of a Sanctioned Person, or with or in a Sanctioned Country, in the preceding 3 years, nor does the Company or any of its subsidiaries have any plans to engage in dealings or transactions with or for the benefit of a Sanctioned Person, or with or in a Sanctioned Country.

(nn) The Company has no subsidiaries that are significant subsidiaries as defined by Rule 1-02 of Regulation S-X under the Securities Act.

(nn) The Company and its subsidiaries own, possess, license or have other rights to use, all patents, patent applications, trade and service marks, trade and service mark registrations, trade names, copyrights, licenses, inventions, trade secrets, technology, know-how and other intellectual property necessary for the conduct of the Company’s business as now conducted or as proposed to be conducted in the Disclosure Package and the Prospectus, (collectively, the “Intellectual Property”), except as disclosed in the Registration Statement, Disclosure Package and the Prospectus and
except where the failure to so own, possess, license or hold would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, and to the Company’s knowledge, the conduct of their respective businesses does not and will not conflict in any material respect with any such intellectual property rights of others. The Company and its subsidiaries have not received any written notice of any claim of infringement, misappropriation or conflict with any intellectual property right of another in connection with its patents, patent applications, patent rights, licenses, inventions, trademarks, service marks, trade names, copyrights and know-how, which could reasonably be expected to result in a Material Adverse Effect, and the Company is unaware of any facts which would form a reasonable basis for any such claim. To the Company’s knowledge, except as set forth in the Registration Statement, Disclosure Package and the Prospectus, there are no rights of third parties to any such Intellectual Property, including no liens, security interests, or other encumbrances. To the Company’s knowledge, except as disclosed in the Registration Statement, Disclosure Package and the Prospectus and except as would not reasonably be expected to have a Material Adverse Effect, (a) there is no material infringement by third parties of any Intellectual Property; (b) there is no pending or, to the Company’s knowledge, threatened action, suit, proceeding or claim by others challenging the Company’s rights in or to any such Intellectual Property, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (c) such Intellectual Property has not been adjudged by a court of competent jurisdiction invalid or unenforceable, in whole or in part, there is no pending or, to the Company’s knowledge, threatened action, suit, proceeding or claim by others challenging the validity or scope of any such Intellectual Property, including inter partes reviews, oppositions, reexaminations, or government proceedings, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (d) there is no pending or threatened action, suit, proceeding or claim by others that the Company infringes, misappropriates, or otherwise violates, or would, upon the commercialization of any product or service described in the Disclosure Package and the Prospectus as under development, infringe, misappropriate, or otherwise violate, any patent, trademark, copyright, trade secret or other proprietary rights of others, and the Company is unaware of any other fact which would form a reasonable basis for any such claim; (e) no employee of the Company is in or has been in violation of any term of any employment contract, patent disclosure agreement, invention assignment agreement, non-competition agreement, non-solicitation agreement, nondisclosure agreement or any restrictive covenant to or with a former employer where the basis of such violation relates to such employee’s employment with the Company; (f) there are no material defects in any of the patents or patent applications included in the Intellectual Property; (g) there is no patent in the U.S. or other jurisdiction which contains claims that dominate or may dominate any Intellectual Property described in the Disclosure Package and the Prospectus as being owned by or licensed to the Company or that interferes with the issued or pending claims of any such Intellectual Property; (h) there is no prior art of which the Company is aware that may render any patent held by the Company invalid or any patent application held by the Company unpatentable; and (i) all prior art of which the Company is aware that may be material to the validity of a U.S. patent or to the patentability of a U.S. patent application has been disclosed to the U.S. Patent and Trademark Office, and all such prior art has been disclosed to the patent office of other
jurisdictions where required. All licenses to which the Company is a party relating to the Intellectual Property are in full force and effect and the Company is not in violation of any term of such license. To the Company’s knowledge, the product candidates described in the Disclosure Package and the Prospectus are under development by the Company or its subsidiaries fall within the scope of the claims of one or more patents or patent applications owned by, or exclusively licensed to (in certain territories), the Company or its subsidiary

(oo) Except as disclosed in the Registration Statement, the Disclosure Package and the Prospectus, the Company (i) does not have any material lending or other similar relationship with any bank or lending affiliate of the Underwriters and (ii) does not intend to use any of the proceeds from the sale of the Securities hereunder to repay any outstanding debt owed to any affiliate of an Underwriter.

(pp) Except as described in the Registration Statement, the Disclosure Package and the Prospectus, as applicable, the Company and its subsidiaries (i) are and at all times have been in compliance in all material respects with all Applicable Laws, as defined herein, applicable to the ownership, research, testing, development, manufacture, packaging, processing, use, distribution, marketing, advertising, labeling, promotion, sale, offer for sale, storage, import, export or disposal of any product manufactured or distributed by the Company, including the Federal Food, Drug and Cosmetic Act (21 U.S.C. § 301 et seq.), the federal Anti-Kickback Statute (42 U.S.C. § 1320a-7(b)), the civil False Claims Act (31 U.S.C. §§ 3729 et seq.), the criminal false statements and representations law (42 U.S.C. § 1320a-7(b)), the civil monetary penalties laws (42 U.S.C. § 1320a-7(a)), the exclusion laws, the Medicare statute (Title XVIII of the Social Security Act), the Medicaid statute (Title XIX of the Social Security Act), the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, the Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act of 2010, and the regulations promulgated pursuant to such laws and any other similar local, state, federal, national, supranational and foreign laws and regulations relating to the regulation of the Company (collectively, the “Applicable Laws”), except for such non-compliance as would not, individually or in the aggregate, have a Material Adverse Effect; (ii) have not received any written notice from any court or arbitrator or governmental or regulatory authority or third party alleging or asserting non-compliance with any Applicable Laws, except for such non-compliance as would not, individually or in the aggregate, have a Material Adverse Effect; (iii) have not, to the Company’s knowledge, received written notice of any claim, action, suit, proceeding, hearing, enforcement, investigation, arbitration or other action from any court or arbitrator or governmental or regulatory authority or third party alleging that any product operation or activity is in violation of any Applicable Laws and, in each case which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect, nor, to the Company’s knowledge, is any such claim, action, suit, proceeding, hearing, enforcement, investigation, arbitration or other action threatened; (iv) have filed, obtained, maintained or submitted all material reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments as required by any Applicable Laws and that all such reports, documents,
forms, notices, applications, records, claims, submissions and supplements or amendments were complete and accurate on the date filed in all material respects (or were corrected or supplemented by a subsequent submission), except where the failure to so file, obtain, maintain or submit, or the failure of, such reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments to be complete or accurate or corrected or supplemented by a subsequent submission, would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect; and (v) are not a party to any corporate integrity agreements, monitoring agreements, consent decrees, settlement orders, or similar agreements with or imposed by any governmental or regulatory authority.

(qq) The pre-clinical studies and clinical trials conducted by or, to the Company’s knowledge, on behalf of or sponsored by the Company or its subsidiaries, or in which the Company or its subsidiaries have participated, that are described in the Registration Statement, the Disclosure Package and the Prospectus or the results of which are referred to in the Registration Statement, the Disclosure Package and the Prospectus, as applicable, [and are intended to be submitted to FDA or comparable foreign regulatory authorities outside the United States as a basis for product approval,] were and, if still pending, are being conducted in all material respects in accordance with accepted professional and scientific research procedures and Applicable Laws, including, without limitation, 21 C.F.R. Parts 50, 54, 56, 58, and 312; the descriptions in the Registration Statement, the Disclosure Package or the Prospectus of the results of such studies and trials are accurate and complete in all material respects and fairly present the data derived from such trials; except to the extent disclosed in the Registration Statement, the Disclosure Package or the Prospectus, the Company has no knowledge of any other trials the results of which call into question the results described or referred to in the Registration Statement, the Disclosure Package and the Prospectus; neither the Company nor its subsidiaries have received any written notices, correspondence or other communication from the FDA or comparable drug foreign regulatory authorities outside of the United States which could lead to the termination or suspension of any pre-clinical studies or clinical trials that are described in the Registration Statement, the Disclosure Package and the Prospectus, other than ordinary course communications with respect to modifications in connection with the design and implementation of such trials.

(rr) To the Company’s knowledge, the manufacturing facilities and operations of its suppliers are operated in compliance in all material respects with Applicable Laws.

Any certificate signed by any officer of the Company and delivered to the Representatives or counsel for the Underwriters in connection with the offering of the Securities shall be deemed a representation and warranty by the Company, as to matters covered thereby, to each Underwriter.

2. **Purchase and Sale.**

   (a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company agrees to sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company, at a purchase price of $[●] per share, the amount of the Underwritten Securities set forth opposite such Underwriter’s name in Schedule I hereto.
(b) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company hereby grants an option to the several Underwriters to purchase, severally and not jointly, up to [●] Option Securities at the same purchase price per share as the Underwriters shall pay for the Underwritten Securities, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Underwritten Securities but not payable on the Option Securities. Said option may be exercised in whole or in part at any time on or before the 30th day after the date of the Prospectus upon written or telegraphic notice by the Representatives to the Company setting forth the number of shares of the Option Securities as to which the several Underwriters are exercising the option and the settlement date. The number of Option Securities to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Securities to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Securities, subject to such adjustments as you in your absolute discretion shall make to eliminate any fractional shares.

3. Delivery and Payment. Delivery of and payment for the Underwritten Securities and the Option Securities (if the option provided for in Section 2(b) hereof shall have been exercised on or before the first Business Day immediately preceding the Closing Date) shall be made at 10:00 AM, New York City time, on [insert closing date], 2018, or at such time on such later date not more than three Business Days after the foregoing date as the Representatives shall designate, which date and time may be postponed by agreement between the Representatives and the Company or as provided in Section 9 hereof (such date and time of delivery and payment for the Securities being herein called the “Closing Date”). As used herein, “Business Day” shall mean any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in New York City. Delivery of the Securities shall be made to the Representatives for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representatives of the purchase price thereof to or upon the order of the Company by wire transfer payable in same-day funds to an account specified by the Company. Delivery of the Underwritten Securities and the Option Securities shall be made through the facilities of The Depository Trust Company unless the Representatives shall otherwise instruct.

If the option provided for in Section 2(b) hereof is exercised after the first Business Day immediately preceding the Closing Date, the Company will deliver the Option Securities (at the expense of the Company) to the Representatives, at 388 Greenwich Street, New York, New York, on the date specified by the Representatives (which shall be within three Business Days after exercise of said option) for the respective accounts of the several Underwriters, against payment by the several Underwriters through the Representatives of the purchase price thereof to or upon the order of the Company by wire transfer payable in same-day funds to an account specified by the Company. If settlement for the Option Securities occurs after the Closing Date, the Company will deliver to the Representatives on the settlement date for the Option Securities, and the obligation of the Underwriters to purchase the Option Securities shall be conditioned upon receipt of, supplemental opinions, certificates and letters confirming as of such date the opinions, certificates and letters delivered on the Closing Date pursuant to Section 6 hereof.
4. **Offering by Underwriters.** It is understood that the several Underwriters propose to offer the Securities for sale to the public as set forth in the Prospectus.

5. **Agreements.** The Company agrees with the several Underwriters that:

   (a) Prior to the termination of the offering of the Securities, the Company will not file any amendment of the Registration Statement or supplement to the Prospectus or any Rule 462(b) Registration Statement unless the Company has furnished you a copy for your review prior to filing and will not file any such proposed amendment or supplement to which you reasonably object. The Company will cause the Prospectus, properly completed, and any supplement thereto to be filed in a form approved by the Representatives with the SEC pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed and will provide evidence satisfactory to the Representatives of such timely filing. The Company will promptly advise the Representatives:

       (i) when the Prospectus, and any supplement thereto, shall have been filed (if required) with the SEC pursuant to Rule 424(b) or when any Rule 462(b) Registration Statement shall have been filed with the SEC, (ii) when, prior to termination of the offering of the Securities, any amendment to the Registration Statement shall have been filed or become effective, (iii) of any request by the SEC or its staff for any amendment of the Registration Statement, or any Rule 462(b) Registration Statement, or for any supplement to the Prospectus or for any additional information, (iv) of the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement or of any notice objecting to its use or the institution or threatening of any proceeding for that purpose and (v) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the institution or threatening of any proceeding for such purpose. The Company will use its reasonable best efforts to prevent the issuance of any such stop order or the occurrence of any such suspension or objection to the use of the Registration Statement and, upon such issuance, occurrence or notice of objection, to obtain as soon as possible the withdrawal of such stop order or relief from such occurrence or objection, including, if necessary, by filing an amendment to the Registration Statement or a new registration statement and using its reasonable best efforts to have such amendment or new registration statement declared effective as soon as practicable.

   (b) If, at any time prior to the filing of the Prospectus pursuant to Rule 424(b), any event occurs as a result of which the Disclosure Package would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein in the light of the circumstances under which they were made at such time not misleading, the Company will (i) notify promptly the Representatives so that any use of the Disclosure Package may cease until it is amended or supplemented; (ii) amend or supplement the Disclosure Package to correct such statement or omission; and (iii) supply any amendment or supplement to you in such quantities as you may reasonably request.
(c) If, at any time when a prospectus relating to the Securities is required to be delivered under the Securities Act (including in circumstances where such requirement may be satisfied pursuant to Rule 172 under the Securities Act ("Rule 172")), any event occurs as a result of which the Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein in the light of the circumstances under which they were made at such time not misleading, or if it shall be necessary to amend the Registration Statement or supplement the Prospectus to comply with the Securities Act or the rules thereunder, the Company promptly will (i) notify the Representatives of any such event; (ii) prepare and file with the SEC, subject to the second sentence of paragraph (a) of this Section 5, an amendment or supplement which will correct such statement or omission or effect such compliance; and (iii) supply any supplemented Prospectus to you in such quantities as you may reasonably request.

(d) As soon as practicable, the Company will make generally available to its security holders and to the Representatives an earnings statement or statements of the Company and its subsidiaries which will satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 under the Securities Act.

(e) Upon request, the Company will furnish to the Representatives and counsel for the Underwriters, without charge, signed copies of the Registration Statement with conformed signatures (including exhibits thereto) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Securities Act (including in circumstances where such requirement may be satisfied pursuant to Rule 172), as many copies of each Preliminary Prospectus, the Prospectus and each Issuer Free Writing Prospectus and any supplement thereto as the Representatives may reasonably request. The Company will pay the expenses of printing or other production of all documents relating to the offering.

(f) The Company will cooperate with the Representatives and counsel to the Underwriters to arrange, if necessary, for the qualification of the Securities for sale under the laws of such jurisdictions as the Representatives may reasonably designate and will maintain such qualifications in effect so long as required for the distribution of the Securities; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Securities, in any jurisdiction where it is not now so subject.

(g) The Company will not, without the prior written consent of the Representatives, offer, sell, contract to sell, pledge, or otherwise dispose of, (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any affiliate of the Company or any person in privity with the Company or any affiliate of the Company) directly or indirectly, including the filing or confidential submission (or participation in the filing or confidential submission) of a registration statement with the SEC in respect of, or
establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act, any other shares of Common Stock or any securities convertible into, or exercisable, or exchangeable for, shares of Common Stock; or publicly announce an intention to effect any such transaction, for a period of 180 days after the date of this Agreement, provided, however, that the Company may (i) effect the transactions contemplated hereby, (ii) issue and sell Common Stock, or any securities convertible into or exercisable or exchangeable for shares of Common Stock, pursuant to any stock option plan, incentive plan, employee stock purchase plan, stock bonus plan, stock ownership plan, dividend reinvestment plan or other plan or arrangement of the Company described in the Registration Statement, Disclosure Package and the Prospectus, but only if the holders of such shares of Common Stock or options provide to the Representatives a signed lock-up letter in the form described in Section 6(l) hereof, (iii) the Company may issue Common Stock issuable upon the conversion of securities or the exercise of warrants or options outstanding at the Execution Time, (iv) file one or more registration statements on Form S-8 and (v) issue shares of Common Stock, or any securities convertible into or exercisable or exchangeable for, Common Stock, or enter into an agreement to issue shares of Common Stock, or any securities convertible into or exercisable or exchangeable for, shares of Common Stock, in connection with any merger, joint venture, strategic alliances, commercial or other collaborative transaction or the acquisition or license of the business, property, technology or other assets of another individual or entity or the assumption of an employee benefit plan in connection with a merger or acquisition; provided, however, that the aggregate number of shares of Common Stock, or any securities convertible into or exercisable or exchangeable for Common Stock, that the Company may issue or agree to issue pursuant to this clause (v) shall not exceed 7.5% of the total outstanding shares of Common Stock immediately following the issuance of the Underwritten Securities, and provided, further, that the recipients thereof provide to the Representatives a signed lock-up letter in the form described in Section 6(l) hereof.

(h) If the Representatives, in their sole discretion, agree to release or waive the restrictions set forth in a lock-up letter described in Section 6(l) hereof for an officer or director of the Company and provide the Company with notice of the impending release or waiver at least three Business Days before the effective date of the release or waiver, the Company agrees to announce the impending release or waiver by a press release substantially in the form of Exhibit B hereto through a major news service at least two Business Days before the effective date of the release or waiver.

(i) The Company will not take, directly or indirectly (without giving effect to activities by the Underwriters), any action designed to or that would constitute or that would reasonably be expected to cause or result in, under the Exchange Act or otherwise, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(j) The Company agrees to pay the costs and expenses relating to the following matters: (i) the preparation, printing or reproduction and filing with the SEC of the Registration Statement (including financial statements and exhibits thereto), each Preliminary Prospectus, the Prospectus and each Issuer Free Writing Prospectus, and
each amendment or supplement to any of them; (ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the Registration Statement, each Preliminary Prospectus, the Prospectus and each Issuer Free Writing Prospectus, and all amendments or supplements to any of them, as may, in each case, be reasonably requested for use in connection with the offering and sale of the Securities; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Securities, including any stamp or transfer taxes in connection with the original issuance and sale of the Securities to the Underwriters; (iv) the printing (or reproduction) and delivery of this Agreement, any blue sky memorandum and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Securities; (v) the registration of the Securities under the Exchange Act and the listing of the Securities on the New York Stock Exchange; (vi) any registration or qualification of the Securities for offer and sale under the securities or blue sky laws of the several states (including filing fees and the reasonable fees and expenses of counsel for the Underwriters relating to such registration and qualification); (vii) any filings required to be made with the Financial Industry Regulatory Authority, Inc. (“FINRA”) (including filing fees and the reasonable fees and expenses of counsel for the Underwriters relating to such filings), with such fees and expenses of counsel pursuant to clauses (vi) and (vii) not to exceed $35,000 in the aggregate; (viii) the transportation and other expenses incurred by or on behalf of Company representatives in connection with presentations to prospective purchasers of the Securities; provided, however, that if the Representatives and the Company mutually agree that an aircraft shall be chartered in connection with the road show for the Securities, the Company shall only be responsible for one-half of the cost and expenses of such aircraft and the Underwriters shall be responsible for the balance; (ix) the fees and expenses of the Company’s accountants and the fees and expenses of counsel (including local and special counsel) for the Company; and (x) all other costs and expenses incident to the performance by the Company of its obligations hereunder.

(k) The Company agrees that, unless it has or shall have obtained the prior written consent of the Representatives, and each Underwriter, severally and not jointly, agrees with the Company that, unless it has or shall have obtained, as the case may be, the prior written consent of the Company, it has not made and will not make any offer relating to the Securities that would constitute an Issuer Free Writing Prospectus or that would otherwise constitute a Free Writing Prospectus required to be filed by the Company with the SEC or retained by the Company under Rule 433 under the Securities Act (“Rule 433”); provided that the prior written consent of the parties hereto shall be deemed to have been given in respect of the Free Writing Prospectuses included in Schedule II hereto and any electronic road show. Any such free writing prospectus consented to by the Representatives or the Company is hereinafter referred to as a “Permitted Free Writing Prospectus.” The Company agrees that (x) it has treated and will treat, as the case may be, each Permitted Free Writing Prospectus as an Issuer Free Writing Prospectus and (y) it has complied and will comply, as the case may be, with the requirements of Rule 164 under the Securities Act (“Rule 164”) and Rule 433 applicable to any Permitted Free Writing Prospectus, including in respect of timely filing with the SEC, legending and record keeping.
The Company will promptly notify the Representatives if the Company ceases to be an Emerging Growth Company at any time prior to the later of (a) completion of the distribution of the Securities within the meaning of the Securities Act and (b) completion of the 180-day restricted period referred to in Section 5(g) hereof.

If at any time following the distribution of any Written Testing-the-Waters Communication, any event occurs as a result of which such Written Testing-the-Waters Communication would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein in the light of the circumstances under which they were made at such time not misleading, the Company will (i) notify promptly the Representatives so that use of the Written Testing-the-Waters Communication may cease until it is amended or supplemented; (ii) amend or supplement the Written Testing-the-Waters Communication to correct such statement or omission; and (iii) supply any amendment or supplement to the Representatives in such quantities as may be reasonably requested.

6. Conditions to the Obligations of the Underwriters. The obligations of the Underwriters to purchase the Underwritten Securities and the Option Securities, as the case may be, shall be subject to the accuracy of the representations and warranties on the part of the Company contained herein as of the Execution Time, the Closing Date and any settlement date pursuant to Section 3 hereof, to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions:

(a) The Prospectus, and any supplement thereto, have been filed in the manner and within the time period required by Rule 424(b); any material required to be filed by the Company pursuant to Rule 433(d) shall have been filed with the SEC within the applicable time periods prescribed for such filings by Rule 433; and no stop order suspending the effectiveness of the Registration Statement or any notice objecting to its use shall have been issued and no proceedings for that purpose shall have been instituted or threatened.

(b) The Company shall have requested and caused Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, counsel for the Company, to have furnished to the Representatives their opinion and negative assurance letter, dated the Closing Date and addressed to the Representatives, in form and substance reasonably satisfactory to the Representatives.

(c) The Company shall have requested and caused Mintz Levin Cohn Ferris Glovsky and Popeo, P.C., intellectual property counsel for the Company, to have furnished to the Representatives its opinion, dated the Closing Date and addressed to the Representatives, in form and substance reasonably satisfactory to the Representatives.

(d) The Company shall have requested and caused Sidley Austin LLP, regulatory counsel for the Company, to have furnished to the Representatives its opinion, dated the Closing Date and addressed to the Representatives, in form and substance reasonably satisfactory to the Representatives.
(e) The Representatives shall have received from Cooley LLP, counsel for the Underwriters, such opinion and negative assurance letter, dated the Closing Date and addressed to the Representatives, with respect to the issuance and sale of the Securities, the Registration Statement, the Disclosure Package, the Prospectus (together with any supplement thereto) and other related matters as the Representatives may reasonably require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(f) The Company shall have furnished to the Representatives a certificate of the Company, signed by the chief executive officer and the principal financial or accounting officer of the Company, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Disclosure Package, the Prospectus and any amendment or supplement thereto, as well as each electronic road show used in connection with the offering of the Securities, and this Agreement and that:

(i) the representations and warranties of the Company in this Agreement are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement or any notice objecting to its use has been issued and no proceedings for that purpose have been instituted or, to the Company’s knowledge, threatened; and

(iii) since the date of the most recent financial statements included in the Disclosure Package and the Prospectus (exclusive of any supplement thereto) there has been no Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto).

(g) The Company shall have requested and caused Ernst & Young LLP to have furnished to the Representatives, at the Execution Time and at the Closing Date, letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Representatives, containing statements and information of the type ordinarily included in accountants “comfort letters” to underwriters.

(h) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of supplement thereto), there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (e) of this Section 6 or (ii) any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), earnings, business or properties of the Company and its subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Disclosure
Package and the Prospectus (exclusive of any supplement thereto) the effect of which, in any case referred to in clause (i) or (ii) above, is, in the sole judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof), the Disclosure Package and the Prospectus (exclusive of any supplement thereto).

(i) Prior to the Closing Date, the Company shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

(j) Neither the Company nor any of its subsidiaries has any securities rated by any “nationally recognized statistical rating organization,” as such term is defined in Section 3(a)(62) of the Exchange Act.

(k) The Securities shall have been listed and admitted and authorized for trading on the New York Stock Exchange, and satisfactory evidence of such actions shall have been provided to the Representatives.

(l) At the Execution Time, the Company shall have furnished to the Representatives a letter substantially in the form of Exhibit A hereto from each officer, director and key employee of the Company and substantially all of the holders of the Company’s securities addressed to the Representatives.

If any of the conditions specified in this Section 6 shall not have been fulfilled when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters, this Agreement and all obligations of the Underwriters hereunder may be canceled at, or at any time prior to, the Closing Date by the Representatives. Notice of such cancellation shall be given to the Company in writing or by telephone or facsimile confirmed in writing.

The documents required to be delivered by this Section 6 shall be delivered at the office of Cooley LLP, counsel for the Underwriters, at 101 California Street, 5th Floor, San Francisco, CA 94111-5800, on the Closing Date.

7. Reimbursement of Underwriters’ Expenses. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 6 hereof is not satisfied, because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally through Citigroup Global Markets Inc. on demand for all documented out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities.

8. Indemnification and Contribution.
(a) The Company agrees to indemnify and hold harmless each Underwriter, the directors, officers, employees, affiliates and agents of each Underwriter and each person who controls any Underwriter within the meaning of either the Securities Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of the Securities as originally filed or in any amendment thereof, or in any Preliminary Prospectus, or the Prospectus, or any Issuer Free Writing Prospectus, or any Written Testing-the-Waters Communication or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter specifically for inclusion therein. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Each Underwriter severally and not jointly agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, and each person who controls the Company within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with reference to written information relating to such Underwriter furnished to the Company by or on behalf of such Underwriter specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have. The Company acknowledges that the statements set forth (i) in the last paragraph of the cover page regarding delivery of the Securities and, (ii) under the heading “Underwriting,” (a) the list of Underwriters and their respective participation in the sale of the Securities, (b) the sentences related to concessions and reallowances and (c) the paragraph related to stabilization, syndicate covering transactions and penalty bids in the Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the several Underwriters for inclusion in the Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a)
or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party’s choice at the indemnifying party’s expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party’s election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel (it being understood, however, that the indemnifying party shall not be liable for the fees and expenses of more than one separate counsel (together with local counsel), representing the indemnified parties who are parties to such action) if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(d) In the event that the indemnity provided in paragraph (a), (b) or (c) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company and the Underwriters severally agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending the same) (collectively, “Losses”) to which the Company and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and by the Underwriters on the other from the offering of the Securities. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company and the Underwriters severally shall contribute in such proportion as is appropriate to reflect not only such
relative benefits but also the relative fault of the Company on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Company shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by it, and benefits received by the Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Prospectus. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the Company on the one hand or the Underwriters on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), in no event shall an Underwriter be required to contribute any amount in excess of the amount by which the total underwriting discounts and commissions received by such Underwriter with respect to the offering of the Securities exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person who controls an Underwriter within the meaning of either the Securities Act or the Exchange Act and each director, officer, employee, affiliate and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and each person who controls the Company within the meaning of either the Securities Act or the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to the applicable terms and conditions of this paragraph (d).

9. **Default by an Underwriter.** If any one or more Underwriters shall fail to purchase and pay for any of the Securities agreed to be purchased by such Underwriter or Underwriters hereunder and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Securities set forth opposite their names in Schedule I hereto bears to the aggregate amount of Securities set forth opposite the names of all the remaining Underwriters) the Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase; provided, however, that in the event that the aggregate amount of Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Securities set forth in Schedule I hereto, the remaining Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such non-defaulting Underwriters do not purchase all the Securities, this Agreement will terminate without liability to any non-defaulting Underwriter or the Company. In the event of a default by any Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding
five Business Days, as the Representatives shall determine in order that the required changes in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected. Nothing contained in this Agreement shall relieve any defaulting Underwriter of its liability, if any, to the Company and any non-defaulting Underwriter for damages occasioned by its default hereunder.

10. **Termination.** This Agreement shall be subject to termination in the absolute discretion of the Representatives, by notice given to the Company prior to delivery of and payment for the Securities, if at any time prior to such delivery and payment (i) trading in the Company’s Common Stock shall have been suspended by the SEC or the New York Stock Exchange or trading in securities generally on the New York Stock Exchange or the Nasdaq Stock Market shall have been suspended or limited or minimum prices shall have been established on either of such exchanges, (ii) a banking moratorium shall have been declared either by Federal or New York State authorities, (iii) there shall have occurred a material disruption in commercial banking or securities settlement or clearance services or (iv) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war, or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Representatives, impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Preliminary Prospectus or the Prospectus (exclusive of any supplement thereto).

11. **Representations and Indemnities to Survive.** The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers and of the Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or the Company or any of the officers, directors, employees, agents, affiliates or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 7 and 8 hereof shall survive the termination or cancellation of this Agreement.

12. **Notices.** All communications hereunder will be in writing and effective only on receipt, and, if sent to the Representatives, will be mailed, delivered or telefaxed to Citigroup Global Markets Inc. at 388 Greenwich Street, New York, New York 10013, Attention: General Counsel, facsimile number: +1 (646) 291-1469; Goldman Sachs & Co. LLC, 200 West Street, New York, New York 10282-2198, Attention: Registration Department; and Leerink Partners LLC at One Federal Street, 37 th Floor, Boston Massachusetts 02110, Attention: [●], facsimile number : +[●]; or, if sent to the Company, will be mailed, delivered or emailed to Arcus Biosciences, Inc., 3928 Point Eden Way, Hayward, CA 94545, Attention: CFO, with a copy to: contracts@arcusbio.com.

13. **Successors.** This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers, directors, employees, agents and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

14. **Jurisdiction.** The Company agrees that any suit, action or proceeding against the Company brought by any Underwriter, the directors, officers, employees, affiliates and agents of any Underwriter, or by any person who controls any Underwriter, arising out of or
based upon this Agreement or the transactions contemplated hereby may be instituted in any State or U.S. federal court in The City of New York and County of New York, and waives any objection which it may now or hereafter have to the laying of venue of any such proceeding, and irrevocably submits to the non-exclusive jurisdiction of such courts in any suit, action or proceeding. The Company hereby appoints Paracorp Incorporated, 2140 South DuPont Highway, Camden, Delaware 19934 as its authorized agent (the “Authorized Agent”) upon whom process may be served in any suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated herein that may be instituted in any State or U.S. federal court in The City of New York and County of New York, by any Underwriter, the directors, officers, employees, affiliates and agents of any Underwriter, or by any person who controls any Underwriter, and expressly accepts the non-exclusive jurisdiction of any such court in respect of any such suit, action or proceeding. The Company hereby represents and warrants that the Authorized Agent has accepted such appointment and has agreed to act as said agent for service of process, and the Company agrees to take any and all action, including the filing of any and all documents that may be necessary to continue such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon the Company. Notwithstanding the foregoing, any action arising out of or based upon this Agreement may be instituted by any Underwriter, the directors, officers, employees, affiliates and agents of any Underwriter, or by any person who controls any Underwriter, in any court of competent jurisdiction in the State of Delaware.

15. **No Fiduciary Duty.** The Company hereby acknowledges that (a) the purchase and sale of the Securities pursuant to this Agreement is an arm’s-length commercial transaction between the Company, on the one hand, and the Underwriters and any affiliate through which it may be acting, on the other, (b) the Underwriters are acting as principal and not as an agent or fiduciary of the Company and (c) the Company’s engagement of the Underwriters in connection with the offering and the process leading up to the offering is as independent contractors and not in any other capacity. Furthermore, the Company agrees that it is solely responsible for making its own judgments in connection with the offering (irrespective of whether any of the Underwriters has advised or is currently advising the Company on related or other matters). The Company agrees that it will not claim that the Underwriters have rendered advisory services of any nature or respect, or owe an agency, fiduciary or similar duty to the Company, in connection with such transaction or the process leading thereto.

16. **Integration.** This Agreement supersedes all prior agreements and understandings (whether written or oral) between the Company and the Underwriters, or any of them, with respect to the subject matter hereof.

17. **Applicable Law.** This Agreement will be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

18. **Waiver of Jury Trial.** The Company and the Underwriters hereby irrevocably waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.
19. **Counterparts.** This Agreement may be signed in one or more counterparts, each of which shall constitute an original and all of which together shall constitute one and the same agreement.

20. **Headings.** The section headings used herein are for convenience only and shall not affect the construction hereof.
If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company and the several Underwriters.

Very truly yours,

Arcus Biosciences, Inc.

By: ____________________________
   Name: ________________________
   Title: ________________________

[ Signature Page to Underwriting Agreement ]
The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

Citigroup Global Markets Inc.
Goldman Sachs & Co. LLC
Leerink Partners LLC

By: Citigroup Global Markets Inc.

By:  
Name:  
Title:  

By: Goldman Sachs & Co. LLC

By:  
Name:  
Title:  

By: Leerink Partners LLC

By:  
Name:  
Title:  

For themselves and the other several Underwriters named in Schedule I to the foregoing Agreement.

[ Signature Page to Underwriting Agreement ]
<table>
<thead>
<tr>
<th>Underwriters</th>
<th>Number of Underwritten Securities to be Purchased</th>
</tr>
</thead>
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<tr>
<td>Citigroup Global Markets Inc.</td>
<td>●</td>
</tr>
<tr>
<td>Goldman Sachs &amp; Co. LLC</td>
<td>●</td>
</tr>
<tr>
<td>Leerink Partners LLC</td>
<td>●</td>
</tr>
<tr>
<td>Total</td>
<td>●</td>
</tr>
</tbody>
</table>
SCHEDULE II

Schedule of Free Writing Prospectuses included in the Disclosure Package

[ list all Free Writing Prospectuses included in the Disclosure Package ]

II-1
SCHEDULE III

Schedule of Written Testing-the-Waters Communications

[ list all Written Testing-the-Waters Communications ]

III-1
Form of Lock-Up Agreement

Arcus Biosciences, Inc.
Public Offering of Common Stock

[ date ]

Citigroup Global Markets Inc.
Goldman Sachs & Co. LLC
Leerink Partners LLC

As Representatives of the several Underwriters,

c/o Citigroup Global Markets Inc.
388 Greenwich Street
New York, New York 10013

c/o Goldman Sachs & Co. LLC
200 West Street
New York, New York 10282

c/o Leerink Partners LLC
One Federal Street, 37th Floor
Boston, Massachusetts 02110

Ladies and Gentlemen:

This letter is being delivered to you in connection with the proposed underwriting agreement (the “Underwriting Agreement”), between Arcus Biosciences, Inc., a Delaware corporation (the “Company”), and each of you as representatives (the “Representatives”) of a group of Underwriters named therein, relating to an underwritten public offering of Common Stock, $0.0001 par value per share (the “Common Stock”), of the Company (the “Offering”).

In order to induce you and the other Underwriters to enter into the Underwriting Agreement, the undersigned will not, without the prior written consent of the Representatives, offer, sell, contract to sell, pledge or otherwise dispose of, (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the undersigned or any affiliate of the undersigned or any person in privity with the undersigned or any affiliate of the undersigned), directly or indirectly, including the filing (or participation in the filing) of a registration statement with the Securities and Exchange Commission in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations of the Securities and Exchange Commission promulgated thereunder with respect to, or make any demand for or exercise any right with respect to the registration of, any shares of capital stock of the Company or any securities.
convertible into, or exercisable or exchangeable for such capital stock, or publicly announce an intention to effect any such transaction, for a period from the date hereof until 180 days after the date of the Underwriting Agreement (the “Lock-Up Period”), other than:

(a) transactions relating to shares of Common Stock or other securities acquired in the Offering or in open market transactions after the completion of the Offering, provided that no filing under Section 16(a) of the Exchange Act nor any other public filing or disclosure shall be required or shall be voluntarily made during the Lock-up Period in connection with subsequent sales of Common Stock or other securities acquired in the Offering or in such open market transactions;

(b) transfers of shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock not involving a disposition for value (i) as a bona fide gift, or gifts, or for bona fide estate planning purposes, (ii) upon death or by will, testamentary document or intestate succession, (iii) to an Immediate Family member of the undersigned or to any trust for the direct or indirect benefit of the undersigned or one or more Immediate Family members of the undersigned (for purposes of this letter agreement, “Immediate Family” shall mean any spouse or domestic partner and any relationship by blood, current or former marriage or adoption, not more remote than first cousin), or (iv) if the undersigned is a trust, to a trustor, trustee or beneficiary of the trust or to the estate of a trustor, trustee or beneficiary of such trust; provided that in the case of any transfer or distribution pursuant to this clause (b), (i) each distributee or transferee shall sign and deliver a lock up letter substantially in the form of this letter and (ii) no filing under Section 16(a) of the Exchange Act nor any other public filing or disclosure reporting a reduction in beneficial ownership of shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock shall be required or shall be voluntarily made during the Lock-Up Period;

(c) transfers or distributions of shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock by a stockholder that is a corporation, partnership, limited liability company or other business entity not involving a disposition for value (i) to another corporation, partnership, limited liability company or other business entity that controls, is controlled by or managed by or is under common control with such stockholder or (ii) as part of a distribution by the undersigned to its stockholders, partners, members or other equityholders or to the estate of any such stockholders, partners, members or other equityholders; provided that in the case of any transfer or distribution pursuant to this clause (c), (i) each distributee or transferee shall sign and deliver a lock up letter substantially in the form of this letter and (ii) no filing under Section 16(a) of the Exchange Act nor any other public filing or disclosure reporting a reduction in beneficial ownership of shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock shall be required or shall be voluntarily made during the Lock-Up Period;

(d) (i) the receipt by the undersigned from the Company of shares of Common Stock upon the exercise or settlement on a cash basis of options or restricted stock units granted under a stock incentive plan or other equity award plan, which plan is described in the final prospectus related to the Offering (the “Prospectus”), or the exercise on a cash basis of warrants outstanding and which are described in the Prospectus, or (ii) the transfer or other disposition of shares of Common Stock or any securities convertible into Common Stock to the Company upon a vesting
or settlement event of the Company’s securities or upon the exercise of options, restricted stock units or warrants to purchase the Company’s securities on a “cashless” or “net exercise” basis to the extent permitted by the instruments representing such options or warrants (and any transfer or other disposition to the Company necessary in respect of such amount of cash needed for the payment of taxes, including estimated taxes, due as a result of such vesting or exercise whether by means of a “net settlement” or otherwise) so long as such “cashless exercise” or “net exercise” is effected solely by the surrender of outstanding options, restricted stock units or warrants (or the Common Stock issuable upon the exercise thereof) to the Company and the Company’s cancellation of all or a portion thereof to pay the exercise price and/or withholding tax and remittance obligations; provided that in the case of (i) the shares received upon exercise or settlement of the option, restricted stock unit, or warrant are subject to the terms of this letter, and provided further that in the case of (i) and (ii), no filing under Section 16(a) of the Exchange Act or any other public filing or disclosure reporting a reduction in beneficial ownership of shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock shall be required or shall be voluntarily made during the Lock-Up Period;

(c) the establishment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of Common Stock, provided that (i) such plan does not provide for the transfer of Common Stock during the Lock-Up Period and (ii) no filing under the Exchange Act is required of or voluntarily made by or on behalf of the undersigned or the Company regarding the establishment of such plan during the Lock-Up Period;

(f) the transfer of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock (or the economic consequences of ownership of the Common Stock) that occurs pursuant to a settlement agreement not involving a disposition for value, related to the distribution of assets in connection with the dissolution of a marriage or civil union, by operation of law pursuant to a qualified domestic order in connection with a divorce settlement or pursuant to any other court order, provided that (i) each transferee shall sign and deliver a lock-up letter substantially in the form of this letter, (ii) any filing required under the Exchange Act reporting a reduction in beneficial ownership of shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock during the Lock-Up Period shall clearly indicate in the footnotes thereto that such transfer relates to the applicable circumstances described in this clause (f) and (iii) no public filing or disclosure shall be voluntarily made during the Lock-Up Period;

(g) any transfer of Common Stock to the Company pursuant to contractual arrangements under which the Company has the option to repurchase such shares; provided that (i) any filing required under the Exchange Act reporting a reduction in beneficial ownership of shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock during the Lock-Up Period shall clearly indicate in the footnotes thereto that such transfer relates to the circumstances described in this clause (g) and (ii) no public filing or disclosure shall be voluntarily made during the Lock-Up Period;

(h) the conversion or reclassification of the outstanding preferred stock or other classes of common stock of the Company into shares of Common Stock in connection with the consummation of the Offering, provided that any such shares of Common Stock received upon such conversion or reclassification shall remain subject to the terms of this letter agreement; and
the transfer of shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock pursuant to a bona fide third-party tender offer, merger, consolidation or other similar transaction that is approved by the Board of Directors of the Company, made to all holders of Common Stock involving a Change of Control (as defined below), provided that in the event that the tender offer, merger, consolidation or other such transaction is not completed, the undersigned’s Common Stock shall remain subject to the terms of this agreement. For purposes of this clause (i), “Change of Control” means any bona fide third party tender offer, merger, consolidation or other similar transaction, in one transaction or a series of related transactions, the result of which is that any “person” (as defined in Section 13(d)(3) of the Exchange Act), or group of persons, other than the Company, becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 of the Exchange Act) of 50% or more of the total voting power of the voting stock of the Company (or the surviving entity).

If the undersigned is an officer or director of the Company, the undersigned further agrees that the foregoing restrictions shall be equally applicable to any issuer-directed shares of Common Stock the undersigned may purchase in the Offering. The undersigned also agrees and consents to the entry of stop transfer instructions with the Company’s transfer agent and registrar against the transfer of the undersigned’s shares of Common Stock except in compliance with the foregoing restrictions.

If the undersigned is an officer or director of the Company, (i) the Representatives agree that, at least three business days before the effective date of any release or waiver of the foregoing restrictions in connection with a transfer of shares of Common Stock, the Representatives will notify the Company of the impending release or waiver, and (ii) the Company has agreed in the Underwriting Agreement to announce the impending release or waiver by press release through a major news service at least two business days before the effective date of the release or waiver. Any release or waiver granted by the Representatives hereunder to any such officer or director shall only be effective two business days after the publication date of such press release. The provisions of this paragraph will not apply if (a) the release or waiver is effected solely to permit a transfer not for consideration and (b) the transferee has agreed in writing to be bound by the same terms described in this letter to the extent and for the duration that such terms remain in effect at the time of the transfer.

Notwithstanding anything to the contrary contained herein, this letter agreement will automatically terminate and the undersigned will be released from all of his, her or its obligations hereunder upon the earliest to occur, if any, of (i) the date that the Company, on the one hand, or the Representatives, on the other hand, advises in writing that it has determined not to proceed with the Offering prior to the execution of the Underwriting Agreement, (ii) the date that the Company withdraws the registration statement related to the Offering, (iii) the date that the Underwriting Agreement is executed but is terminated (other than the provisions thereof which survive termination) prior to payment for and delivery of the shares of Common Stock to be sold thereunder, or (iv) August 31, 2018 (provided that the Company may by written notice to the undersigned prior to August 31, 2018 extend such date for a period of up to an additional three months), in the event that the Underwriting Agreement has not been executed by such date.

The undersigned hereby waives any and all notice requirements and rights with respect to the registration of securities pursuant to any agreement, understanding or anything
otherwise setting forth the terms of any security of the Company held by the undersigned, including any registration rights agreement to which the undersigned and the Company may be party; provided, however, that such waiver shall apply only to the proposed Offering, and any other action taken by the Company in connection with the proposed Offering.

The undersigned hereby consents to receipt of this letter agreement in electronic form and understands and agrees that this letter agreement may be signed electronically. In the event that any signature is delivered by facsimile transmission, electronic mail, or otherwise by electronic transmission evidencing an intent to sign this letter agreement, such facsimile transmission, electronic mail or other electronic transmission shall create a valid and binding obligation of the undersigned with the same force and effect as if such signature were an original. Execution and delivery of this letter agreement by facsimile transmission, electronic mail or other electronic transmission is legal, valid and binding for all purposes.

[Signature page follows]
Very truly yours,

*If signing as an individual stockholder:*

(Signature)

(Print Exact Name of Stockholder)

*If not signing in an individual capacity:*

(Print Exact Name of Stockholder)

By:  

(Signature)

(Print Name of Authorized Signatory, if applicable)

(Print Title of Authorized Signatory, if applicable)
Arcus Biosciences, Inc.

[insert date]

Arcus Biosciences, Inc. (the “Company”) announced today that Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and Leerink Partners LLC, the lead book-running managers in the Company’s recent initial public offering of [●] shares of common stock, are [waiving] [releasing] a lock-up restriction with respect to [●] shares of the Company’s common stock held by [certain officers or directors] [an officer or director] of the Company. The [waiver] [release] will take effect on [insert date], 20__, and the shares may be sold on or after such date.

This press release is not an offer for sale of the securities in the United States or in any other jurisdiction where such offer is prohibited, and such securities may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended.
ADDENDUM

Form of Waiver of Lock-up

Arcus Biosciences, Inc.
Public Offering of Common Stock

[ insert date ], 2017

Dear Mr./Ms. [ insert name ]:

This letter is being delivered to you in connection with the offering by Arcus Biosciences, Inc. (the “Company”) of [●] shares of common stock, $[●] par value (the “Common Stock”), of the Company and the lock-up letter dated [ insert date ], 20__ (the “Lock-up Letter”), executed by you in connection with such offering, and your request for a [waiver] [release] dated [ insert date ], 20__, with respect to [●] shares of Common Stock (the “Shares”).

Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and Leerink Partners LLC hereby agree to [waive] [release] the transfer restrictions set forth in the Lock-up Letter, but only with respect to the Shares, effective [ insert date ], 20__; provided, however, that such [waiver] [release] is conditioned on the Company announcing the impending [waiver] [release] by press release through a major news service at least two business days before effectiveness of such [waiver] [release]. This letter will serve as notice to the Company of the impending [waiver] [release].

Except as expressly [waived] [released] hereby, the Lock-up Letter shall remain in full force and effect.

Yours very truly,

Citigroup Global Markets Inc.

By: ________________________________
    Name:
    Title:

Goldman Sachs & Co. LLC

By: ________________________________
    Name:
    Title:
March 5, 2018

Arcus Biosciences, Inc.
3928 Point Eden Way
Hayward, CA 94545

Ladies and Gentlemen:

You have requested our opinion with respect to certain matters in connection with the sale by Arcus Biosciences, Inc., a Delaware corporation (the “Company”), of up to an aggregate of 8,165,000 shares of the Company’s common stock, par value $0.0001 per share (the “Shares”), (including up to 1,065,000 shares that may be sold pursuant to the exercise of an over-allotment option granted by the Company to the underwriters), pursuant to the Registration Statement on Form S-1 (File No. 333-223086) (the “Registration Statement”) initially filed with the Securities and Exchange Commission (the “Commission”) under the Securities Act of 1933, as amended (the “Act”), on February 16, 2018, as amended. We understand that the Shares are to be sold to the underwriters for resale to the public as described in the Registration Statement and pursuant to an underwriting agreement, substantially in the form filed as an exhibit to the Registration Statement, to be entered into by and among the Company and the underwriters (the “Underwriting Agreement”).

In connection with this opinion, we have examined and relied upon the Registration Statement and the originals or copies certified to our satisfaction of such other documents, records, certificates, memoranda and other instruments as in our judgment are necessary or appropriate to enable us to render the opinion expressed below. With your consent, we have relied upon certificates and other assurances of officers of the Company as to factual matters without having independently verified such factual matters. We have assumed the genuineness and authenticity of all documents submitted to us as originals, and the conformity to originals of all documents submitted to us as copies thereof and the due execution and delivery of all documents where due execution and delivery are a prerequisite to the effectiveness thereof.

This opinion is being furnished in connection with the requirements of Item 601(b)(5) of Regulation S-K under the Act, and no opinion is expressed herein as to any matter pertaining to the contents of the Registration Statement, other than as expressly stated herein with respect to the issue of the Shares. Our opinion is limited to the matters stated herein and no opinion is implied or may be inferred beyond the matters expressly stated. Our opinion herein is expressed solely with respect to the federal laws of the United States and the General Corporation Law of the State of Delaware (the “DGCL”). Our opinion is based on these laws as in effect on the date hereof, and we disclaim any obligation to advise you of facts, circumstances, events or developments which hereafter may be brought to our attention and which may alter, affect or modify the opinion expressed herein. We are not rendering any opinion as to compliance with any federal or state antifraud law, rule or regulation relating to securities, or to the sale or issuance thereof.

GUNDERSON DETTMER STOUGH VILLENEUVE FRANKLIN & HACHIGIAN, LLP
1200 SEAPORT BOULEVARD, REDWOOD CITY, CA 94063 / PHONE: 650.321.2400 / FAX: 650.321.3800
Subject to the foregoing and the other matters set forth herein, it is our opinion that when the Shares to be issued and sold by the Company are issued and paid for in accordance with the terms of the Underwriting Agreement, such Shares will be validly issued, fully paid and nonassessable.

We consent to the reference to our firm under the caption “Legal Matters” in the prospectus included in the Registration Statement and to the filing of this opinion as an exhibit to the Registration Statement. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission thereunder.

Sincerely,

/s/ Gunderson Dettmer Stough
Villeneuve Franklin & Hachigian, LLP

GUNDERSON DETTMER STOUGH
VILLENEUVE FRANKLIN & HACHIGIAN, LLP
ARCUS BIOSCIENCES, INC.

AMENDED AND RESTATED 2015 STOCK PLAN

Adopted on May 8, 2015

Amended and Restated November 24, 2015

Amended August 12, 2016

Amended October 11, 2016

Amended November 2, 2017
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SECTION 1. ESTABLISHMENT AND PURPOSE.

The purpose of this Plan is to offer persons selected by the Company an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by acquiring Shares of the Company’s Stock. The Plan provides both for the direct award or sale of Shares and for the grant of Options to purchase Shares. Options granted under the Plan may be ISOs intended to qualify under Code Section 422 or NSOs which are not intended to so qualify.

Capitalized terms are defined in Section 11.

SECTION 2. ADMINISTRATION.

(a) Committees of the Board of Directors. The Plan may be administered by one or more Committees. Each Committee shall consist, as required by applicable law, of one or more members of the Board of Directors who have been appointed by the Board of Directors. Each Committee shall have such authority and be responsible for such functions as the Board of Directors has assigned to it. If no Committee has been appointed, the entire Board of Directors shall administer the Plan. Any reference to the Board of Directors in the Plan shall be construed as a reference to the Committee (if any) to whom the Board of Directors has assigned a particular function.

(b) Authority of the Board of Directors. Subject to the provisions of the Plan, the Board of Directors shall have full authority and discretion to take any actions it deems necessary or advisable for the administration of the Plan. Notwithstanding anything to the contrary in the Plan, with respect to the terms and conditions of awards granted to Participants outside the United States, the Board of Directors may vary from the provisions of the Plan to the extent it determines it necessary and appropriate to do so; provided that it may not vary from those Plan terms requiring stockholder approval pursuant to Section 10(d) below. All decisions, interpretations and other actions of the Board of Directors shall be final and binding on all Purchasers, all Optionees and all persons deriving their rights from a Purchaser or Optionee.

SECTION 3. ELIGIBILITY.

(a) General Rule. Only Employees, Outside Directors and Consultants shall be eligible for the grant of NSOs or the direct award or sale of Shares.

1 Only Employees shall be eligible for the grant of ISOs.

1 Note that special considerations apply if the Company proposes to grant awards to an Employee or Consultant of a Parent company.
(b) **Ten-Percent Stockholders**. A person who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, its Parent or any of its Subsidiaries shall not be eligible for the grant of an ISO unless (i) the Exercise Price is at least 110% of the Fair Market Value of a Share on the Date of Grant and (ii) such ISO by its terms is not exercisable after the expiration of five years from the Date of Grant. For purposes of this Subsection (b), in determining stock ownership, the attribution rules of Code Section 424(d) shall be applied.

SECTION 4. STOCK SUBJECT TO PLAN.

(a) **Basic Limitation**. Not more than 3,697,334 \(^2\) Shares may be issued under the Plan, subject to Subsection (b) below and Section 8(a). \(^3\) All of these Shares may be issued upon the exercise of ISOs. The number of Shares that are subject to Options or other rights outstanding at any time under the Plan may not exceed the number of Shares that then remain available for issuance under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient Shares to satisfy the requirements of the Plan. Shares offered under the Plan may be authorized but unissued Shares or treasury Shares.

(b) **Additional Shares**. In the event that Shares previously issued under the Plan are reacquired by the Company, such Shares shall be added to the number of Shares then available for issuance under the Plan. In the event that Shares that otherwise would have been issuable under the Plan are withheld by the Company in payment of the Purchase Price, Exercise Price or withholding taxes, such Shares shall remain available for issuance under the Plan. In the event that an outstanding Option or other right for any reason expires or is canceled, the Shares allocable to the unexercised portion of such Option or other right shall be added to the number of Shares then available for issuance under the Plan.

SECTION 5. TERMS AND CONDITIONS OF AWARDS OR SALES.

(a) **Stock Grant or Purchase Agreement**. Each award of Shares under the Plan shall be evidenced by a Stock Grant Agreement between the Grantee and the Company. Each sale of Shares under the Plan (other than upon exercise of an Option) shall be evidenced by a Stock Purchase Agreement between the Purchaser and the Company. Such award or sale shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Board of Directors deems appropriate for inclusion in a Stock Grant Agreement or Stock Purchase Agreement. The provisions of the various Stock Grant Agreements and Stock Purchase Agreements entered into under the Plan need not be identical.

(b) **Duration of Offers and Nontransferability of Rights**. Any right to purchase Shares under the Plan (other than an Option) shall automatically expire if not exercised by the Purchaser within 30 days (or such other period as may be specified in the Award Agreement) after the grant of such right was communicated to the Purchaser by the Company. Such right is not transferable and may be exercised only by the Purchaser to whom such right was granted.

\(^2\) All share numbers give effect to the 1-for-3.96 reverse stock split expected to be completed in March 2018.

\(^3\) Please refer to Exhibit A for a schedule of the initial share reserve and any subsequent increases in the reserve.
(c) **Purchase Price**. The Board of Directors shall determine the Purchase Price of Shares to be offered under the Plan at its sole discretion. The Purchase Price shall be payable in a form described in Section 7.

**SECTION 6. TERMS AND CONDITIONS OF OPTIONS.**

(a) **Stock Option Agreement**. Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. The Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Board of Directors deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

(b) **Number of Shares**. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 8. The Stock Option Agreement shall also specify whether the Option is an ISO or an NSO.

(c) **Exercise Price**. Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price of an Option shall not be less than 100% of the Fair Market Value of a Share on the Date of Grant, and in the case of an ISO a higher percentage may be required by Section 3(b). Subject to the preceding sentence, the Exercise Price shall be determined by the Board of Directors at its sole discretion. The Exercise Price shall be payable in a form described in Section 7. This Subsection (c) shall not apply to an Option granted pursuant to an assumption of, or substitution for, another option in a manner that complies with Code Section 424(a) (whether or not the Option is an ISO).

(d) **Exercisability**. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. No Option shall be exercisable unless the Optionee (i) has delivered an executed copy of the Stock Option Agreement to the Company or (ii) otherwise agrees to be bound by the terms of the Stock Option Agreement. The Board of Directors shall determine the exercisability provisions of the Stock Option Agreement at its sole discretion.

(e) **Basic Term**. The Stock Option Agreement shall specify the term of the Option. The term shall not exceed 10 years from the Date of Grant, and in the case of an ISO, a shorter term may be required by Section 3(b). Subject to the preceding sentence, the Board of Directors at its sole discretion shall determine when an Option is to expire.

(f) **Termination of Service (Except by Death)**. If an Optionee’s Service terminates for any reason other than the Optionee’s death, then the Optionee’s Options shall expire on the earliest of the following dates:

(i) The expiration date determined pursuant to Subsection (e) above;
(ii) The date three months after the termination of the Optionee’s Service for any reason other than Disability, or such earlier or later date as the Board of Directors may determine (but in no event earlier than 30 days after the termination of the Optionee’s Service); or

(iii) The date six months after the termination of the Optionee’s Service by reason of Disability, or such later date as the Board of Directors may determine.

The Optionee may exercise all or part of the Optionee’s Options at any time before the expiration of such Options under the preceding sentence, but only to the extent that such Options had become exercisable before the Optionee’s Service terminated (or became exercisable as a result of the termination) and the underlying Shares had vested before the Optionee’s Service terminated (or vested as a result of the termination). The balance of such Options shall lapse when the Optionee’s Service terminates. In the event that the Optionee dies after the termination of the Optionee’s Service but before the expiration of the Optionee’s Options, all or part of such Options may be exercised (prior to expiration) by the executors or administrators of the Optionee’s estate or by any person who has acquired such Options directly from the Optionee by beneficiary designation, bequest or inheritance, but only to the extent that such Options had become exercisable before the Optionee’s Service terminated (or became exercisable as a result of the termination) and the underlying Shares had vested before the Optionee’s Service terminated (or vested as a result of the termination).

(g) **Leaves of Absence**. For purposes of Subsection (f) above, Service shall be deemed to continue while the Optionee is on a bona fide leave of absence, if such leave was approved by the Company in writing and if continued crediting of Service for this purpose is expressly required by the terms of such leave or by applicable law (as determined by the Company).

(h) **Death of Optionee**. If an Optionee dies while the Optionee is in Service, then the Optionee’s Options shall expire on the earlier of the following dates:

(i) The expiration date determined pursuant to Subsection (e) above; or

(ii) The date 12 months after the Optionee’s death, or such earlier or later date as the Board of Directors may determine (but in no event earlier than six months after the Optionee’s death).

All or part of the Optionee’s Options may be exercised at any time before the expiration of such Options under the preceding sentence by the executors or administrators of the Optionee’s estate or by any person who has acquired such Options directly from the Optionee by beneficiary designation, bequest or inheritance, but only to the extent that such Options had become exercisable before the Optionee’s death (or became exercisable as a result of the death) and the underlying Shares had vested before the Optionee’s death (or vested as a result of the Optionee’s death). The balance of such Options shall lapse when the Optionee dies.
(i) **Restrictions on Transfer of Options.** An Option shall be transferable by the Optionee only by (i) a beneficiary designation, (ii) a will or (iii) the laws of descent and distribution, except as provided in the next sentence. If the applicable Stock Option Agreement so provides, an NSO shall also be transferable by gift or domestic relations order to a Family Member of the Optionee. An ISO may be exercised during the lifetime of the Optionee only by the Optionee or by the Optionee’s guardian or legal representative.

(j) **No Rights as a Stockholder.** An Optionee, or a transferee of an Optionee, shall have no rights as a stockholder with respect to any Shares covered by the Optionee’s Option until such person files a notice of exercise, pays the Exercise Price and satisfies all applicable withholding taxes pursuant to the terms of such Option.

(k) **Modification, Extension and Assumption of Options.** Within the limitations of the Plan, the Board of Directors may modify, extend or assume outstanding Options or may accept the cancellation of outstanding Options (whether granted by the Company or another issuer) in return for the grant of new Options or a different type of award for the same or a different number of Shares and at the same or a different Exercise Price (if applicable). The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, impair the Optionee’s rights or increase the Optionee’s obligations under such Option.

(l) **Company’s Right to Cancel Certain Options.** Any other provision of the Plan or a Stock Option Agreement notwithstanding, the Company shall have the right at any time to cancel an Option that was not granted in compliance with Rule 701 under the Securities Act. Prior to canceling such Option, the Company shall give the Optionee not less than 30 days’ notice in writing. If the Company elects to cancel such Option, it shall deliver to the Optionee consideration with an aggregate Fair Market Value equal to the excess of (i) the Fair Market Value of the Shares subject to such Option as of the time of the cancellation over (ii) the Exercise Price of such Option. The consideration may be delivered in the form of cash or cash equivalents, in the form of Shares, or a combination of both. If the consideration would be a negative amount, such Option may be cancelled without the delivery of any consideration.

**SECTION 7. PAYMENT FOR SHARES.**

(a) **General Rule.** The entire Purchase Price or Exercise Price of Shares issued under the Plan shall be payable in cash or cash equivalents at the time when such Shares are purchased, except as otherwise provided in this Section 7. In addition, the Board of Directors in its sole discretion may also permit payment through any of the methods described in (b) through (g) below.

(b) **Services Rendered.** Shares may be awarded under the Plan in consideration of services rendered to the Company, a Parent or a Subsidiary prior to the award.

(c) **Promissory Note.** All or a portion of the Purchase Price or Exercise Price (as the case may be) of Shares issued under the Plan may be paid with a full-recourse promissory note. The Shares shall be pledged as security for payment of the principal amount of the promissory note and interest thereon. The interest rate payable under the terms of the promissory note shall not be less than the minimum rate (if any) required to avoid the imputation of
additional interest under the Code. Subject to the foregoing, the Board of Directors (at its sole discretion) shall specify the term, interest rate, amortization requirements (if any) and other provisions of such note.

(d) **Surrender of Stock**. All or any part of the Exercise Price may be paid by surrendering, or attesting to the ownership of, Shares that are already owned by the Optionee. Such Shares shall be surrendered to the Company in good form for transfer and shall be valued at their Fair Market Value as of the date when the Option is exercised.

(e) **Exercise/Sale**. If the Stock is publicly traded, all or part of the Exercise Price and any withholding taxes may be paid by the delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker approved by the Company to sell Shares and to deliver all or part of the sales proceeds to the Company.

(f) **Net Exercise**. An Option may permit exercise through a “net exercise” arrangement pursuant to which the Company will reduce the number of Shares issued upon exercise by the largest whole number of Shares having an aggregate Fair Market Value (determined by the Board of Directors as of the exercise date) that does not exceed the aggregate Exercise Price or the sum of the aggregate Exercise Price plus all or a portion of the minimum amount required to be withheld under applicable tax law (with the Company accepting from the Optionee payment of cash or cash equivalents to satisfy any remaining balance of the aggregate Exercise Price and, if applicable, any additional withholding obligation not satisfied through such reduction in Shares); provided that to the extent Shares subject to an Option are withheld in this manner, the number of Shares subject to the Option following the net exercise will be reduced by the sum of the number of Shares withheld and the number of Shares delivered to the Optionee as a result of the exercise.

(g) **Other Forms of Payment**. To the extent that an Award Agreement so provides, the Purchase Price or Exercise Price of Shares issued under the Plan may be paid in any other form permitted by the Delaware General Corporation Law, as amended.

**SECTION 8. ADJUSTMENT OF SHARES.**

(a) **General**. In the event of a subdivision of the outstanding Stock, a declaration of a dividend payable in Shares, a combination or consolidation of the outstanding Stock into a lesser number of Shares, a reclassification, or any other increase or decrease in the number of issued shares of Stock effected without receipt of consideration by the Company, proportionate adjustments shall automatically be made in each of (i) the number and kind of Shares available for future grants under Section 4, (ii) the number and kind of Shares covered by each outstanding Option and any outstanding and unexercised right to purchase Shares that has not yet expired pursuant to Section 5(b), (iii) the Exercise Price under each outstanding Option and the Purchase Price applicable to any unexercised stock purchase right described in clause (ii) above, and (iv) any repurchase price that applies to Shares granted under the Plan pursuant to the terms of a Company repurchase right under the applicable Award Agreement. In the event of a declaration of an extraordinary dividend payable in a form other than Shares in an amount that has a material effect on the Fair Market Value of the Stock, a recapitalization, a spin-off, or a similar occurrence, the Board of Directors at its sole discretion may make appropriate
adjustments in one or more of the items listed in clauses (i) through (iv) above; provided, however, that the Board of Directors shall in any event make such adjustments as may be required by Section 25102(o) of the California Corporations Code. No fractional Shares shall be issued under the Plan as a result of an adjustment under this Section 8(a), although the Board of Directors in its sole discretion may make a cash payment in lieu of fractional Shares.

(b) Corporate Transactions. In the event that the Company is a party to a merger or consolidation, or in the event of a sale of all or substantially all of the Company’s stock or assets, all Shares acquired under the Plan and all Options and other Plan awards outstanding on the effective date of the transaction shall be treated in the manner described in the definitive transaction agreement (or, in the event the transaction does not entail a definitive agreement to which the Company is party, in the manner determined by the Board of Directors in its capacity as administrator of the Plan, with such determination having final and binding effect on all parties), which agreement or determination need not treat all Options and awards (or all portions of an Option or an award) in an identical manner. The treatment specified in the transaction agreement or as determined by the Board of Directors may include (without limitation) one or more of the following with respect to each outstanding Option or award:

(i) Continuation of the Option or award by the Company (if the Company is the surviving corporation).

(ii) Assumption of the Option by the surviving corporation or its parent in a manner that complies with Code Section 424(a) (whether or not the Option is an ISO).

(iii) Substitution by the surviving corporation or its parent of a new option for the Option in a manner that complies with Code Section 424(a) (whether or not the Option is an ISO).

(iv) Cancellation of the Option and a payment to the Optionee with respect to each Share subject to the portion of the Option that is vested as of the transaction date equal to the excess of (A) the value, as determined by the Board of Directors in its absolute discretion, of the property (including cash) received by the holder of a share of Stock as a result of the transaction, over (B) the per-Share Exercise Price of the Option (such excess, the “Spread”). Such payment shall be made in the form of cash, cash equivalents, or securities of the surviving corporation or its parent having a value equal to the Spread. In addition, any escrow, holdback, earn-out or similar provisions in the transaction agreement may apply to such payment to the same extent and in the same manner as such provisions apply to the holders of Stock. If the Spread applicable to an Option is zero or a negative number, then the Option may be cancelled without making a payment to the Optionee.

(v) Cancellation of the Option without the payment of any consideration; provided that the Optionee shall be notified of such treatment and given an opportunity to exercise the Option (to the extent the Option is vested or becomes vested as of the effective date of the transaction) during a period of not
less than five (5) business days preceding the effective date of the transaction, unless (A) a shorter period is required to permit a timely closing of the transaction and (B) such shorter period still offers the Optionee a reasonable opportunity to exercise the Option. Any exercise of the Option during such period may be contingent upon the closing of the transaction.

(vi) Suspension of the Optionee’s right to exercise the Option during a limited period of time preceding the closing of the transaction if such suspension is administratively necessary to permit the closing of the transaction.

(vii) Termination of any right the Optionee has to exercise the Option prior to vesting in the Shares subject to the Option (i.e., “early exercise”), such that following the closing of the transaction the Option may only be exercised to the extent it is vested.

For the avoidance of doubt, the Board of Directors has discretion to accelerate, in whole or part, the vesting and exercisability of an Option or other Plan award in connection with a corporate transaction covered by this Section 8(b).

(c) **Reservation of Rights.** Except as provided in this Section 8, a Participant shall have no rights by reason of (i) any subdivision or consolidation of shares of stock of any class, (ii) the payment of any dividend or (iii) any other increase or decrease in the number of shares of stock of any class. Any issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of Shares subject to an Option. The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

**SECTION 9. MISCELLANEOUS PROVISIONS.**

(a) **Securities Law Requirements.** Shares shall not be issued under the Plan unless, in the opinion of counsel acceptable to the Board of Directors, the issuance and delivery of such Shares comply with (or are exempt from) all applicable requirements of law, including (without limitation) the Securities Act, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company’s securities may then be traded. The Company shall not be liable for a failure to issue Shares as a result of such requirements.

(b) **No Retention Rights.** Nothing in the Plan or in any right or Option granted under the Plan shall confer upon the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining the Participant) or of the Participant, which rights are hereby expressly reserved by each, to terminate his or her Service at any time and for any reason, with or without cause.
(c) **Treatment as Compensation.** Any compensation that an individual earns or is deemed to earn under this Plan shall not be considered a part of his or her compensation for purposes of calculating contributions, accruals or benefits under any other plan or program that is maintained or funded by the Company, a Parent or a Subsidiary.

(d) **Governing Law.** The Plan and all awards, sales and grants under the Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware, as such laws are applied to contracts entered into and performed in such State.

(e) **Conditions and Restrictions on Shares.** Shares issued under the Plan shall be subject to such forfeiture conditions, rights of repurchase, rights of first refusal, other transfer restrictions and such other terms and conditions as the Board of Directors may determine. Such conditions and restrictions shall be set forth in the applicable Award Agreement and shall apply in addition to any restrictions that may apply to holders of Shares generally. In addition, Shares issued under the Plan shall be subject to conditions and restrictions imposed either by applicable law or by Company policy, as adopted from time to time, designed to ensure compliance with applicable law or laws with which the Company determines in its sole discretion to comply including in order to maintain any statutory, regulatory or tax advantage.

(f) **Tax Matters.**

(i) As a condition to the award, grant, issuance, vesting, purchase, exercise or transfer of any award, or Shares issued pursuant to any award, granted under this Plan, the Participant shall make such arrangements as the Board of Directors may require or permit for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with such event.

(ii) Unless otherwise expressly set forth in an Award Agreement, it is intended that awards granted under the Plan shall be exempt from Code Section 409A, and any ambiguity in the terms of an Award Agreement and the Plan shall be interpreted consistently with this intent. To the extent an award is not exempt from Code Section 409A (any such award, a “409A Award”), any ambiguity in the terms of such award and the Plan shall be interpreted in a manner that to the maximum extent permissible supports the award’s compliance with the requirements of that statute. Notwithstanding anything to the contrary permitted under the Plan, in no event shall a modification of an Award not already subject to Code Section 409A be given effect if such modification would cause the Award to become subject to Code Section 409A unless the parties explicitly acknowledge and consent to the modification as one having that effect. A 409A Award shall be subject to such additional rules and requirements as specified by the Board of Directors from time to time in order for it to comply with the requirements of Code Section 409A. In this regard, if any amount under a 409A Award is payable upon a “separation from service” to an individual who is considered a “specified employee” (as each term is defined under Code Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the Participant’s separation from service or (ii)
the Participant’s death, but only to the extent such delay is necessary to prevent such payment from being subject to Section 409A(a)(1). In addition, if a transaction subject to Section 8(b) constitutes a payment event with respect to any 409A Award, then the transaction with respect to such award must also constitute a “change in control event” as defined in Treasury Regulation Section 1.409A-3(i)(5) to the extent required by Code Section 409A.

(iii) Neither the Company nor any member of the Board of Directors shall have any liability to a Participant in the event an award held by the Participant fails to achieve its intended characterization under applicable tax law.

SECTION 10. DURATION AND AMENDMENTS; STOCKHOLDER APPROVAL.

(a) Term of the Plan. The Plan, as set forth herein, shall become effective on the date of its adoption by the Board of Directors, subject to approval of the Company’s stockholders under Subsection (d) below. The Plan shall terminate automatically 10 years after the later of (i) the date when the Board of Directors adopted the Plan or (ii) the date when the Board of Directors approved the most recent increase in the number of Shares reserved under Section 4 that was also approved by the Company’s stockholders. The Plan may be terminated on any earlier date pursuant to Subsection (b) below.

(b) Right to Amend or Terminate the Plan. Subject to Subsection (d) below, the Board of Directors may amend, suspend or terminate the Plan at any time and for any reason.

(c) Effect of Amendment or Termination. No Shares shall be issued or sold and no Option granted under the Plan after the termination thereof, except upon exercise of an Option (or any other right to purchase Shares) granted under the Plan prior to such termination. The termination of the Plan, or any amendment thereof, shall not affect any Share previously issued or any Option previously granted under the Plan.

(d) Stockholder Approval. To the extent required by applicable law, the Plan will be subject to approval of the Company’s stockholders within 12 months of its adoption date. To the extent required by applicable law, any amendment of the Plan will be subject to the approval of the Company’s stockholders within 12 months of the amendment date if it (i) increases the number of Shares available for issuance under the Plan (except as provided in Section 8), or (ii) materially changes the class of persons who are eligible for the grant of ISOs. In addition, an amendment effecting any other material change to the Plan terms will be subject to approval of the Company’s stockholder only if required by applicable law. Stockholder approval shall not be required for any other amendment of the Plan.

SECTION 11. DEFINITIONS.

(a) “Award Agreement” means a Stock Grant Agreement, Stock Option Agreement or Stock Purchase Agreement.
(b) “Board of Directors” means the Board of Directors of the Company, as constituted from time to time.

(c) “Code” means the Internal Revenue Code of 1986, as amended.

(d) “Committee” means a committee of the Board of Directors, as described in Section 2(a).

(e) “Company” means Arcus Biosciences, Inc., a Delaware corporation.

(f) “Consultant” means a person, excluding Employees and Outside Directors, who performs bona fide services for the Company, a Parent or a Subsidiary as a consultant or advisor and who qualifies as a consultant or advisor under Rule 701(c)(1) of the Securities Act or under Instruction A.1.(a)(1) of Form S-8 under the Securities Act.

(g) “Date of Grant” means the date of grant specified in the applicable Stock Option Agreement, which date shall be the later of (i) the date on which the Board of Directors resolved to grant the Option or (ii) the first day of the Optionee’s Service.

(h) “Disability” means that the Optionee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment.

(i) “Employee” means any individual who is a common-law employee of the Company, a Parent or a Subsidiary.


(k) “Exercise Price” means the amount for which one Share may be purchased upon exercise of an Option, as specified by the Board of Directors in the applicable Stock Option Agreement.

(l) “Fair Market Value” means the fair market value of a Share, as determined by the Board of Directors in good faith. Such determination shall be conclusive and binding on all persons.

(m) “Family Member” means (i) any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, (ii) any person sharing the Optionee’s household (other than a tenant or employee), (iii) a trust in which persons described in Clause (i) or (ii) have more than 50% of the beneficial interest, (iv) a foundation in which persons described in Clause (i) or (ii) or the Optionee control the management of assets and (v) any other entity in which persons described in Clause (i) or (ii) or the Optionee own more than 50% of the voting interests.

3 Note that special considerations apply if the Company proposes to grant awards to consultant or advisor of a Parent company.

4 Note that special considerations apply if the Company proposes to grant awards to an Employee of a Parent company.
(n) “Grantee” means a person to whom the Board of Directors has awarded Shares under the Plan.

(o) “ISO” means an Option that qualifies as an incentive stock option as described in Code Section 422(b). Notwithstanding its designation as an ISO, an Option that does not qualify as an ISO under applicable law shall be treated for all purposes as an NSO.

(p) “NSO” means an Option that does not qualify as an incentive stock option as described in Code Section 422(b) or 423(b).

(q) “Option” means an ISO or NSO granted under the Plan and entitling the holder to purchase Shares.

(r) “Optionee” means a person who holds an Option.

(s) “Outside Director” means a member of the Board of Directors who is not an Employee.

(t) “Parent” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

(u) “Participant” means a Grantee, Optionee or Purchaser.

(v) “Plan” means this Arcus Biosciences, Inc. Amended and Restated 2015 Stock Plan.

(w) “Purchase Price” means the consideration for which one Share may be acquired under the Plan (other than upon exercise of an Option), as specified by the Board of Directors.

(x) “Purchaser” means a person to whom the Board of Directors has offered the right to purchase Shares under the Plan (other than upon exercise of an Option).

(y) “Securities Act” means the Securities Act of 1933, as amended.

(z) “Service” means service as an Employee, Outside Director or Consultant.

(aa) “Share” means one share of Stock, as adjusted in accordance with Section 8 (if applicable).

(bb) “Stock” means the Common Stock of the Company.
(cc) “Stock Grant Agreement” means the agreement between the Company and a Grantee who is awarded Shares under the Plan that contains the terms, conditions and restrictions pertaining to the award of such Shares.

(dd) “Stock Option Agreement” means the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to the Optionee’s Option.

(ee) “Stock Purchase Agreement” means the agreement between the Company and a Purchaser who purchases Shares under the Plan that contains the terms, conditions and restrictions pertaining to the purchase of such Shares.

(ff) “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.
## EXHIBIT A

**SCHEDULE OF SHARES RESERVED FOR ISSUANCE UNDER THE PLAN**

### Pre-Reverse Stock Split Share Reserve Schedule

<table>
<thead>
<tr>
<th>Approval</th>
<th>Date of Stockholder Approval</th>
<th>Number of Shares Added</th>
<th>Cumulative Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 8, 2015</td>
<td>May 13, 2015</td>
<td>3,970,000</td>
<td>3,970,000</td>
</tr>
<tr>
<td>November 24, 2015</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>3,970,000</td>
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<tr>
<td>August 12, 2016</td>
<td>August 15, 2016</td>
<td>4,490,590</td>
<td>8,460,590</td>
</tr>
<tr>
<td>October 11, 2016</td>
<td>Not Applicable</td>
<td>-30,000</td>
<td>8,430,590</td>
</tr>
<tr>
<td>November 2, 2017</td>
<td>November 2, 2017</td>
<td>6,210,854</td>
<td>14,641,444</td>
</tr>
</tbody>
</table>

### Post-Reverse Stock Split Share Reserve Schedule

<table>
<thead>
<tr>
<th>Approval</th>
<th>Date of Stockholder Approval</th>
<th>Number of Shares Added</th>
<th>Cumulative Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>3,697,334</td>
</tr>
</tbody>
</table>

E-1
The Optionee has been granted the following option to purchase shares of the Common Stock of Arcus Biosciences, Inc.:

Name of Optionee: «Name»
Total Number of Shares: «TotalShares»
Type of Option: «ISO» Incentive Stock Option (ISO)
«NSO» Nonstatutory Stock Option (NSO)
Exercise Price per Share: $«PricePerShare»
Date of Grant: «DateGrant»
Date Exercisable: This option may be exercised at any time after the Date of Grant for all or any part of the Shares subject to this option.
Vesting Commencement Date: «VestComDate»
Vesting Schedule: The Right of Repurchase shall lapse with respect to the first «Percent»% of the Shares subject to this option when the Optionee completes «CliffPeriod» months of continuous Service beginning with the Vesting Commencement Date set forth above. The Right of Repurchase shall lapse with respect to an additional «Fraction»% of the Shares subject to this option when the Optionee completes each month of continuous Service thereafter.
Expiration Date: «ExpDate». This option expires earlier if the Optionee’s Service terminates earlier, as provided in Section 6 of the Stock Option Agreement, or if the Company engages in certain corporate transactions, as provided in Section 8(b) of the Plan.

By signing below, the Optionee and the Company agree that this option is granted under, and governed by the terms and conditions of, the Amended and Restated 2015 Stock Plan and the Stock Option Agreement. Both of these documents are attached to, and made a part of, this Notice of Stock Option Grant. Section 14 of the Stock Option Agreement includes important acknowledgements of the Optionee.

OPTIONEE:

A RCUS BIOSCIENCES, INC.

By: ____________________________________________
Title: ____________________________________________
THE OPTION GRANTED PURSUANT TO THIS AGREEMENT AND THE SHARES ISSUABLE UPON THE EXERCISE THEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

ARCURUS BIOSCIENCES, INC. AMENDED AND RESTATED 2015 STOCK OPTION AGREEMENT (EARLY EXERCISE)

SECTION 1. GRANT OF OPTION.

(a) Option. On the terms and conditions set forth in the Notice of Stock Option Grant and this Agreement, the Company grants to the Optionee on the Date of Grant the option to purchase at the Exercise Price the number of Shares set forth in the Notice of Stock Option Grant. The Exercise Price is agreed to be at least 100% of the Fair Market Value per Share on the Date of Grant (110% of Fair Market Value if this option is designated as an ISO in the Notice of Stock Option Grant and Section 3(b) of the Plan applies). This option is intended to be an ISO or an NSO, as provided in the Notice of Stock Option Grant.

(b) $100,000 Limitation. Even if this option is designated as an ISO in the Notice of Stock Option Grant, it shall be deemed to be an NSO to the extent (and only to the extent) required by the $100,000 annual limitation under Section 422(d) of the Code.

(c) Stock Plan and Defined Terms. This option is granted pursuant to the Plan, a copy of which the Optionee acknowledges having received. The provisions of the Plan are incorporated into this Agreement by this reference. Except as otherwise defined in this Agreement (including without limitation Section 15 hereof), capitalized terms shall have the meaning ascribed to such terms in the Plan.

SECTION 2. RIGHT TO EXERCISE.

(a) Exercisability. Subject to Subsection (b) below and the other conditions set forth in this Agreement, all or part of this option may be exercised prior to its expiration at the time or times set forth in the Notice of Stock Option Grant. Shares purchased by exercising this option may be subject to the Right of Repurchase under Section 7.

(b) Stockholder Approval. Any other provision of this Agreement notwithstanding, no portion of this option shall be exercisable at any time prior to the approval of the Plan by the Company’s stockholders.
SECTION 3. NO TRANSFER OR ASSIGNMENT OF OPTION.

Except as otherwise provided in this Agreement, this option and the rights and privileges conferred hereby shall not be sold, pledged or otherwise transferred (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment, levy or similar process.

SECTION 4. EXERCISE PROCEDURES.

(a) Notice of Exercise. The Optionee or the Optionee’s representative may exercise this option by: (i) signing and delivering written notice to the Company pursuant to Section 13(c) specifying the election to exercise this option, the number of Shares for which it is being exercised and the form of payment and (ii) delivering payment, in a form permissible under Section 5, for the full amount of the Purchase Price (together with any applicable withholding taxes under Subsection (b)). In the event that this option is being exercised by the representative of the Optionee, the notice shall be accompanied by proof (satisfactory to the Company) of the representative’s right to exercise this option. In the event of a partial exercise of this option, Shares shall be deemed to have been purchased in the order in which they vest in accordance with the Notice of Stock Option Grant.

(b) Withholding Taxes. In the event that the Company determines that it is required to withhold any tax (including without limitation any income tax, social insurance contributions, payroll tax, payment on account or other tax-related items arising in connection with the Optionee’s participation in the Plan and legally applicable to the Optionee (the “Tax-Related Items”)) as a result of the grant, vesting or exercise of this option, or as a result of the vesting or transfer of shares acquired upon exercise of this option, the Optionee, as a condition of this option, shall make arrangements satisfactory to the Company to enable it to satisfy all Tax-Related Items. The Optionee acknowledges that the responsibility for all Tax-Related Items is the Optionee’s and may exceed the amount actually withheld by the Company (or its affiliate or agent).

(c) Issuance of Shares. After satisfying all requirements for exercise of this option, the Company shall cause to be issued one or more certificates evidencing the Shares for which this option has been exercised. Such Shares shall be registered (i) in the name of the person exercising this option, (ii) in the names of such person and his or her spouse as community property or as joint tenants with the right of survivorship or (iii) with the Company’s consent, in the name of a revocable trust. Until the issuance of the Shares has been entered into the books and records of the Company or a duly authorized transfer agent of the Company, no right to vote, receive dividends or any other right as a stockholder will exist with respect to such Shares. In the case of Restricted Shares, the Company shall cause such certificates to be deposited in escrow under Section 7(c). In the case of other Shares, the Company shall cause such certificates to be delivered to or upon the order of the person exercising this option.

SECTION 5. PAYMENT FOR STOCK.

(a) Cash. All or part of the Purchase Price may be paid in cash or cash equivalents.
(b) **Surrender of Stock**. At the discretion of the Board of Directors, all or any part of the Purchase Price may be paid by surrendering, or attesting to the ownership of, Shares that are already owned by the Optionee. Such Shares shall be surrendered to the Company in good form for transfer and shall be valued at their Fair Market Value as of the date when this option is exercised.

(c) **Exercise/Sale**. All or part of the Purchase Price and any withholding taxes may be paid by the delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker approved by the Company to sell Shares and to deliver all or part of the sales proceeds to the Company. However, payment pursuant to this Subsection (c) shall be permitted only if (i) Stock then is publicly traded and (ii) such payment does not violate applicable law.

**SECTION 6. TERM AND EXPIRATION.**

(a) **Basic Term**. This option shall in any event expire on the expiration date set forth in the Notice of Stock Option Grant, which date is 10 years after the Date of Grant (five years after the Date of Grant if this option is designated as an ISO in the Notice of Stock Option Grant and Section 3(b) of the Plan applies).

(b) **Termination of Service (Except by Death)**. If the Optionee’s Service terminates for any reason other than death, then this option shall expire on the earliest of the following occasions:

(i) The expiration date determined pursuant to Subsection (a) above;

(ii) The date three months after the termination of the Optionee’s Service for any reason other than Disability; or

(iii) The date six months after the termination of the Optionee’s Service by reason of Disability.

The Optionee may exercise all or part of this option at any time before its expiration under the preceding sentence, but only to the extent that this option is exercisable for vested Shares on or before the date when the Optionee’s Service terminates. When the Optionee’s Service terminates, this option shall expire immediately with respect to the number of Shares for which this option is not yet exercisable and with respect to any Restricted Shares. In the event that the Optionee dies after termination of Service but before the expiration of this option, all or part of this option may be exercised (prior to expiration) by the executors or administrators of the Optionee’s estate or by any person who has acquired this option directly from the Optionee by beneficiary designation, bequest or inheritance, but only to the extent that this option was exercisable for vested Shares on or before the date when the Optionee’s Service terminated. Once this option (or portion thereof) has terminated, the Optionee shall have no further rights with respect to the option (or portion thereof) or to the underlying Shares.

(c) **Death of the Optionee**. If the Optionee dies while in Service, then this option shall expire on the earlier of the following dates:
(i) The expiration date determined pursuant to Subsection (a) above; or

(ii) The date 12 months after the Optionee’s death.

All or part of this option may be exercised at any time before its expiration under the preceding sentence by the executors or administrators of the Optionee’s estate or by any person who has acquired this option directly from the Optionee by beneficiary designation, bequest or inheritance, but only to the extent that this option is exercisable for vested Shares on or before the date of the Optionee’s death. When the Optionee dies, this option shall expire immediately with respect to the number of Shares for which this option is not yet exercisable and with respect to any Restricted Shares. Once this option (or portion thereof) has terminated, the Optionee shall have no further rights with respect to the option (or portion thereof) or to the underlying Shares.

(d) **Extension of Post-Termination Exercise Periods.** Following the date on which the Company’s Stock is first listed for trading on an established securities market, if during any part of the exercise period described in Subsections (b)(ii) or (iii) or Subsection (c)(ii) above the exercise of this option would be prohibited solely because the issuance of Shares upon such exercise would violate the registration requirements under the Securities Act or a similar provision of other applicable law, then instead of terminating at the end of such prescribed period, the then-vested portion of this option will instead remain outstanding and not expire until the earlier of (i) the expiration date determined pursuant to Section 6(a) above or (ii) the date on which the then-vested portion of this option has been exercisable without violation of applicable law for the aggregate period (which need not be consecutive) after termination of the Optionee’s Service specified in the applicable Subsection above.

(e) **Part-Time Employment and Leaves of Absence.** If the Optionee commences working on a part-time basis, then the Company may adjust the vesting schedule set forth in the Notice of Stock Option Grant. If the Optionee goes on a leave of absence, then the Company may adjust the vesting schedule set forth in the Notice of Stock Option Grant in accordance with the Company’s leave of absence policy or the terms of such leave. Except as provided in the preceding sentence, Service shall be deemed to continue for any purpose under this Agreement while the Optionee is on a bona fide leave of absence, if (i) such leave was approved by the Company in writing and (ii) continued crediting of Service for such purpose is expressly required by the terms of such leave or by applicable law (as determined by the Company). Service shall be deemed to terminate when such leave ends, unless the Optionee immediately returns to active work.

(f) **Notice Concerning ISO Treatment.** Even if this option is designated as an ISO in the Notice of Stock Option Grant, it ceases to qualify for favorable tax treatment as an ISO to the extent that it is exercised:

(i) More than three months after the date when the Optionee ceases to be an Employee for any reason other than death or permanent and total disability (as defined in Section 22(e)(3) of the Code);
More than 12 months after the date when the Optionee ceases to be an Employee by reason of permanent and total disability (as defined in Section 22(e)(3) of the Code); or

More than three months after the date when the Optionee has been on a leave of absence for three months, unless the Optionee’s reemployment rights following such leave were guaranteed by statute or by contract.

SECTION 7. RIGHT OF REPURCHASE.

(a) **Scope of Repurchase Right**. Until they vest in accordance with the Notice of Stock Option Grant and Subsection (b) below, the Shares acquired under this Agreement shall be Restricted Shares and shall be subject to the Company’s Right of Repurchase. The Company, however, may decline to exercise its Right of Repurchase or may exercise its Right of Repurchase only with respect to a portion of the Restricted Shares. The Company may exercise its Right of Repurchase only during the Repurchase Period following the termination of the Optionee’s Service, but the Right of Repurchase may be exercised automatically under Subsection (d) below. If the Right of Repurchase is exercised, the Company shall pay the Optionee an amount equal to the lower of (i) the Exercise Price of each Restricted Share being repurchased or (ii) the Fair Market Value of such Restricted Share at the time the Right of Repurchase is exercised.

(b) **Lapse of Repurchase Right**. The Right of Repurchase shall lapse with respect to the Restricted Shares in accordance with the vesting schedule set forth in the Notice of Stock Option Grant.

(c) **Escrow**. Upon issuance, the certificate(s) for Restricted Shares shall be deposited in escrow with the Company to be held in accordance with the provisions of this Agreement. Any additional or exchanged securities or other property described in Subsection (f) below shall immediately be delivered to the Company to be held in escrow. All ordinary cash dividends on Restricted Shares (or on other securities held in escrow) shall be paid directly to the Optionee and shall not be held in escrow. Restricted Shares, together with any other assets held in escrow under this Agreement, shall be (i) surrendered to the Company for repurchase upon exercise of the Right of Repurchase or the Right of First Refusal or (ii) released to the Optionee upon his or her request to the extent that the Shares have ceased to be Restricted Shares (but not more frequently than once every six months). In any event, all Shares that have ceased to be Restricted Shares, together with any other vested assets held in escrow under this Agreement, shall be released within 90 days after the earlier of (i) the termination of the Optionee’s Service or (ii) the lapse of the Right of First Refusal.

(d) **Exercise of Repurchase Right**. The Company shall be deemed to have exercised its Right of Repurchase automatically for all Restricted Shares as of the commencement of the Repurchase Period, unless the Company during the Repurchase Period notifies the holder of the Restricted Shares pursuant to Section 13(c) that it will not exercise its Right of Repurchase for some or all of the Restricted Shares. The Company shall pay to the holder of the Restricted Shares the purchase price determined under Subsection (a) above for the
Restricted Shares being repurchased. Payment shall be made in cash or cash equivalents and/or by canceling indebtedness to the Company incurred by the Optionee in the purchase of the Restricted Shares. The certificate(s) representing the Restricted Shares being repurchased shall be delivered to the Company.

(c) **Termination of Rights as Stockholder**. If the Right of Repurchase is exercised in accordance with this Section 7 and the Company makes available the consideration for the Restricted Shares being repurchased, then the person from whom the Restricted Shares are repurchased shall no longer have any rights as a holder of the Restricted Shares (other than the right to receive payment of such consideration). Such Restricted Shares shall be deemed to have been repurchased pursuant to this Section 7, whether or not the certificate(s) for such Restricted Shares have been delivered to the Company or the consideration for such Restricted Shares has been accepted.

(f) **Additional or Exchanged Securities and Property**. In the event of a merger or consolidation of the Company, a sale of all or substantially all of the Company’s stock or assets, any other corporate reorganization, a stock split, the declaration of a stock dividend, the declaration of an extraordinary dividend payable in a form other than stock, a spin-off, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company’s outstanding securities, any securities or other property (including cash or cash equivalents) that are by reason of such transaction exchanged for, or distributed with respect to, any Restricted Shares shall immediately be subject to the Right of Repurchase. Appropriate adjustments to reflect the exchange or distribution of such securities or property shall be made to the number and/or class of the Restricted Shares. Appropriate adjustments shall also be made to the price per share to be paid upon the exercise of the Right of Repurchase, provided that the aggregate purchase price payable for the Restricted Shares shall remain the same. In the event of any transaction described in Section 8(b) of the Plan or any other corporate reorganization, the Right of Repurchase may be exercised by the Company’s successor.

(g) **Transfer of Restricted Shares**. The Optionee shall not transfer, assign, encumber or otherwise dispose of any Restricted Shares without the Company’s written consent, except as provided in the following sentence. The Optionee may transfer Restricted Shares to one or more members of the Optionee’s Immediate Family or to a trust established by the Optionee for the benefit of the Optionee and/or one or more members of the Optionee’s Immediate Family, provided in either case that the Transferee agrees in writing on a form prescribed by the Company to be bound by all provisions of this Agreement. If the Optionee transfers any Restricted Shares, then this Agreement shall apply to the Transferee to the same extent as to the Optionee.

(h) **Assignment of Repurchase Right**. The Board of Directors may freely assign the Company’s Right of Repurchase, in whole or in part. Any person who accepts an assignment of the Right of Repurchase from the Company shall assume all of the Company’s rights and obligations under this Section 7.
SECTION 8. RIGHT OF FIRST REFUSAL.

(a) **Right of First Refusal**. In the event that the Optionee proposes to sell, pledge or otherwise transfer to a third party any Shares acquired under this Agreement, or any interest in such Shares, the Company shall have the Right of First Refusal with respect to all (and not less than all) of such Shares. If the Optionee desires to transfer Shares acquired under this Agreement, the Optionee shall give a written Transfer Notice to the Company describing fully the proposed transfer, including the number of Shares proposed to be transferred, the proposed transfer price, the name and address of the proposed Transferee and proof satisfactory to the Company that the proposed sale or transfer will not violate any applicable federal, State or foreign securities laws. The Transfer Notice shall be signed both by the Optionee and by the proposed Transferee and must constitute a binding commitment of both parties to the transfer of the Shares. The Company shall have the right to purchase all, and not less than all, of the Shares on the terms of the proposal described in the Transfer Notice (subject, however, to any change in such terms permitted under Subsection (b) below) by delivery of a notice of exercise of the Right of First Refusal within 30 days after the date when the Transfer Notice was received by the Company.

(b) **Transfer of Shares**. If the Company fails to exercise its Right of First Refusal within 30 days after the date when it received the Transfer Notice, the Optionee may, not later than 90 days following receipt of the Transfer Notice by the Company, conclude a transfer of the Shares subject to the Transfer Notice on the terms and conditions described in the Transfer Notice, provided that any such sale is made in compliance with applicable federal, State and foreign securities laws and not in violation of any other contractual restrictions to which the Optionee is bound. Any proposed transfer on terms and conditions different from those described in the Transfer Notice, as well as any subsequent proposed transfer by the Optionee, shall again be subject to the Right of First Refusal and shall require compliance with the procedure described in Subsection (a) above. If the Company exercises its Right of First Refusal, the parties shall consummate the sale of the Shares on the terms set forth in the Transfer Notice within 60 days after the date when the Company received the Transfer Notice (or within such longer period as may have been specified in the Transfer Notice); provided, however, that in the event the Transfer Notice provided that payment for the Shares was to be made in a form other than cash or cash equivalents paid at the time of transfer, the Company shall have the option of paying for the Shares with cash or cash equivalents equal to the present value of the consideration described in the Transfer Notice.

(c) **Additional or Exchanged Securities and Property**. In the event of a merger or consolidation of the Company, a sale of all or substantially all of the Company’s stock or assets, any other corporate reorganization, a stock split, the declaration of a stock dividend, the declaration of an extraordinary dividend payable in a form other than stock, a spin-off, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company’s outstanding securities, any securities or other property (including cash or cash equivalents) that are by reason of such transaction exchanged for, or distributed with respect to, any Shares subject to this Section 8 shall immediately be subject to the Right of First Refusal. Appropriate adjustments to reflect the exchange or distribution of such securities or property shall be made to the number and/or class of the Shares subject to this Section 8.

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(d) **Termination of Right of First Refusal.** Any other provision of this Section 8 notwithstanding, in the event that the Stock is readily tradable on an established securities market when the Optionee desires to transfer Shares, the Company shall have no Right of First Refusal, and the Optionee shall have no obligation to comply with the procedures prescribed by Subsections (a) and (b) above.

(e) **Permitted Transfers.** This Section 8 shall not apply to (i) a transfer by beneficiary designation, will or intestate succession or (ii) a transfer to one or more members of the Optionee’s Immediate Family or to a trust established by the Optionee for the benefit of the Optionee and/or one or more members of the Optionee’s Immediate Family, provided in either case that the Transferee agrees in writing on a form prescribed by the Company to be bound by all provisions of this Agreement. If the Optionee transfers any Shares acquired under this Agreement, either under this Subsection (e) or after the Company has failed to exercise the Right of First Refusal, then this Agreement shall apply to the Transferee to the same extent as to the Optionee.

(f) **Termination of Rights as Stockholder.** If the Company makes available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Shares to be purchased in accordance with this Section 8, then after such time the person from whom such Shares are to be purchased shall no longer have any rights as a holder of such Shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such Shares shall be deemed to have been purchased in accordance with the applicable provisions hereof, whether or not the certificate(s) therefor have been delivered as required by this Agreement.

(g) **Assignment of Right of First Refusal.** The Board of Directors may freely assign the Company’s Right of First Refusal, in whole or in part. Any person who accepts an assignment of the Right of First Refusal from the Company shall assume all of the Company’s rights and obligations under this Section 8.

SECTION 9. LEGALITY OF INITIAL ISSUANCE.

No Shares shall be issued upon the exercise of this option unless and until the Company has determined that:

(a) It and the Optionee have taken any actions required to register the Shares under the Securities Act or to perfect an exemption from the registration requirements thereof;

(b) Any applicable listing requirement of any stock exchange or other securities market on which Stock is listed has been satisfied; and

(c) Any other applicable provision of federal, State or foreign law has been satisfied.
SECTION 10. NO REGISTRATION RIGHTS.

The Company may, but shall not be obligated to, register or qualify the sale of Shares under the Securities Act or any other applicable law. The Company shall not be obligated to take any affirmative action in order to cause the sale of Shares under this Agreement to comply with any law.

SECTION 11. RESTRICTIONS ON TRANSFER OF SHARES.

(a) Securities Law Restrictions. Regardless of whether the offer and sale of Shares under the Plan have been registered under the Securities Act or have been registered or qualified under the securities laws of any State or other relevant jurisdiction, the Company at its discretion may impose restrictions upon the sale, pledge or other transfer of such Shares (including the placement of appropriate legends on the stock certificates (or electronic equivalent) or the imposition of stop-transfer instructions) and may refuse (or may be required to refuse) to transfer Shares acquired hereunder (or Shares proposed to be transferred in a subsequent transfer) if, in the judgment of the Company, such restrictions, legends or refusal are necessary or appropriate to achieve compliance with the Securities Act or other relevant securities or other laws, including without limitation under Regulation S of the Securities Act or pursuant to another available exemption from registration.

(b) Market Stand-Off. In connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act, including the Company’s initial public offering, the Optionee or a Transferee shall not directly or indirectly sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any option or other contract for the purchase of, purchase any option or other contract for the sale of, or otherwise dispose of or transfer, or agree to engage in any of the foregoing transactions with respect to, any Shares acquired under this Agreement without the prior written consent of the Company or its managing underwriter. Such restriction (the “Market Stand-Off”) shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by the Company or such underwriter. Such restriction (the “Market Stand-Off”) shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by the Company or such underwriter. In no event, however, shall such period exceed 180 days plus such additional period as may reasonably be requested by the Company or such underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports or (ii) analyst recommendations and opinions, including (without limitation) the restrictions set forth in Rule 2711(f)(4) of the National Association of Securities Dealers and Rule 472(f)(4) of the New York Stock Exchange, as amended, or any similar successor rules. The Market Stand-Off shall in any event terminate two years after the date of the Company’s initial public offering. In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company’s outstanding securities without receipt of consideration, any new, substituted or additional securities which are by reason of such transaction distributed with respect to any Shares subject to the Market Stand-Off, or into which such Shares thereby become convertible, shall immediately be subject to the Market Stand-Off. In order to enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the Shares acquired under this Agreement until the end of the applicable stand-off period. The Company’s underwriters shall be beneficiaries of the agreement set forth in this Subsection (b). This Subsection (b) shall not apply to Shares registered in the public offering under the Securities Act.
(c) **Investment Intent at Grant.** The Optionee represents and agrees that the Shares to be acquired upon exercising this option will be acquired for investment, and not with a view to the sale or distribution thereof.

(d) **Investment Intent at Exercise.** In the event that the sale of Shares under the Plan is not registered under the Securities Act but an exemption is available that requires an investment representation or other representation, the Optionee shall represent and agree at the time of exercise that the Shares being acquired upon exercising this option are being acquired for investment, and not with a view to the sale or distribution thereof, and shall make such other representations as are deemed necessary or appropriate by the Company and its counsel, including (if applicable because the Company is relying on Regulation S under the Securities Act) that as of the date of exercise the Optionee is (i) not a U.S. Person; (ii) not acquiring the Shares on behalf, or for the account or benefit, of a U.S. Person; and (iii) is not exercising the option in the United States.

(e) **Legends.** All certificates evidencing Shares purchased under this Agreement shall bear the following legend:


All certificates evidencing Shares purchased under this Agreement in an unregistered transaction shall bear the following legend (and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law):

“THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”) OR ANY SECURITIES LAWS OF ANY U.S. STATE, AND MAY NOT BE SOLD, REOFFERED, PLEDGED, ASSIGNED, ENCUMBERED OR OTHERWISE TRANSFERRED OR DISPOSED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL,”
THAT SUCH REGISTRATION IS NOT REQUIRED. IN THE ABSENCE OF REGISTRATION OR THE AVAILABILITY (CONFIRMED BY OPINION OF COUNSEL) OF AN ALTERNATIVE EXEMPTION FROM REGISTRATION UNDER THE ACT (INCLUDING WITHOUT LIMITATION IN ACCORDANCE WITH REGULATION S UNDER THE ACT), THESE SHARES MAY NOT BE SOLD, REOFFERED, PLEDGED, ASSIGNED, ENCUMBERED OR OTHERWISE TRANSFERRED OR DISPOSED OF. HEDGING TRANSACTIONS INVOLVING THESE SHARES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE ACT."

(f) **Removal of Legends**. If, in the opinion of the Company and its counsel, any legend placed on a stock certificate representing Shares sold under this Agreement is no longer required, the holder of such certificate shall be entitled to exchange such certificate for a certificate representing the same number of Shares but without such legend.

(g) **Administration**. Any determination by the Company and its counsel in connection with any of the matters set forth in this Section 11 shall be conclusive and binding on the Optionee and all other persons.

**SECTION 12. ADJUSTMENT OF SHARES.**

In the event of any transaction described in Section 8(a) of the Plan, the terms of this option (including, without limitation, the number and kind of Shares subject to this option and the Exercise Price) shall be adjusted as set forth in Section 8(a) of the Plan. In the event that the Company is a party to a merger or consolidation or in the event of a sale of all or substantially all of the Company’s stock or assets, this option shall be subject to the treatment provided by the Board of Directors in its sole discretion, as provided in Section 8(b) of the Plan.

**SECTION 13. MISCELLANEOUS PROVISIONS.**

(a) **Rights as a Stockholder**. Neither the Optionee nor the Optionee’s representative shall have any rights as a stockholder with respect to any Shares subject to this option until the Optionee or the Optionee’s representative becomes entitled to receive such Shares by filing a notice of exercise and paying the Purchase Price pursuant to Sections 4 and 5.

(b) **No Retention Rights**. Nothing in this option or in the Plan shall confer upon the Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining the Optionee) or of the Optionee, which rights are hereby expressly reserved by each, to terminate his or her Service at any time and for any reason, with or without cause.

(c) **Notice**. Any notice required by the terms of this Agreement shall be given in writing. It shall be deemed effective upon (i) personal delivery, (ii) deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid, (iii) deposit with Federal Express Corporation, with shipping charges prepaid or (iv) deposit with any internationally recognized express mail courier service. Notice shall be addressed to the Company at its principal executive office and to the Optionee at the address that he or she most recently provided to the Company in accordance with this Subsection (c).
(d) **Modifications and Waivers**. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Optionee and by an authorized officer of the Company (other than the Optionee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) **Entire Agreement**. The Notice of Stock Option Grant, this Agreement and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) that relate to the subject matter hereof.

(f) **Choice of Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, as such laws are applied to contracts entered into and performed in such State.

**SECTION 14. ACKNOWLEDGEMENTS OF THE OPTIONEE.**

In addition to the other terms, conditions and restrictions imposed on this option and the Shares issuable under this option pursuant to this Agreement and the Plan, the Optionee expressly acknowledges being subject to Sections 7 (Right of Repurchase), 8 (Right of First Refusal), 9 (Legality of Initial Issuance) and 11 (Restrictions on Transfer of Shares, including without limitation the Market Stand-Off), as well as the following provisions:

(a) **Tax Consequences**. The Optionee agrees that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes the Optionee’s tax liabilities. The Optionee shall not make any claim against the Company or its Board of Directors, officers or employees related to tax liabilities arising from this option or the Optionee’s other compensation. In particular, any Optionee subject to U.S. taxation acknowledges that this option is exempt from Section 409A of the Code only if the Exercise Price is at least equal to the Fair Market Value per Share on the Date of Grant. Since Shares are not traded on an established securities market, the determination of their Fair Market Value is made by the Board of Directors or by an independent valuation firm retained by the Company. The Optionee acknowledges that there is no guarantee in either case that the Internal Revenue Service will agree with the valuation, and the Optionee shall not make any claim against the Company or its Board of Directors, officers or employees in the event that the Internal Revenue Service asserts that the valuation was too low.

(b) **Electronic Delivery of Documents**. The Optionee agrees to accept by email all documents relating to the Company, the Plan or this option and all other documents that the Company is required to deliver to its security holders (including, without limitation, disclosures that may be required by the Securities and Exchange Commission). The Optionee also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the
Company posts these documents on a website, it shall notify the Optionee by email of their availability. The Optionee acknowledges that he or she may incur costs in connection with electronic delivery, including the cost of accessing the internet and printing fees, and that an interruption of internet access may interfere with his or her ability to access the documents. This consent shall remain in effect until this option expires or until the Optionee gives the Company written notice that it should deliver paper documents.

(c) **No Notice of Expiration Date.** The Optionee agrees that the Company and its officers, employees, attorneys and agents do not have any obligation to notify him or her prior to the expiration of this option pursuant to Section 6, regardless of whether this option will expire at the end of its full term or on an earlier date related to the termination of the Optionee’s Service. The Optionee further agrees that he or she has the sole responsibility for monitoring the expiration of this option and for exercising this option, if at all, before it expires. This Subsection (c) shall supersede any contrary representation that may have been made, orally or in writing, by the Company or by an officer, employee, attorney or agent of the Company.

(d) **Waiver of Statutory Information Rights.** The Optionee acknowledges and agrees that, upon exercise of this option and until the first sale of the Company’s Stock to the general public pursuant to a registration statement filed under the Securities Act, he or she will be deemed to have waived any rights the Optionee might otherwise have had under Section 220 of the Delaware General Corporation Law (or under similar rights under other applicable law) to inspect for any proper purpose and to make copies and extracts from the Company’s stock ledger, a list of its stockholders and its other books and records or the books and records of any subsidiary. This waiver applies only in the Optionee’s capacity as a stockholder and does not affect any other inspection rights the Optionee may have under other law or pursuant to a written agreement with the Company.

(e) **Plan Discretionary.** The Optionee understands and acknowledges that (i) the Plan is entirely discretionary, (ii) the Company and the Optionee’s employer have reserved the right to amend, suspend or terminate the Plan at any time, (iii) the grant of an option does not in any way create any contractual or other right to receive additional grants of options (or benefits in lieu of options) at any time or in any amount and (iv) all determinations with respect to any additional grants, including (without limitation) the times when options will be granted, the number of Shares offered, the Exercise Price and the vesting schedule, will be at the sole discretion of the Company.

(f) **Termination of Service.** The Optionee understands and acknowledges that participation in the Plan ceases upon termination of his or her Service for any reason, except as may explicitly be provided otherwise in the Plan or this Agreement.

(g) **Extraordinary Compensation.** The value of this option shall be an extraordinary item of compensation outside the scope of the Optionee’s employment contract, if any, and shall not be considered a part of his or her normal or expected compensation for purposes of calculating severance, resignation, redundancy or end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.
(h) **Authorization to Disclose**. The Optionee hereby authorizes and directs the Optionee’s employer to disclose to the Company or any Subsidiary any information regarding the Optionee’s employment, the nature and amount of the Optionee’s compensation and the fact and conditions of the Optionee’s participation in the Plan, as the Optionee’s employer deems necessary or appropriate to facilitate the administration of the Plan.

(i) **Personal Data Authorization**. The Optionee consents to the collection, use and transfer of personal data as described in this Subsection (i). The Optionee understands and acknowledges that the Company, the Optionee’s employer and the Company’s other Subsidiaries hold certain personal information regarding the Optionee for the purpose of managing and administering the Plan, including (without limitation) the Optionee’s name, home address, telephone number, date of birth, social insurance number, salary, nationality, job title, any Shares or directorships held in the Company and details of all options or any other entitlements to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Optionee’s favor (the “Data”). The Optionee further understands and acknowledges that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of the Optionee’s participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. The Optionee understands and acknowledges that the recipients of Data may be located in the United States or elsewhere. The Optionee authorizes such recipients to receive, possess, use, retain and transfer Data, in electronic or other form, for the purpose of administering the Optionee’s participation in the Plan, including a transfer to any broker or other third party with whom the Optionee elects to deposit Shares acquired under the Plan of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares on the Optionee’s behalf. The Optionee may, at any time, view the Data, require any necessary modifications of Data or withdraw the consents set forth in this Subsection (i) by contacting the Company in writing.

SECTION 15. DEFINITIONS.

(a) “**Agreement**” shall mean this Stock Option Agreement.

(b) “**Board of Directors**” shall mean the Board of Directors of the Company, as constituted from time to time or, if a Committee has been appointed, such Committee.

(c) “**Company**” shall mean Arcus Biosciences, Inc., a Delaware corporation.

(d) “**Immediate Family**” shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and shall include adoptive relationships.

(e) “**Optionee**” shall mean the person named in the Notice of Stock Option Grant.

(f) “**Plan**” shall mean the Arcus Biosciences, Inc. Amended and Restated 2015 Stock Plan, as in effect on the Date of Grant.
(g) “Purchase Price” shall mean the Exercise Price multiplied by the number of Shares with respect to which this option is being exercised.

(h) “Repurchase Period” shall mean a period of 90 consecutive days commencing on the date when the Optionee’s Service terminates for any reason, including (without limitation) death or disability.

(i) “Restricted Share” shall mean a Share that is subject to the Right of Repurchase.

(j) “Right of First Refusal” shall mean the Company’s right of first refusal described in Section 8.

(k) “Right of Repurchase” shall mean the Company’s right of repurchase described in Section 7.

(l) “Service” means service as an Employee, Outside Director or Consultant.

(m) “Transferee” shall mean any person to whom the Optionee has directly or indirectly transferred any Share acquired under this Agreement.

(n) “Transfer Notice” shall mean the notice of a proposed transfer of Shares described in Section 8.

(o) “U.S. Person” shall mean a person described in Rule 902(k) of Regulation S of the Securities Act (or any successor rule or provision), which generally defines a U.S. person as any natural person resident in the United States, any estate of which any executor or administrator is a U.S. Person, or any trust of which any trustee is a U.S. Person.
The Optionee has been granted the following option to purchase shares of the Common Stock of Arcus Biosciences, Inc.:

Name of Optionee: «Name»

Total Number of Shares: «TotalShares»

Type of Option: «ISO» Incentive Stock Option (ISO)

«NSO» Nonstatutory Stock Option (NSO)

Exercise Price per Share: $«PricePerShare»

Date of Grant: «DateGrant»

Date Exercisable: This option may be exercised with respect to the first «Percent»% of the Shares subject to this option when the Optionee completes «CliffPeriod» months of continuous Service beginning with the Vesting Commencement Date set forth below. This option may be exercised with respect to an additional «Fraction»% of the Shares subject to this option when the Optionee completes each month of continuous Service thereafter.

Vesting Commencement Date: «VestComDate»

Expiration Date: «ExpDate». This option expires earlier if the Optionee’s Service terminates earlier, as provided in Section 6 of the Stock Option Agreement, or if the Company engages in certain corporate transactions, as provided in Section 8(b) of the Plan.

By signing below, the Optionee and the Company agree that this option is granted under, and governed by the terms and conditions of, the Amended and Restated 2015 Stock Plan and the Stock Option Agreement. Both of these documents are attached to, and made a part of, this Notice of Stock Option Grant. Section 13 of the Stock Option Agreement includes important acknowledgements of the Optionee.
OPTIONEE: A RCU S B IOSCIENCES, I NC.

By: 
Title: 
THE OPTION GRANTED PURSUANT TO THIS AGREEMENT AND THE SHARES ISSUABLE UPON THE EXERCISE THEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

ARCUS BIOSCIENCES, INC. AMENDED AND RESTATED 2015 STOCK PLAN:
STOCK OPTION AGREEMENT (INSTALLMENT EXERCISE)

SECTION 1. GRANT OF OPTION.

(a) **Option.** On the terms and conditions set forth in the Notice of Stock Option Grant and this Agreement, the Company grants to the Optionee on the Date of Grant the option to purchase at the Exercise Price the number of Shares set forth in the Notice of Stock Option Grant. The Exercise Price is agreed to be at least 100% of the Fair Market Value per Share on the Date of Grant (110% of Fair Market Value if this option is designated as an ISO in the Notice of Stock Option Grant and Section 3(b) of the Plan applies). This option is intended to be an ISO or an NSO, as provided in the Notice of Stock Option Grant.

(b) **$100,000 Limitation.** Even if this option is designated as an ISO in the Notice of Stock Option Grant, it shall be deemed to be an NSO to the extent (and only to the extent) required by the $100,000 annual limitation under Section 422(d) of the Code.

(c) **Stock Plan and Defined Terms.** This option is granted pursuant to the Plan, a copy of which the Optionee acknowledges having received. The provisions of the Plan are incorporated into this Agreement by this reference. Except as otherwise defined in this Agreement (including without limitation Section 14 hereof), capitalized terms shall have the meaning ascribed to such terms in the Plan.

SECTION 2. RIGHT TO EXERCISE.

(a) **Exercisability.** Subject to Subsection (b) below and the other conditions set forth in this Agreement, all or part of this option may be exercised prior to its expiration at the time or times set forth in the Notice of Stock Option Grant.

(b) **Stockholder Approval.** Any other provision of this Agreement notwithstanding, no portion of this option shall be exercisable at any time prior to the approval of the Plan by the Company’s stockholders.
SECTION 3. NO TRANSFER OR ASSIGNMENT OF OPTION.

Except as otherwise provided in this Agreement, this option and the rights and privileges conferred hereby shall not be sold, pledged or otherwise transferred (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment, levy or similar process.

SECTION 4. EXERCISE PROCEDURES.

(a) Notice of Exercise. The Optionee or the Optionee’s representative may exercise this option by: (i) signing and delivering written notice to the Company pursuant to Section 12(c) specifying the election to exercise this option, the number of Shares for which it is being exercised and the form of payment and (ii) delivering payment, in a form permissible under Section 5, for the full amount of the Purchase Price (together with any applicable withholding taxes under Subsection (b)). In the event that this option is being exercised by the representative of the Optionee, the notice shall be accompanied by proof (satisfactory to the Company) of the representative’s right to exercise this option.

(b) Withholding Taxes. In the event that the Company determines that it is required to withhold any tax (including without limitation any income tax, social insurance contributions, payroll tax, payment on account or other tax-related items arising in connection with the Optionee’s participation in the Plan and legally applicable to the Optionee (the “Tax-Related Items”)) as a result of the grant, vesting or exercise of this option, or as a result of the transfer of shares acquired upon exercise of this option, the Optionee, as a condition of this option, shall make arrangements satisfactory to the Company to enable it to satisfy all Tax-Related Items. The Optionee acknowledges that the responsibility for all Tax-Related Items is the Optionee’s and may exceed the amount actually withheld by the Company (or its affiliate or agent).

(c) Issuance of Shares. After satisfying all requirements for exercise of this option, the Company shall cause to be issued one or more certificates evidencing the Shares for which this option has been exercised. Such Shares shall be registered (i) in the name of the person exercising this option, (ii) in the names of such person and his or her spouse as community property or as joint tenants with the right of survivorship or (iii) with the Company’s consent, in the name of a revocable trust. Until the issuance of the Shares has been entered into the books and records of the Company or a duly authorized transfer agent of the Company, no right to vote, receive dividends or any other right as a stockholder will exist with respect to such Shares. The Company shall cause such certificates to be delivered to or upon the order of the person exercising this option.

SECTION 5. PAYMENT FOR STOCK.

(a) Cash. All or part of the Purchase Price may be paid in cash or cash equivalents.

(b) Surrender of Stock. At the discretion of the Board of Directors, all or any part of the Purchase Price may be paid by surrendering, or attesting to the ownership of, Shares that are already owned by the Optionee. Such Shares shall be surrendered to the Company in good form for transfer and shall be valued at their Fair Market Value as of the date when this option is exercised.
(c) **Exercise/Sale**. All or part of the Purchase Price and any withholding taxes may be paid by the delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker approved by the Company to sell Shares and to deliver all or part of the sales proceeds to the Company. However, payment pursuant to this Subsection (c) shall be permitted only if (i) Stock then is publicly traded and (ii) such payment does not violate applicable law.

**SECTION 6. TERM AND EXPIRATION.**

(a) **Basic Term**. This option shall in any event expire on the expiration date set forth in the Notice of Stock Option Grant, which date is 10 years after the Date of Grant (five years after the Date of Grant if this option is designated as an ISO in the Notice of Stock Option Grant and Section 3(b) of the Plan applies).

(b) **Termination of Service (Except by Death)**. If the Optionee’s Service terminates for any reason other than death, then this option shall expire on the earliest of the following occasions:

(i) The expiration date determined pursuant to Subsection (a) above;

(ii) The date three months after the termination of the Optionee’s Service for any reason other than Disability; or

(iii) The date six months after the termination of the Optionee’s Service by reason of Disability.

The Optionee may exercise all or part of this option at any time before its expiration under the preceding sentence, but only to the extent that this option had become exercisable before the Optionee’s Service terminated. When the Optionee’s Service terminates, this option shall expire immediately with respect to the number of Shares for which this option is not yet exercisable. In the event that the Optionee dies after termination of Service but before the expiration of this option, all or part of this option may be exercised (prior to expiration) by the executors or administrators of the Optionee’s estate or by any person who has acquired this option directly from the Optionee by beneficiary designation, bequest or inheritance, but only to the extent that this option had become exercisable before the Optionee’s Service terminated. Once this option (or portion thereof) has terminated, the Optionee shall have no further rights with respect to the option (or portion thereof) or to the underlying Shares.

(c) **Death of the Optionee**. If the Optionee dies while in Service, then this option shall expire on the earlier of the following dates:

(i) The expiration date determined pursuant to Subsection (a) above; or

(ii) The date 12 months after the Optionee’s death.
All or part of this option may be exercised at any time before its expiration under the preceding sentence by the executors or administrators of the Optionee’s estate or by any person who has acquired this option directly from the Optionee by beneficiary designation, bequest or inheritance, but only to the extent that this option had become exercisable before the Optionee’s death. When the Optionee dies, this option shall expire immediately with respect to the number of Shares for which this option is not yet exercisable. Once this option (or portion thereof) has terminated, the Optionee shall have no further rights with respect to the option (or portion thereof) or to the underlying Shares.

(d) **Extension of Post-Termination Exercise Periods**. Following the date on which the Company’s Stock is first listed for trading on an established securities market, if during any part of the exercise period described in Subsections (b)(ii) or (iii) or Subsection (c)(ii) above the exercise of this option would be prohibited solely because the issuance of Shares upon such exercise would violate the registration requirements under the Securities Act or a similar provision of other applicable law, then instead of terminating at the end of such prescribed period, the then-vested portion of this option will instead remain outstanding and not expire until the earlier of (i) the expiration date determined pursuant to Section 6(a) above or (ii) the date on which the then-vested portion of this option has been exercisable without violation of applicable law for the aggregate period (which need not be consecutive) after termination of the Optionee’s Service specified in the applicable Subsection above.

(e) **Part-Time Employment and Leaves of Absence**. If the Optionee commences working on a part-time basis, then the Company may adjust the vesting schedule set forth in the Notice of Stock Option Grant. If the Optionee goes on a leave of absence, then the Company may adjust the vesting schedule set forth in the Notice of Stock Option Grant in accordance with the Company’s leave of absence policy or the terms of such leave. Except as provided in the preceding sentence, Service shall be deemed to continue for any purpose under this Agreement while the Optionee is on a *bona fide* leave of absence, if (i) such leave was approved by the Company in writing and (ii) continued crediting of Service for such purpose is expressly required by the terms of such leave or by applicable law (as determined by the Company). Service shall be deemed to terminate when such leave ends, unless the Optionee immediately returns to active work.

(f) **Notice Concerning ISO Treatment**. Even if this option is designated as an ISO in the Notice of Stock Option Grant, it ceases to qualify for favorable tax treatment as an ISO to the extent that it is exercised:

(i) More than three months after the date when the Optionee ceases to be an Employee for any reason other than death or permanent and total disability (as defined in Section 22(e)(3) of the Code);

(ii) More than 12 months after the date when the Optionee ceases to be an Employee by reason of permanent and total disability (as defined in Section 22(e)(3) of the Code); or
More than three months after the date when the Optionee has been on a leave of absence for three months, unless the Optionee’s reemployment rights following such leave were guaranteed by statute or by contract.

SECTION 7. RIGHT OF FIRST REFUSAL.

(a) **Right of First Refusal**. In the event that the Optionee proposes to sell, pledge or otherwise transfer to a third party any Shares acquired under this Agreement, or any interest in such Shares, the Company shall have the Right of First Refusal with respect to all (and not less than all) of such Shares. If the Optionee desires to transfer Shares acquired under this Agreement, the Optionee shall give a written Transfer Notice to the Company describing fully the proposed transfer, including the number of Shares proposed to be transferred, the proposed transfer price, the name and address of the proposed Transferee and proof satisfactory to the Company that the proposed sale or transfer will not violate any applicable federal, State or foreign securities laws. The Transfer Notice shall be signed both by the Optionee and by the proposed Transferee and must constitute a binding commitment of both parties to the transfer of the Shares. The Company shall have the right to purchase all, and not less than all, of the Shares on the terms of the proposal described in the Transfer Notice (subject, however, to any change in such terms permitted under Subsection (b) below) by delivery of a notice of exercise of the Right of First Refusal within 30 days after the date when the Transfer Notice was received by the Company.

(b) **Transfer of Shares**. If the Company fails to exercise its Right of First Refusal within 30 days after the date when it received the Transfer Notice, the Optionee may, not later than 90 days following receipt of the Transfer Notice by the Company, conclude a transfer of the Shares subject to the Transfer Notice on the terms and conditions described in the Transfer Notice, provided that any such sale is made in compliance with applicable federal, State and foreign securities laws and not in violation of any other contractual restrictions to which the Optionee is bound. Any proposed transfer on terms and conditions different from those described in the Transfer Notice, as well as any subsequent proposed transfer by the Optionee, shall again be subject to the Right of First Refusal and shall require compliance with the procedure described in Subsection (a) above. If the Company exercises its Right of First Refusal, the parties shall consummate the sale of the Shares on the terms set forth in the Transfer Notice within 60 days after the date when the Company received the Transfer Notice (or within such longer period as may have been specified in the Transfer Notice); provided, however, that in the event the Transfer Notice provided that payment for the Shares was to be made in a form other than cash or cash equivalents paid at the time of transfer, the Company shall have the option of paying for the Shares with cash or cash equivalents equal to the present value of the consideration described in the Transfer Notice.

(c) **Additional or Exchanged Securities and Property**. In the event of a merger or consolidation of the Company, a sale of all or substantially all of the Company’s stock or assets, any other corporate reorganization, a stock split, the declaration of a stock dividend, the declaration of an extraordinary dividend payable in a form other than stock, a spin-off, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company’s outstanding securities, any securities or other property (including cash or cash
equivalents) that are by reason of such transaction exchanged for, or distributed with respect to, any Shares subject to this Section 7 shall immediately be subject to the Right of First Refusal. Appropriate adjustments to reflect the exchange or distribution of such securities or property shall be made to the number and/or class of the Shares subject to this Section 7.

(d) **Termination of Right of First Refusal.** Any other provision of this Section 7 notwithstanding, in the event that the Stock is readily tradable on an established securities market when the Optionee desires to transfer Shares, the Company shall have no Right of First Refusal, and the Optionee shall have no obligation to comply with the procedures prescribed by Subsections (a) and (b) above.

(e) **Permitted Transfers.** This Section 7 shall not apply to (i) a transfer by beneficiary designation, will or intestate succession or (ii) a transfer to one or more members of the Optionee’s Immediate Family or to a trust established by the Optionee for the benefit of the Optionee and/or one or more members of the Optionee’s Immediate Family, provided in either case that the Transferee agrees in writing on a form prescribed by the Company to be bound by all provisions of this Agreement. If the Optionee transfers any Shares acquired under this Agreement, either under this Subsection (e) or after the Company has failed to exercise the Right of First Refusal, then this Agreement shall apply to the Transferee to the same extent as to the Optionee.

(f) **Termination of Rights as Stockholder.** If the Company makes available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Shares to be purchased in accordance with this Section 7, then after such time the person from whom such Shares are to be purchased shall no longer have any rights as a holder of such Shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such Shares shall be deemed to have been purchased in accordance with the applicable provisions hereof, whether or not the certificate(s) therefor have been delivered as required by this Agreement.

(g) **Assignment of Right of First Refusal.** The Board of Directors may freely assign the Company’s Right of First Refusal, in whole or in part. Any person who accepts an assignment of the Right of First Refusal from the Company shall assume all of the Company’s rights and obligations under this Section 7.

**SECTION 8. LEGALITY OF INITIAL ISSUANCE.**

No Shares shall be issued upon the exercise of this option unless and until the Company has determined that:

(a) It and the Optionee have taken any actions required to register the Shares under the Securities Act or to perfect an exemption from the registration requirements thereof;

(b) Any applicable listing requirement of any stock exchange or other securities market on which Stock is listed has been satisfied; and

(c) Any other applicable provision of federal, State or foreign law has been satisfied.
SECTION 9. NO REGISTRATION RIGHTS.

The Company may, but shall not be obligated to, register or qualify the sale of Shares under the Securities Act or any other applicable law. The Company shall not be obligated to take any affirmative action in order to cause the sale of Shares under this Agreement to comply with any law.

SECTION 10. RESTRICTIONS ON TRANSFER OF SHARES.

(a) Securities Law Restrictions. Regardless of whether the offer and sale of Shares under the Plan have been registered under the Securities Act or have been registered or qualified under the securities laws of any State or other relevant jurisdiction, the Company at its discretion may impose restrictions upon the sale, pledge or other transfer of such Shares (including the placement of appropriate legends on the stock certificates (or electronic equivalent) or the imposition of stop-transfer instructions) and may refuse (or may be required to refuse) to transfer Shares acquired hereunder (or Shares proposed to be transferred in a subsequent transfer) if, in the judgment of the Company, such restrictions, legends or refusal are necessary or appropriate to achieve compliance with the Securities Act or other relevant securities or other laws, including without limitation under Regulation S of the Securities Act or pursuant to another available exemption from registration.

(b) Market Stand-Off. In connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act, including the Company’s initial public offering, the Optionee or a Transferee shall not directly or indirectly sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any option or other contract for the purchase of, purchase any option or other contract for the sale of, or otherwise dispose of or transfer, or agree to engage in any of the foregoing transactions with respect to, any Shares acquired under this Agreement without the prior written consent of the Company or its managing underwriter. Such restriction (the “Market Stand-Off”) shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by the Company or such underwriter. In no event, however, shall such period exceed 180 days plus such additional period as may reasonably be requested by the Company or such underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports or (ii) analyst recommendations and opinions, including (without limitation) the restrictions set forth in Rule 2711(f)(4) of the National Association of Securities Dealers and Rule 472(f)(4) of the New York Stock Exchange, as amended, or any similar successor rules. The Market Stand-Off shall in any event terminate two years after the date of the Company’s initial public offering. In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company’s outstanding securities without receipt of consideration, any new, substituted or additional securities which are by reason of such transaction distributed with respect to any Shares subject to the Market Stand-Off, or into which such Shares thereby become convertible, shall immediately be subject to the Market Stand-Off. In order to enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the Shares.
acquired under this Agreement until the end of the applicable stand-off period. The Company’s underwriters shall be beneficiaries of the agreement set forth in this Subsection (b). This Subsection (b) shall not apply to Shares registered in the public offering under the Securities Act.

(c) **Investment Intent at Grant**. The Optionee represents and agrees that the Shares to be acquired upon exercising this option will be acquired for investment, and not with a view to the sale or distribution thereof.

(d) **Investment Intent at Exercise**. In the event that the sale of Shares under the Plan is not registered under the Securities Act but an exemption is available that requires an investment representation or other representation, the Optionee shall represent and agree at the time of exercise that the Shares being acquired upon exercising this option are being acquired for investment, and not with a view to the sale or distribution thereof, and shall make such other representations as are deemed necessary or appropriate by the Company and its counsel, including (if applicable because the Company is relying on Regulation S under the Securities Act) that as of the date of exercise the Optionee is (i) not a U.S. Person; (ii) not acquiring the Shares on behalf, or for the account or benefit, of a U.S. Person; and (iii) is not exercising the option in the United States.

(e) **Legends**. All certificates evidencing Shares purchased under this Agreement shall bear the following legend:

“The Shares represented hereby may not be sold, assigned, transferred, encumbered or in any manner disposed of, except in compliance with the terms of a written agreement between the Company and the registered holder of the Shares (or the predecessor in interest to the Shares). Such agreement grants to the Company certain rights of first refusal upon an attempted transfer of the Shares. In addition, the Shares are subject to restrictions on transfer for a limited period following the effective date of the underwritten public offering of the Company’s securities and may not be sold or otherwise disposed of by the holder without the consent of the Company or the managing underwriter. The Secretary of the Company will upon written request furnish a copy of such agreement to the holder hereof without charge.”

All certificates evidencing Shares purchased under this Agreement in an unregistered transaction shall bear the following legend (and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law):

“The Shares represented hereby have not been registered under the Securities Act of 1933, as amended (the “Act”) or any securities laws of any U.S. state, and may not be sold, reoffered, pledged, assigned, encumbered or otherwise disposed of, except in compliance with the terms of a written agreement between the Company and the registered holder of the Shares (or the predecessor in interest to the Shares). Such agreement grants to the Company certain rights of first refusal upon an attempted transfer of the Shares. In addition, the Shares are subject to restrictions on transfer for a limited period following the effective date of the underwritten public offering of the Company’s securities and may not be sold or otherwise disposed of by the holder without the consent of the Company or the managing underwriter. The Secretary of the Company will upon written request furnish a copy of such agreement to the holder hereof without charge.”
TRANSFERRED OR DISPOSED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED. IN THE ABSENCE OF REGISTRATION OR THE AVAILABILITY (CONFIRMED BY OPINION OF COUNSEL) OF AN ALTERNATIVE EXEMPTION FROM REGISTRATION UNDER THE ACT (INCLUDING WITHOUT LIMITATION IN ACCORDANCE WITH REGULATION S UNDER THE ACT), THESE SHARES MAY NOT BE SOLD, REOFFERED, PLEDGED, ASSIGNED, ENCUMBERED OR OTHERWISE TRANSFERRED OR DISPOSED OF. HEDGING TRANSACTIONS INVOLVING THESE SHARES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE ACT.”

(f) Removal of Legends. If, in the opinion of the Company and its counsel, any legend placed on a stock certificate representing Shares sold under this Agreement is no longer required, the holder of such certificate shall be entitled to exchange such certificate for a certificate representing the same number of Shares but without such legend.

(g) Administration. Any determination by the Company and its counsel in connection with any of the matters set forth in this Section 10 shall be conclusive and binding on the Optionee and all other persons.

SECTION 11. ADJUSTMENT OF SHARES.

In the event of any transaction described in Section 8(a) of the Plan, the terms of this option (including, without limitation, the number and kind of Shares subject to this option and the Exercise Price) shall be adjusted as set forth in Section 8(a) of the Plan. In the event that the Company is a party to a merger or consolidation or in the event of a sale of all or substantially all of the Company’s stock or assets, this option shall be subject to the treatment provided by the Board of Directors in its sole discretion, as provided in Section 8(b) of the Plan.

SECTION 12. MISCELLANEOUS PROVISIONS.

(a) Rights as a Stockholder. Neither the Optionee nor the Optionee’s representative shall have any rights as a stockholder with respect to any Shares subject to this option until the Optionee or the Optionee’s representative becomes entitled to receive such Shares by filing a notice of exercise and paying the Purchase Price pursuant to Sections 4 and 5.

(b) No Retention Rights. Nothing in this option or in the Plan shall confer upon the Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining the Optionee) or of the Optionee, which rights are hereby expressly reserved by each, to terminate his or her Service at any time and for any reason, with or without cause.

(c) Notice. Any notice required by the terms of this Agreement shall be given in writing. It shall be deemed effective upon (i) personal delivery, (ii) deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid, (iii) deposit
with Federal Express Corporation, with shipping charges prepaid or (iv) deposit with any internationally recognized express mail courier service. Notice shall be addressed to the Company at its principal executive office and to the Optionee at the address that he or she most recently provided to the Company in accordance with this Subsection (c).

(d) **Modifications and Waivers**. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Optionee and by an authorized officer of the Company (other than the Optionee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(e) **Entire Agreement**. The Notice of Stock Option Grant, this Agreement and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) that relate to the subject matter hereof.

(f) **Choice of Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, as such laws are applied to contracts entered into and performed in such State.

SECTION 13. ACKNOWLEDGEMENTS OF THE OPTIONEE.

In addition to the other terms, conditions and restrictions imposed on this option and the Shares issuable under this option pursuant to this Agreement and the Plan, the Optionee expressly acknowledges being subject to Sections 7 (Right of First Refusal), 8 (Legality of Initial Issuance) and 10 (Restrictions on Transfer of Shares, including without limitation the Market Stand-Off), as well as the following provisions:

(a) **Tax Consequences (No Liability for Discounted Options)**. The Optionee agrees that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes the Optionee’s tax liabilities. The Optionee shall not make any claim against the Company or its Board of Directors, officers or employees related to tax liabilities arising from this option or the Optionee’s other compensation. In particular, any Optionee subject to U.S. taxation acknowledges that this option is exempt from Section 409A of the Code only if the Exercise Price is at least equal to the Fair Market Value per Share on the Date of Grant. Since Shares are not traded on an established securities market, the determination of their Fair Market Value is made by the Board of Directors or by an independent valuation firm retained by the Company. The Optionee acknowledges that there is no guarantee in either case that the Internal Revenue Service will agree with the valuation, and the Optionee shall not make any claim against the Company or its Board of Directors, officers or employees in the event that the Internal Revenue Service asserts that the valuation was too low.

(b) **Electronic Delivery of Documents**. The Optionee agrees to accept by email all documents relating to the Company, the Plan or this option and all other documents that the Company is required to deliver to its security holders (including, without limitation, disclosures that may be required by the Securities and Exchange Commission). The Optionee
also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it shall notify the Optionee by email of their availability. The Optionee acknowledges that he or she may incur costs in connection with electronic delivery, including the cost of accessing the internet and printing fees, and that an interruption of internet access may interfere with his or her ability to access the documents. This consent shall remain in effect until this option expires or until the Optionee gives the Company written notice that it should deliver paper documents.

(c) **No Notice of Expiration Date.** The Optionee agrees that the Company and its officers, employees, attorneys and agents do not have any obligation to notify him or her prior to the expiration of this option pursuant to Section 6, regardless of whether this option will expire at the end of its full term or on an earlier date related to the termination of the Optionee’s Service. The Optionee further agrees that he or she has the sole responsibility for monitoring the expiration of this option and for exercising this option, if at all, before it expires. This Subsection (c) shall supersede any contrary representation that may have been made, orally or in writing, by the Company or by an officer, employee, attorney or agent of the Company.

(d) **Waiver of Statutory Information Rights.** The Optionee acknowledges and agrees that, upon exercise of this option and until the first sale of the Company’s Stock to the general public pursuant to a registration statement filed under the Securities Act, he or she will be deemed to have waived any rights the Optionee might otherwise have had under Section 220 of the Delaware General Corporation Law (or under similar rights under other applicable law) to inspect for any proper purpose and to make copies and extracts from the Company’s stock ledger, a list of its stockholders and its other books and records or the books and records of any subsidiary. This waiver applies only in the Optionee’s capacity as a stockholder and does not affect any other inspection rights the Optionee may have under other law or pursuant to a written agreement with the Company.

(e) **Plan Discretionary.** The Optionee understands and acknowledges that (i) the Plan is entirely discretionary, (ii) the Company and the Optionee’s employer have reserved the right to amend, suspend or terminate the Plan at any time, (iii) the grant of an option does not in any way create any contractual or other right to receive additional grants of options (or benefits in lieu of options) at any time or in any amount and (iv) all determinations with respect to any additional grants, including (without limitation) the times when options will be granted, the number of Shares offered, the Exercise Price and the vesting schedule, will be at the sole discretion of the Company.

(f) **Termination of Service.** The Optionee understands and acknowledges that participation in the Plan ceases upon termination of his or her Service for any reason, except as may explicitly be provided otherwise in the Plan or this Agreement.

(g) **Extraordinary Compensation.** The value of this option shall be an extraordinary item of compensation outside the scope of the Optionee’s employment contract, if any, and shall not be considered a part of his or her normal or expected compensation for purposes of calculating severance, resignation, redundancy or end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.
(h) **Authorization to Disclose**. The Optionee hereby authorizes and directs the Optionee’s employer to disclose to the Company or any Subsidiary any information regarding the Optionee’s employment, the nature and amount of the Optionee’s compensation and the fact and conditions of the Optionee’s participation in the Plan, as the Optionee’s employer deems necessary or appropriate to facilitate the administration of the Plan.

(i) **Personal Data Authorization**. The Optionee consents to the collection, use and transfer of personal data as described in this Subsection (i). The Optionee understands and acknowledges that the Company, the Optionee’s employer and the Company’s other Subsidiaries hold certain personal information regarding the Optionee for the purpose of managing and administering the Plan, including (without limitation) the Optionee’s name, home address, telephone number, date of birth, social insurance number, salary, nationality, job title, any Shares or directorships held in the Company and details of all options or any other entitlements to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Optionee’s favor (the “**Data**”). The Optionee further understands and acknowledges that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of the Optionee’s participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. The Optionee understands and acknowledges that the recipients of Data may be located in the United States or elsewhere. The Optionee authorizes such recipients to receive, possess, use, retain and transfer Data, in electronic or other form, for the purpose of administering the Optionee’s participation in the Plan, including a transfer to any broker or other third party with whom the Optionee elects to deposit Shares acquired under the Plan of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares on the Optionee’s behalf. The Optionee may, at any time, view the Data, require any necessary modifications of Data or withdraw the consents set forth in this Subsection (i) by contacting the Company in writing.

SECTION 14. DEFINITIONS.

(a) “**Agreement**” shall mean this Stock Option Agreement.

(b) “**Board of Directors**” shall mean the Board of Directors of the Company, as constituted from time to time or, if a Committee has been appointed, such Committee.

(c) “**Company**” shall mean Arcus Biosciences, Inc., a Delaware corporation.

(d) “**Immediate Family**” shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and shall include adoptive relationships.

(e) “**Optionee**” shall mean the person named in the Notice of Stock Option Grant.

(f) “**Plan**” shall mean the Arcus Biosciences, Inc. Amended and Restated 2015 Stock Plan, as in effect on the Date of Grant.
(g) “**Purchase Price**” shall mean the Exercise Price multiplied by the number of Shares with respect to which this option is being exercised.

(h) “**Right of First Refusal**” shall mean the Company’s right of first refusal described in Section 7.

(i) “**Service**” means service as an Employee, Outside Director or Consultant.

(j) “**Transferee**” shall mean any person to whom the Optionee has directly or indirectly transferred any Share acquired under this Agreement.

(k) “**Transfer Notice**” shall mean the notice of a proposed transfer of Shares described in Section 7.

(l) “**U.S. Person**” shall mean a person described in Rule 902(k) of Regulation S of the Securities Act (or any successor rule or provision), which generally defines a U.S. person as any natural person resident in the United States, any estate of which any executor or administrator is a U.S. Person, or any trust of which any trustee is a U.S. Person.
The Transferee is acquiring shares of the Common Stock of Arcus Biosciences, Inc. on the following terms:

Name of Transferee: «Name»
Total Number of Transferred Shares: «TotalShares»
Date of Transfer: «DateTransfer»
Vesting Commencement Date: «VestComDate»
Vesting Schedule: The Forfeiture Condition shall lapse with respect to the first «Percent»% of the Transferred Shares when the Transferee completes «CliffPeriod» months of continuous Service beginning with the Vesting Commencement Date set forth above. The Forfeiture Condition shall lapse with respect to an additional «Fraction»% of the Transferred Shares when the Transferee completes each month of continuous Service thereafter.

By signing below, the Transferee and the Company agree that the acquisition of the Transferred Shares is governed by the terms and conditions of the Amended and Restated 2015 Stock Plan and the Stock Grant Agreement. Both of these documents are attached to, and made a part of, this Summary of Stock Grant. The Transferee agrees to accept by email all documents relating to the Company, the Plan or this grant and all other documents that the Company is required to deliver to its security holders (including, without limitation, disclosures that may be required by the Securities and Exchange Commission). The Transferee also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it shall notify the Transferee by email of their availability. The Transferee acknowledges that he or she may incur costs in connection with electronic delivery, including the cost of accessing the internet and printing fees, and that an interruption of internet access may interfere with his or her ability to access the documents. This consent shall remain in effect until the Transferee gives the Company written notice that it should deliver paper documents.

TRANSFEREE:

__________________________
Address for Mailing Stock Certificate:

__________________________
A RCUS BIOSCIENCES, INC.

By: ____________________________
Title: ____________________________
SECTION 1. ACQUISITION OF SHARES.

(a) **Transfer**. On the terms and conditions set forth in the Summary of Stock Grant and this Agreement, the Company agrees to transfer to the Transferee the number of Shares set forth in the Summary of Stock Grant. The transfer shall occur at the offices of the Company on the date of transfer set forth in the Summary of Stock Grant or at such other place and time as the parties may agree.

(b) **Consideration**. The Transferee and the Company agree that the Transferred Shares are being issued to the Transferee as consideration for a portion of the services performed by the Transferee for the Company. The value of such portion is agreed to be not less than 100% of the Fair Market Value of the Transferred Shares.

(c) **Stock Plan and Defined Terms**. The transfer of the Transferred Shares is subject to the Plan, a copy of which the Transferee acknowledges having received. The provisions of the Plan are incorporated into this Agreement by this reference. Except as otherwise defined in this Agreement (including without limitation Section 11 hereof), capitalized terms shall have the meaning ascribed to such terms in the Plan.

SECTION 2. FORFEITURE CONDITION.

(a) **Scope of Forfeiture Condition**. All Transferred Shares initially shall be Restricted Shares and shall be subject to forfeiture to the Company. The Transferee shall not transfer, assign, encumber or otherwise dispose of any Restricted Shares without the Company’s written consent, except as provided in the following sentence. The Transferee may transfer Restricted Shares to one or more members of the Transferee’s Immediate Family or to a trust established by the Transferee for the benefit of the Transferee and/or one or more members of the Transferee’s Immediate Family, provided in either case that the Transferee agrees in writing on a form prescribed by the Company to be bound by all provisions of this Agreement. If the Transferee transfers any Restricted Shares, then this Agreement shall apply to the Subsequent Transferee to the same extent as to the Transferee.

(b) **Vesting**. The Forfeiture Condition shall lapse and the Restricted Shares shall become vested in accordance with the vesting schedule set forth in the Summary of Stock Grant.

(c) **Execution of Forfeiture**. The Forfeiture Condition shall be applicable only if the Transferee’s Service terminates for any reason, with or without cause, including (without limitation) death or disability, before all Restricted Shares have become vested. In the
event that the Transferee’s Service terminates for any reason, the certificate(s) representing any remaining Restricted Shares shall be delivered to the Company. The Company shall make no payment for Restricted Shares that are forfeited.

(d) Additional or Exchanged Securities and Property. In the event of a merger or consolidation of the Company, a sale of all or substantially all of the Company’s stock or assets, any other corporate reorganization, the declaration of a stock dividend, the declaration of an extraordinary dividend payable in a form other than stock, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company’s outstanding securities, any securities or other property (including cash or cash equivalents) that are by reason of such transaction exchanged for, or distributed with respect to, any Restricted Shares or into which such Restricted Shares thereby become convertible shall immediately be subject to the Forfeiture Condition. Appropriate adjustments to reflect the exchange or distribution of such securities or property shall be made to the number and/or class of the Restricted Shares.

(e) Termination of Rights as Stockholder. If Restricted Shares are forfeited in accordance with this Section 2, then the person who is to forfeit such Restricted Shares shall no longer have any rights as a holder of such Restricted Shares. Such Restricted Shares shall be deemed to have been forfeited in accordance with the applicable provisions hereof, whether or not the certificate(s) therefor have been delivered as required by this Agreement.

(f) Escrow. Upon issuance, the certificates for Restricted Shares shall be deposited in escrow with the Company to be held in accordance with the provisions of this Agreement. Any new, substituted or additional securities or other property described in Subsection (d) above shall immediately be delivered to the Company to be held in escrow, but only to the extent the Transferred Shares are at the time Restricted Shares. All regular cash dividends on Restricted Shares (or other securities at the time held in escrow) shall be paid directly to the Transferee and shall not be held in escrow. Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be (i) surrendered to the Company for forfeiture and cancellation in the event that the Forfeiture Condition or Right of First Refusal applies or (ii) released to the Transferee upon the Transferee’s request to the extent the Transferred Shares are no longer Restricted Shares (but not more frequently than once every six months). In any event, all Transferred Shares that have vested (and any other vested assets and securities attributable thereto) shall be released within 60 days after the earlier of (i) the termination of the Transferee’s Service or (ii) the lapse of the Right of First Refusal.

(g) Part-Time Employment and Leaves of Absence. If the Transferee commences working on a part-time basis, then the Company may adjust the vesting schedule set forth in the Summary of Stock Grant. If the Transferee goes on a leave of absence, then the Company may adjust the vesting schedule set forth in the Summary of Stock Grant in accordance with the Company’s leave of absence policy or the terms of such leave. Except as provided in the preceding sentence, Service shall be deemed to continue while the Transferee is on a bona fide leave of absence, if (i) such leave was approved by the Company in writing and (ii) continued crediting of Service is expressly required by the terms of such leave or by applicable law (as determined by the Company). Service shall be deemed to terminate when such leave ends, unless the Transferee immediately returns to active work.
SECTION 3. RIGHT OF FIRST REFUSAL.

(a) **Right of First Refusal**. In the event that the Transferee proposes to sell, pledge or otherwise transfer to a third party any Transferred Shares, or any interest in Transferred Shares, the Company shall have the Right of First Refusal with respect to all (and not less than all) of such Transferred Shares. If the Transferee desires to transfer Transferred Shares, the Transferee shall give a written Transfer Notice to the Company describing fully the proposed transfer, including the number of Transferred Shares proposed to be transferred, the proposed transfer price, the name and address of the proposed Subsequent Transferee and proof satisfactory to the Company that the proposed sale or transfer will not violate any applicable federal, State or foreign securities laws. The Transfer Notice shall be signed both by the Transferee and by the proposed Subsequent Transferee and must constitute a binding commitment of both parties to the transfer of the Transferred Shares. The Company shall have the right to purchase all, and not less than all, of the Transferred Shares on the terms of the proposal described in the Transfer Notice (subject, however, to any change in such terms permitted under Subsection (b) below) by delivery of a notice of exercise of the Right of First Refusal within 30 days after the date when the Transfer Notice was received by the Company.

(b) **Transfer of Shares**. If the Company fails to exercise its Right of First Refusal within 30 days after receiving the Transfer Notice, the Transferee may, not later than 90 days after the Company received the Transfer Notice, conclude a transfer of the Transferred Shares subject to the Transfer Notice on the terms and conditions described in the Transfer Notice, provided that any such sale is made in compliance with applicable federal, State and foreign securities laws and not in violation of any other contractual restrictions to which the Transferee is bound. Any proposed transfer on terms and conditions different from those described in the Transfer Notice, as well as any subsequent proposed transfer by the Transferee, shall again be subject to the Right of First Refusal and shall require compliance with the procedure described in Subsection (a) above. If the Company exercises its Right of First Refusal, the parties shall consummate the sale of the Transferred Shares on the terms set forth in the Transfer Notice within 60 days after the Company received the Transfer Notice (or within such longer period as may have been specified in the Transfer Notice); provided, however, that in the event the Transfer Notice provided that payment for the Transferred Shares was to be made in a form other than cash or cash equivalents paid at the time of transfer, the Company shall have the option of paying for the Transferred Shares with cash or cash equivalents equal to the present value of the consideration described in the Transfer Notice.

(c) **Additional or Exchanged Securities and Property**. In the event of a merger or consolidation of the Company, a sale of all or substantially all of the Company's stock or assets, any other corporate reorganization, a stock split, the declaration of a stock dividend, the declaration of an extraordinary dividend payable in a form other than stock, a spin-off, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company’s outstanding securities, any securities or other property (including cash or cash equivalents) that are by reason of such transaction exchanged for, or distributed with respect to,
any Transferred Shares subject to this Section 3 shall immediately be subject to the Right of First Refusal. Appropriate adjustments to reflect the exchange or distribution of such securities or property shall be made to the number and/or class of the Transferred Shares subject to this Section 3.

(d) **Termination of Right of First Refusal**. Any other provision of this Section 3 notwithstanding, in the event that the Stock is readily tradable on an established securities market when the Transferee desires to transfer Transferred Shares, the Company shall have no Right of First Refusal, and the Transferee shall have no obligation to comply with the procedures prescribed by Subsections (a) and (b) above.

(e) **Permitted Transfers**. This Section 3 shall not apply to (i) a transfer by beneficiary designation, will or intestate succession or (ii) a transfer to one or more members of the Transferee’s Immediate Family or to a trust established by the Transferee for the benefit of the Transferee and/or one or more members of the Transferee’s Immediate Family, provided in either case that the Transferee agrees in writing on a form prescribed by the Company to be bound by all provisions of this Agreement. If the Transferee transfers any Transferred Shares, either under this Subsection (e) or after the Company has failed to exercise the Right of First Refusal, then this Agreement shall apply to the Subsequent Transferee to the same extent as to the Transferee.

(f) **Termination of Rights as Stockholder**. If the Company makes available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Shares to be purchased in accordance with this Section 3, then after such time the person from whom such Shares are to be purchased shall no longer have any rights as a holder of such Shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such Shares shall be deemed to have been purchased in accordance with the applicable provisions hereof, whether or not the certificate(s) therefor have been delivered as required by this Agreement.

(g) **Assignment of Right of First Refusal**. The Board of Directors may freely assign the Company’s Right of First Refusal, in whole or in part. Any person who accepts an assignment of the Right of First Refusal from the Company shall assume all of the Company’s rights and obligations under this Section 3.

**SECTION 4. OTHER RESTRICTIONS ON TRANSFER.**

(a) **Transferee Representations**. In connection with the issuance and acquisition of Shares under this Agreement, the Transferee hereby represents and warrants to the Company as follows:

(i) The Transferee is acquiring and will hold the Transferred Shares for investment for his or her account only and not with a view to, or for resale in connection with, any “distribution” thereof within the meaning of the Securities Act.
(ii) The Transferee understands that the Transferred Shares have not been registered under the Securities Act by reason of a specific exemption therefrom and that the Transferred Shares must be held indefinitely, unless their sale or other transfer is subsequently registered under the Securities Act or the Transferee obtains an opinion of counsel, in form and substance satisfactory to the Company and its counsel, that such registration is not required. The Transferee further acknowledges and understands that the Company is under no obligation to register the Transferred Shares.

(iii) The Transferee is aware of Rule 144 under the Securities Act, which permits limited public resales of securities acquired in a non-public offering, subject to the satisfaction of certain conditions. These conditions may include (without limitation) that certain current public information about the issuer be available, that the resale occur only after a holding period required by Rule 144 has been satisfied, that the sale occur through an unsolicited “broker’s transaction,” and that the amount of securities being sold during any three-month period not exceed specified limitations. The Transferee acknowledges and understands that the conditions for resale set forth in Rule 144 have not been satisfied as of the Date of Transfer and that the Company is not required to take action to satisfy any such conditions.

(iv) The Transferee will not sell, transfer or otherwise dispose of the Transferred Shares in violation of the Securities Act, the Securities Exchange Act of 1934, or the rules promulgated thereunder, including Rule 144 under the Securities Act. The Transferee agrees that he or she will not dispose of the Transferred Shares unless and until he or she has complied with all requirements of this Agreement applicable to the disposition of Transferred Shares and he or she has provided the Company with written assurances, in substance and form satisfactory to the Company, that (A) the proposed disposition does not require registration of the Transferred Shares under the Securities Act or all appropriate action necessary for compliance with the registration requirements of the Securities Act or with any exemption from registration available under the Securities Act (including Rule 144) has been taken and (B) the proposed disposition will not result in the contravention of any transfer restrictions applicable to the Transferred Shares under applicable state law.

(v) The Transferee has received and has had access to such information as he or she considers necessary or appropriate for deciding whether to invest in the Transferred Shares, and the Transferee has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the issuance of the Transferred Shares.

(vi) The Transferee is aware that his or her investment in the Company is a speculative investment that has limited liquidity and is subject to the risk of complete loss. The Transferee is able, without impairing his or her financial condition, to hold the Transferred Shares for an indefinite period and to suffer a complete loss of his or her investment in the Transferred Shares.
(b) **Securities Law Restrictions**. Regardless of whether the offer and sale of Shares under the Plan have been registered under the Securities Act or have been registered or qualified under the securities laws of any State or other relevant jurisdiction, the Company at its discretion may impose restrictions upon the sale, pledge or other transfer of the Transferred Shares (including the placement of appropriate legends on the stock certificates (or electronic equivalent) or the imposition of stop-transfer instructions) and may refuse (or may be required to refuse) to transfer Shares acquired hereunder (or Shares proposed to be transferred in a subsequent transfer) if, in the judgment of the Company, such restrictions, legends or refusal are necessary or appropriate to achieve compliance with the Securities Act or other relevant securities or other laws, including without limitation under Regulation S of the Securities Act or pursuant to another available exemption from registration.

(c) **Market Stand-Off**. In connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act, including the Company’s initial public offering, the Transferee or a Subsequent Transferee shall not directly or indirectly sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any option or other contract for the purchase of, purchase any option or other contract for the sale of, or otherwise dispose of or transfer, or agree to engage in any of the foregoing transactions with respect to, any Transferred Shares without the prior written consent of the Company or its managing underwriter. Such restriction (the “Market Stand-Off”) shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by the Company or such underwriter. In no event, however, shall such period exceed 180 days plus such additional period as may reasonably be requested by the Company or such underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports or (ii) analyst recommendations and opinions, including (without limitation) the restrictions set forth in Rule 2711(f)(4) of the National Association of Securities Dealers and Rule 472(f)(4) of the New York Stock Exchange, as amended, or any similar successor rules. The Market Stand-Off shall in any event terminate two years after the date of the Company’s initial public offering. In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company’s outstanding securities without receipt of consideration, any new, substituted or additional securities which are by reason of such transaction distributed with respect to any Shares subject to the Market Stand-Off, or into which such Shares thereby become convertible, shall immediately be subject to the Market Stand-Off. In order to enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the Transferred Shares until the end of the applicable stand-off period. The Company’s underwriters shall be beneficiaries of the agreement set forth in this Subsection (c). This Subsection (c) shall not apply to Shares registered in the public offering under the Securities Act.

(d) **Rights of the Company**. The Company shall not be required to (i) transfer on its books any Transferred Shares that have been sold or transferred in contravention of this Agreement or (ii) treat as the owner of Transferred Shares, or otherwise to accord voting, dividend or liquidation rights to, any Subsequent Transferee to whom Transferred Shares have been transferred in contravention of this Agreement.
SECTION 5. SUCCESSORS AND ASSIGNS.

Except as otherwise expressly provided to the contrary, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and be binding upon the Transferee and the Transferee’s legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person has become a party to this Agreement or has agreed in writing to join herein and to be bound by the terms, conditions and restrictions hereof.

SECTION 6. NO RETENTION RIGHTS.

Nothing in this Agreement or in the Plan shall confer upon the Transferee any right to continue providing services to the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining the Transferee) or of the Transferee, which rights are hereby expressly reserved by each, to terminate his or her Service at any time and for any reason, with or without cause.

SECTION 7. TAX ELECTION.

The acquisition of the Transferred Shares may result in adverse tax consequences that may be avoided or mitigated by filing an election under Code Section 83(b). Such election may be filed only within 30 days after the date of transfer set forth in the Summary of Stock Grant. The form for making the Code Section 83(b) election is attached to this Agreement as an Exhibit. The Transferee should consult with his or her tax advisor to determine the tax consequences of acquiring the Transferred Shares and the advantages and disadvantages of filing the Code Section 83(b) election. The Transferee acknowledges that it is his or her sole responsibility, and not the Company’s, to file a timely election under Code Section 83(b), even if the Transferee requests the Company or its representatives to make this filing on his or her behalf.

SECTION 8. LEGENDS.

All certificates evidencing Transferred Shares shall bear the following legends:

“THE SHARES REPRESENTED HEREBY MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, ENCUMBERED OR IN ANY MANNER DISPOSED OF, EXCEPT IN COMPLIANCE WITH THE TERMS OF A WRITTEN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER OF THE SHARES (OR THE PREDECESSOR IN INTEREST TO THE SHARES). SUCH AGREEMENT GRANTS TO THE COMPANY CERTAIN RIGHTS OF FIRST REFUSAL UPON AN ATTEMPTED..."

All certificates evidencing the Transferred Shares acquired under this Agreement in an unregistered transaction shall bear the following legend (and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law):

“THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”) OR ANY SECURITIES LAWS OF ANY U.S. STATE, AND MAY NOT BE SOLD, REOFFERED, PLEDGED, ASSIGNED, ENCUMBERED OR OTHERWISE TRANSFERRED OR DISPOSED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, Satisfactory to the COMPANY and ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED. IN THE ABSENCE OF REGISTRATION OR THE AVAILABILITY (CONFIRMED BY OPINION OF COUNSEL) OF AN ALTERNATIVE EXEMPTION FROM REGISTRATION UNDER THE ACT (INCLUDING WITHOUT LIMITATION IN ACCORDANCE WITH REGULATION S UNDER THE ACT), THESE SHARES MAY NOT BE SOLD, REOFFERED, PLEDGED, ASSIGNED, ENCUMBERED OR OTHERWISE TRANSFERRED OR DISPOSED OF. HEDGING TRANSACTIONS INVOLVING THESE SHARES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE ACT.”

If required by the authorities of any State in connection with the issuance of the Transferred Shares, the legend or legends required by such State authorities shall also be endorsed on all such certificates.

SECTION 9. MISCELLANEOUS PROVISIONS.

(a) **Choice of Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, as such laws are applied to contracts entered into and performed in such State.

(b) **Notice.** Any notice required by the terms of this Agreement shall be given in writing. It shall be deemed effective upon (i) personal delivery, (ii) deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid, (iii) deposit with Federal Express Corporation, with shipping charges prepaid or (iv) deposit with any
internationally recognized express mail courier service. Notice shall be addressed to the Company at its principal executive office and to the Transferee at the address that he or she most recently provided to the Company in accordance with this Subsection (b).

(c) Entire Agreement. The Summary of Stock Grant, this Agreement and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) that relate to the subject matter hereof.

SECTION 10. ACKNOWLEDGEMENTS OF THE TRANSFEREE.

In addition to the other terms, conditions and restrictions imposed on the Shares acquired pursuant to this Agreement, the Transferee expressly acknowledges being subject to Sections 2 (Forfeiture Condition), 3 (Right of First Refusal) and 4 (Other Restrictions on Transfer, including without limitation the Market Stand-Off), as well as the following provisions:

(a) Waiver of Statutory Information Rights. The Transferee acknowledges and agrees that, until the first sale of the Company’s Stock to the general public pursuant to a registration statement filed under the Securities Act, he or she will be deemed to have waived any rights the Transferee might otherwise have had under Section 220 of the Delaware General Corporation Law (or under similar rights under other applicable law) to inspect for any proper purpose and to make copies and extracts from the Company’s stock ledger, a list of its stockholders and its other books and records or the books and records of any subsidiary. This waiver applies only in the Transferee’s capacity as a stockholder and does not affect any other inspection rights the Transferee may have under other law or pursuant to a written agreement with the Company.

(b) Plan Discretionary. The Transferee understands and acknowledges that (i) the Plan is entirely discretionary, (ii) the Company and the Transferee’s employer have reserved the right to amend, suspend or terminate the Plan at any time, (iii) the transfer of the Transferred Shares does not in any way create any contractual or other right to receive additional awards under the Plan at any time or in any amount and (iv) all determinations with respect to any additional awards, including (without limitation) the times when awards will be granted, the number of Shares offered and the vesting schedule, will be at the sole discretion of the Company.

(c) Termination of Service. The Transferee understands and acknowledges that participation in the Plan ceases upon termination of his or her Service for any reason, except as may explicitly be provided otherwise in the Plan or this Agreement.

(d) Extraordinary Compensation. The value of the Transferred Shares shall be an extraordinary item of compensation outside the scope of the Transferee’s employment contract, if any, and shall not be considered a part of his or her normal or expected compensation for purposes of calculating severance, resignation, redundancy or end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.
(c) **Authorization to Disclose.** The Transferee hereby authorizes and directs the Transferee’s employer to disclose to the Company or any Subsidiary any information regarding the Transferee’s employment, the nature and amount of the Transferee’s compensation and the fact and conditions of the Transferee’s participation in the Plan, as the Transferee’s employer deems necessary or appropriate to facilitate the administration of the Plan.

(f) **Personal Data Authorization.** The Transferee consents to the collection, use and transfer of personal data as described in this Subsection (f). The Transferee understands and acknowledges that the Company, the Transferee’s employer and the Company’s other Subsidiaries hold certain personal information regarding the Transferee for the purpose of managing and administering the Plan, including (without limitation) the Transferee’s name, home address, telephone number, date of birth, social insurance number, salary, nationality, job title, any Shares or directorships held in the Company and details of all options or any other entitlements to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Transferee’s favor (the “Data”). The Transferee further understands and acknowledges that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of the Transferee’s participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. The Transferee understands and acknowledges that the recipients of Data may be located in the United States or elsewhere. The Transferee authorizes such recipients to receive, possess, use, retain and transfer Data, in electronic or other form, for the purpose of managing the Transferee’s participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. The Transferee may, at any time, view the Data, require any necessary modifications of Data or withdraw the consents set forth in this Subsection (f) by contacting the Company in writing.

**SECTION 11. DEFINITIONS.**

(a) “**Agreement**” shall mean this Stock Grant Agreement.

(b) “**Board of Directors**” shall mean the Board of Directors of the Company, as constituted from time to time or, if a Committee has been appointed, such Committee.

(c) “**Company**” shall mean Arcus Biosciences, Inc., a Delaware corporation.

(d) “**Forfeiture Condition**” shall mean the forfeiture condition described in Section 2.

(e) “**Immediate Family**” shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and shall include adoptive relationships.

(f) “**Plan**” shall mean the Arcus Biosciences, Inc. Amended and Restated 2015 Stock Plan, as amended.
(g) “Restricted Share” shall mean a Transferred Share that is subject to the Forfeiture Condition.

(h) “Right of First Refusal” shall mean the Company’s right of first refusal described in Section 3.

(i) “Service” means service as an Employee, Outside Director or Consultant.

(j) “Subsequent Transferee” shall mean any person to whom the Transferee has directly or indirectly transferred any Transferred Shares.

(k) “Transferee” shall mean the individual named in the Summary of Stock Grant.

(l) “Transfer Notice” shall mean the notice of a proposed transfer of Transferred Shares described in Section 3.

(m) “Transferred Shares” shall mean the Shares acquired by the Transferee pursuant to this Agreement.
SECTION 83(b) ELECTION

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, and pursuant to Treasury Regulations Section 1.83-2, to include in gross income as compensation for services the fair market value of the shares described below.

(1) The taxpayer who performed the services is:
   Name: ________________________________
   Address: ________________________________
   Social Security No.: ________________________________

(2) The property with respect to which the election is made is _______ shares of the common stock of Arcus Biosciences, Inc.

(3) The property was transferred to the taxpayer on _______.

(4) The taxable year for which the election is made is the calendar year _______.

(5) The property is subject to forfeiture if for any reason taxpayer’s service with the issuer terminates. The forfeiture condition lapses in a series of installments over a _______ -year period ending on _______.

(6) The fair market value of such property at the time of transfer (determined without regard to any restriction other than a restriction that by its terms will never lapse) is $ _______ per share x _______ shares = $ _______.

(7) No amount was paid for such property.

(8) The amount to include in gross income is $ _______. [The amount in Line 6.]

(9) A copy of this statement was furnished to Arcus Biosciences, Inc., for whom taxpayer rendered the services underlying the transfer of such property.

(10) This statement is executed on _______, _______.

Spouse (if any) ________________________________  Taxpayer ________________________________

Within 30 days after the date of transfer of the property, this election must be filed with the Internal Revenue Service office where the taxpayer files his or her annual federal income tax return. The filing should be made by registered or certified mail, return receipt requested. The taxpayer must (a) include a copy of the completed form with his or her federal income tax return for the taxable year in which the property is transferred and (b) deliver an additional copy to the Company.
A RCUS BIOSCIENCES, INC.
A MENDED AND R ESTATED 2015 S TOCK P LAN
N OTICE OF S TOCK O PTION E XERCISE (E ARLY E XERCISE)

You must sign this Notice on Page 3 before submitting it to the Company.

O PTIONEE I NFORMATION:

Name: ___________________________ Social Security Number: ___________________________
Address: ___________________________ Employee Number: ___________________________

O PTION I NFORMATION:

Date of Grant: ______________________, 20__
Type of Stock Option: □ Nonstatutory (NSO) □ Incentive (ISO)
Exercise Price per Share: $ __________
Total number of shares of Common Stock of Arcus Biosciences, Inc. (the “Company”) covered by the option:

E XERCISE I NFORMATION:

Number of shares of Common Stock of the Company for which the option is being exercised now: ___________________________. (These shares are referred to below as the “Purchased Shares.”)
Total Exercise Price for the Purchased Shares: $ __________
Form of payment enclosed [check all that apply]:
□ Check for $ __________, payable to “Arcus Biosciences, Inc.”
□ Certificate(s) for __________ shares of Common Stock of the Company. These shares will be valued as of the date this notice is received by the Company. [Requires Company consent.]
□ Attestation Form covering __________ shares of Common Stock of the Company. These shares will be valued as of the date this notice is received by the Company. [Requires Company consent.]

Name(s) in which the Purchased Shares should be registered [please review the attached explanation of the available forms of ownership, and then check one box]:
□ In my name only
□ In the names of my spouse and myself as community property My spouse’s name (if applicable):
□ In the names of my spouse and myself as community property with the right of survivorship
☐ In the names of my spouse and myself as joint tenants with the right of survivorship

☐ In the name of an eligible revocable trust [requires Stock Transfer Agreement]

Full legal name of revocable trust:

The certificate for the Purchased Shares should be sent to the following address:

Representations and Acknowledgements of the Optionee:

1. I represent and warrant to the Company that I am acquiring and will hold the Purchased Shares for investment for my account only, and not with a view to, or for resale in connection with, any “distribution” of the Purchased Shares within the meaning of the Securities Act of 1933, as amended (the “Securities Act”).

2. I understand that my purchase of the Purchased Shares has not been registered under the Securities Act by reason of a specific exemption therefrom and that the Purchased Shares must be held indefinitely, unless they are subsequently registered under the Securities Act or I obtain an opinion of counsel (in form and substance satisfactory to the Company and its counsel) that registration is not required.

3. I acknowledge that the Company is under no obligation to register the Purchased Shares or any sale or transfer thereof.

4. I am aware of Rule 144 under the Securities Act, which permits limited public resales of securities acquired in a non-public offering, subject to the satisfaction of certain conditions. These conditions may include (without limitation) that certain current public information about the issuer be available, that the resale occur only after a holding period required by Rule 144 has been satisfied, that the sale occur through an unsolicited “broker’s transaction” and that the amount of securities being sold during any three-month period not exceed specified limitations. I understand that the conditions for resale set forth in Rule 144 have not been satisfied as of the date set forth below and that the Company is not required to take action to satisfy any conditions applicable to it.

5. I will not sell, transfer or otherwise dispose of the Purchased Shares in violation of the Securities Act, the Securities Exchange Act of 1934, or the rules promulgated thereunder, including Rule 144 under the Securities Act.

6. I acknowledge that I have received and had access to such information as I consider necessary or appropriate for deciding whether to invest in the Purchased Shares and that I had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the issuance of the Purchased Shares.

7. I am aware that my investment in the Company is a speculative investment that has limited liquidity and is subject to the risk of complete loss. I am able, without impairing my financial condition, to hold the Purchased Shares for an indefinite period and to suffer a complete loss of my investment in the Purchased Shares.
8. I acknowledge that the Purchased Shares remain subject to the Company's right of first refusal and the market stand-off (sometimes referred to as the “lock-up”) and may remain subject to the Company's right of repurchase, all in accordance with the applicable Notice of Stock Option Grant and Stock Option Agreement.

9. I acknowledge that I am acquiring the Purchased Shares subject to all other terms of the Notice of Stock Option Grant and Stock Option Agreement.

10. I acknowledge that I have received a copy of the Company’s explanation of the forms of ownership available for my Purchased Shares. I acknowledge that the Company has encouraged me to consult my own adviser to determine the form of ownership that is appropriate for me. In the event that I choose to transfer my Purchased Shares to a trust, I agree to sign a Stock Transfer Agreement. In the event that I choose to transfer my Purchased Shares to a trust that does not satisfy the requirements described in the attached explanation (i.e., a trust that is not an eligible revocable trust), I also acknowledge that the transfer will be treated as a “disposition” for tax purposes. As a result, the favorable ISO tax treatment will be unavailable and other unfavorable tax consequences may occur.

11. I acknowledge that I have received a copy of the Company’s explanation of the federal income tax consequences of an option exercise and the tax election under section 83(b) of the Internal Revenue Code. In the event that I choose to make a section 83(b) election, I acknowledge that it is my responsibility—and not the Company’s responsibility—to file the election in a timely manner, even if I ask the Company or its agents to make the filing on my behalf. I acknowledge that the Company has encouraged me to consult my own adviser to determine the tax consequences of acquiring the Purchased Shares at this time.

12. I agree that the Company does not have a duty to design or administer the Amended and Restated 2015 Stock Plan or its other compensation programs in a manner that minimizes my tax liabilities. I will not make any claim against the Company or its Board of Directors, officers or employees related to tax liabilities arising from my options or my other compensation. In particular, I acknowledge that my options are exempt from section 409A of the Internal Revenue Code only if the exercise price per share is at least equal to the fair market value per share of the Company’s Common Stock at the time the option was granted by the Company’s Board of Directors. Since shares of the Company’s Common Stock are not traded on an established securities market, the determination of their fair market value was made by the Company’s Board of Directors or by an independent valuation firm retained by the Company. I acknowledge that there is no guarantee in either case that the Internal Revenue Service will agree with the valuation, and I will not make any claim against the Company or its Board of Directors, officers or employees in the event that the Internal Revenue Service asserts that the valuation was too low.

13. I agree to seek the consent of my spouse to the extent required by the Company to enforce the foregoing.

SIGNATURE:

DATE:
EXPLANATION OF FORMS OF STOCK OWNERSHIP

PURPOSE OF THIS EXPLANATION

The purpose of this explanation is to provide you with a brief summary of the forms of legal ownership available for the shares that you are purchasing (the “Purchased Shares”). For a number of reasons, this explanation is no substitute for personal legal advice:

• To make the explanation short and readable, only the highlights are covered. Some legal rules are not addressed, even though they may be important in particular cases.

• While the summary attempts to deal with the most common situations, your own situation may well be different from the norm.

• The law may change, and the Company is not responsible for updating this summary.

• The form in which you own your shares may have a substantial impact on the estate tax treatment that applies to those shares when you die or the income tax treatment that applies when your survivors sell the shares after your death.

FOR THESE REASONS, THE COMPANY STRONGLY ENCOURAGES YOU TO CONSULT YOUR OWN ADVISER BEFORE EXERCISING YOUR OPTION AND BEFORE MAKING A DECISION ABOUT THE FORM OF OWNERSHIP FOR YOUR SHARES.

OVERVIEW

The Notice of Stock Option Exercise offers five forms of taking title to the Purchased Shares:

• In your name only,

• In your name and the name of your spouse as community property,

• In your name and the name of your spouse as community property with the right of survivorship,

• In your name and the name of your spouse as joint tenants with the right of survivorship, or

• In the name of an eligible revocable trust.

Title in the Purchased Shares depends upon (a) your marital status, (b) the marital property laws of your state of residence and (c) any agreement with your spouse altering the existing marital property laws of your state of residence. If you are not married, you generally will take title in your name alone. If you are married, title depends upon the marital property laws of your state of residence. In general, states are classified either as “community property” states or as “common-law property” states. (But individual state law may vary within these classifications.)
Community property states include California, Texas, Washington, Arizona, Nevada, New Mexico, Idaho, Louisiana and Wisconsin. In a community property state, property acquired during marriage by either spouse is presumed to be one-half owned by each spouse. All other property is classified as the separate property of the spouse who acquires the property. While either spouse has equal management and control over the community property and may sell, spend or encumber all community property, neither spouse may gift community property or partition his/her one-half interest without the consent of the other spouse. Upon divorce, all community property is divided equally among the spouses and each spouse is entitled to retain all of his/her separate property. Upon the death of a spouse, one-half of the community property (and all of the decedent spouse’s separate property) will pass to the decedent spouse’s heirs. The other one-half of the community property remains the property of the surviving spouse.

Other states are common-law property states. In a common-law property state, each spouse is generally deemed to own whatever he/she earns or acquires.

A married couple may elect to alter the marital property rules by mutually agreeing to take title to property in other forms. For example, a couple residing in a community property state may generally enter into an agreement and transform what otherwise would be community property into the separate property of the spouse who earns or acquires the property.

In addition, many community property and common-law property states allow married couples to take joint title in property acquired during marriage. For example, California allows a married couple to take title in a joint tenancy with the right of survivorship. In a joint tenancy, each spouse owns a one-half interest in the property as separate property. This means that each spouse may transfer or sell his/her one-half interest in the property while he/she is alive. However, unlike traditional separate property, a spouse cannot transfer his/her one-half interest to heirs at death. Instead, the surviving spouse automatically receives the decedent spouse’s one-half interest and becomes the full owner of the property. (This is called the “right of survivorship.”) Both spouses must consent to taking property in a joint tenancy in lieu of having the community property laws apply.

California also allows a married couple to take title in the shares as community property with the right of survivorship. This means that the shares are treated like community property while both spouses are alive. However, if one spouse dies, then the other spouse automatically receives the decedent spouse’s one-half interest and becomes the full owner of the shares. In other words, the decedent spouse’s will or trust does not control the disposition of the shares.

If you have the Purchased Shares issued in a form other than those described above, then the transfer will be treated as a “disposition” for tax purposes. This means that the effect, for tax purposes, will be the same as selling the Purchased Shares. Please refer to the attached tax summary for additional information.
**Trusts**

A transfer to a trust generally should not be treated as a “disposition” of the Purchased Shares for tax purposes if the trust satisfies each of the following conditions:

- You are the sole grantor of the trust,
- You are the sole trustee, or you and your spouse are the sole co-trustees,
- The trustee or trustees are not required to distribute the income of the trust to any person other than you and/or your spouse while you are alive, and
- The trust permits you to revoke all or part of the trust and to have the trust’s assets returned to you, without the consent of any other person (including your spouse).

If you have the Purchased Shares issued to a trust that does not meet these requirements, then the transfer will be treated as a “disposition” for tax purposes. This means that the effect, for tax purposes, will be the same as selling the Purchased Shares. Please refer to the attached tax summary for additional information.

If you have the Purchased Shares issued to any trust, you will be required to sign a Stock Transfer Agreement in your capacity as trustee. Under the Stock Transfer Agreement, the Purchased Shares remain subject to the Company’s right of first refusal and may remain subject to the Company’s right of repurchase, all in accordance with the applicable Notice of Stock Option Grant and Stock Option Agreement.

**The Company will not check to determine whether the form of ownership that you elect in your Notice of Stock Option Exercise is appropriate. You should consult your own advisers on this subject. If an inappropriate election is made, the form of ownership may not withstand legal scrutiny or may have adverse tax consequences.**
EXPLANATION OF FEDERAL INCOME TAX CONSEQUENCES AND SECTION 83(b) ELECTION

(Current as of September 2015)

PURPOSE OF THIS EXPLANATION

The purpose of this explanation is to provide you with a brief summary of the tax consequences of exercising your option. For a number of reasons, this explanation is no substitute for personal tax advice:

• To make the explanation short and readable, only the highlights are covered. Some tax rules are not addressed, even though they may be important in particular cases.

• While the summary attempts to deal with the most common situations, your own tax situation may well be different from the norm.

• State and foreign income taxes are not addressed at all, even though they could have a significant impact on your tax planning. Likewise, federal gift and estate taxes and state inheritance taxes are not discussed.

• Tax planning involving incentive stock options is exceedingly complex, in part because of the possible application of the alternative minimum tax.

• The explanation assumes that you are paying the exercise price of your option in cash (or in the form of a full-recourse promissory note with an interest rate that meets IRS requirements). If you are paying the exercise price in the form of stock, you become subject to special rules that are not addressed here.

• This explanation assumes that your option is not subject to section 409A of the Internal Revenue Code. However, the Company cannot be certain that section 409A is inapplicable to your option. (Please refer to the last segment of this summary for more information about section 409A.)

• The tax rules change often, and the Company is not responsible for updating this summary. (Please refer to the date at the top of this page.)

FOR THESE REASONS, THE COMPANY STRONGLY ENCOURAGES YOU TO CONSULT YOUR OWN TAX ADVISER BEFORE EXERCISING YOUR OPTION AND BEFORE MAKING A DECISION ABOUT FILING OR NOT FILING A SECTION 83(b) ELECTION.

EXERCISE OF NSO TO PURCHASE VESTED SHARES

The Notice of Stock Option Grant indicates whether your Purchased Shares are already vested. Vested shares are no longer subject to the Company’s right to repurchase them, although they are still subject to the Company’s right of first refusal. If you know that your Purchased Shares are already vested, there is no need to file a section 83(b) election.
If you are exercising an NSO to purchase vested shares, you will be taxed at the time of exercise. You will recognize ordinary income in an amount equal to the excess of (a) the fair market value of the Purchased Shares on the date of exercise over (b) the exercise price you are paying. If you are an employee or former employee of the Company, this amount is subject to withholding for income and payroll taxes. Your tax basis in the Purchased Shares (to calculate capital gain when you sell the shares) is equal to the sum of the exercise price you paid for the Purchased Shares plus any additional amount you recognized as income on the exercise date.

**Exercise of NSO to Purchase Non-Vested Shares**

If you are exercising an NSO to purchase non-vested shares, and if you do not file a timely election under section 83(b) of the Internal Revenue Code, then you will not be taxed at the time of exercise. Instead, you will be taxed whenever an increment of Purchased Shares vests—in other words, when the Company no longer has the right to repurchase those shares. The Notice of Stock Option Grant indicates when this occurs, generally over a period of several years. Whenever an increment of Purchased Shares vests, you will recognize ordinary income in an amount equal to the excess of (a) the fair market value of those Purchased Shares on the date of vesting over (b) the exercise price you are paying for those Purchased Shares. If you are an employee or former employee of the Company, this amount will be subject to withholding for income and payroll taxes. Your tax basis in the Purchased Shares (to calculate capital gain when you sell the shares) will be equal to the sum of the exercise price you paid for the Purchased Shares plus any additional amount you recognized as income on each vesting date.

If you are exercising an NSO to purchase non-vested shares, and if you file a timely election under section 83(b) of the Internal Revenue Code, then you will be taxed at the time of exercise. You will recognize ordinary income in an amount equal to the excess of (a) the fair market value of the Purchased Shares on the date of exercise over (b) the exercise price you are paying. If you are an employee or former employee of the Company, this amount is subject to withholding for income and payroll taxes. Your tax basis in the Purchased Shares (to calculate capital gain when you sell the shares) is equal to the sum of the exercise price you paid for the Purchased Shares plus any additional amount you recognized as income as a result of filing the section 83(b) election. Even if the fair market value of the Purchased Shares on the date of exercise equals the exercise price (and thus no tax is payable), the section 83(b) election must be made in order to avoid having any subsequent appreciation taxed as ordinary income at the time of vesting.

**You Must File a Section 83(b) Election with the Internal Revenue Service Within 30 Days After the Notice of Stock Option Exercise Is Signed.** The 30-day filing period cannot be extended. If you miss the deadline, you will be taxed as the Purchased Shares vest, based on the value of the shares at that time. (See above.) The form for making the 83(b) election is attached. Additional copies of the form must be filed with the Company and with your tax return for the year in which you make the election.
When you dispose of the Purchased Shares, you will recognize a capital gain equal to the excess of (a) the sale proceeds over (b) your tax basis in the Purchased Shares. If the sale proceeds are less than your tax basis, you will recognize a capital loss. The capital gain or loss will be long-term if you held the Purchased Shares for more than 12 months. The holding period normally starts when you exercise your NSO. In general, the maximum marginal federal income tax rate on long-term capital gains is 20% under current law, but lower long-term capital gain rates may apply to taxpayers in the 15% and 10% marginal federal income tax brackets.

Effective January 1, 2013, as a result of the Health Care and Education Reconciliation Act of 2010, an additional Medicare contribution tax is imposed at a rate of 3.8% on the “net investment income” of individuals with adjusted gross incomes in excess of $200,000 ($250,000 in the case of a joint return, and $125,000 in the case of a married taxpayer filing separately). “Net investment income” includes income from interest, dividends, and capital gains, reduced by the deductions properly allocated to such income.

Depending on the level of your adjusted gross income, the additional Medicare contribution tax may be imposed on any short-term and long-term capital gain income and can increase your marginal tax rate.

**Limit on ISO Treatment**

The Notice of Stock Option Grant indicates whether your option is a nonstatutory stock option (NSO) or an incentive stock option (ISO). The favorable tax treatment for ISOs is limited, regardless of what the Notice of Stock Option Grant indicates. Of the options that become exercisable in any calendar year, only options covering the first $100,000 of stock are eligible for ISO treatment. The excess over $100,000 automatically receives NSO treatment. For this purpose, stock is valued at the time of grant. This means that the value is generally equal to the exercise price.

For example, assume that you hold an option to buy 50,000 shares for $4 per share. Assume further that the entire option is exercisable immediately after the date of grant. (It is irrelevant when the underlying stock vests.) Only the first 25,000 shares qualify for ISO treatment. (25,000 times $4 equals $100,000.) The remaining 25,000 shares will be treated as if they had been acquired by exercising an NSO. This is true regardless of when the option is actually exercised; what matters is when it first could have been exercised.

**Exercise of ISO and ISO Holding Periods**

If you are exercising an ISO, you will not be taxed under the regular tax rules until you dispose of the Purchased Shares. The tax treatment at the time of disposition depends on how long you hold the shares. You will satisfy the ISO holding periods if you hold the Purchased Shares until the later of the following dates:

- More than two years after the ISO was granted, and

---

1 Generally, a “disposition” of shares purchased under an ISO encompasses any transfer of legal title, such as a transfer by sale, exchange or gift. It generally does not include a transfer to your spouse, a transfer into joint ownership with right of survivorship (if you remain one of the joint owners), a pledge, a transfer by bequest or inheritance, or certain tax-free exchanges permitted under the Internal Revenue Code. A transfer to a trust is a “disposition” unless the trust is an eligible revocable trust, as described in the attached explanation.
**Disposition of ISO Shares**

If you dispose of the Purchased Shares after satisfying both of the ISO holding periods, then you will recognize only a long-term capital gain at the time of disposition. The amount of the capital gain is equal to the excess of (a) the sale proceeds over (b) the exercise price. In general, the maximum marginal federal income tax rate on long-term capital gains is 20% under current law, but lower long-term capital gain rates may apply to taxpayers in the 15% and 10% marginal federal income tax brackets.

Effective January 1, 2013, as a result of the Health Care and Education Reconciliation Act of 2010, an additional Medicare contribution tax is imposed at a rate of 3.8% on the “net investment income” of individuals with adjusted gross incomes in excess of $200,000 ($250,000 in the case of a joint return, and $125,000 in the case of a married taxpayer filing separately). “Net investment income” includes income from interest, dividends, and capital gains, reduced by the deductions properly allocated to such income.

If you dispose of the Purchased Shares before either or both of the ISO holding periods are met, then you will recognize ordinary income at the time of disposition. The calculation of the ordinary income amount depends on whether the shares are vested at the time of exercise.

- **Shares Vested.** If the shares are vested at the time of exercise, the amount of ordinary income will be equal to the excess of (a) the fair market value of the Purchased Shares on the date of exercise over (b) the exercise price. But if the disposition is an arm’s length sale to an unrelated party, the amount of ordinary income will not exceed the total gain from the sale. Under current IRS rules, the ordinary income amount will not be subject to withholding for income or payroll taxes. Your tax basis in the Purchased Shares will be equal to the sum of the exercise price you paid for the Purchased Shares plus any additional amount you recognized as ordinary income. Any gain in excess of your basis will be taxed as a capital gain—either long-term or short-term, depending on how long you held the Purchased Shares after the date of exercise.

- **Shares Not Vested.** If the Purchased Shares are not vested at the time of exercise, then the amount of ordinary income will be equal to the excess of (a) the fair market value of the Purchased Shares on the date of vesting over (b) the exercise price. But if the disposition is an arm’s length sale to an unrelated party, the amount of ordinary income will not exceed the total gain from the sale. Under current IRS rules, the ordinary income amount will not be subject to withholding for income or payroll taxes. Your tax basis in the Purchased Shares...
will be equal to the sum of the exercise price you paid for the Purchased Shares plus any additional amount you recognized as ordinary income. Any gain in excess of your basis will be taxed as a capital gain—either long-term or short-term, depending on how long you held the Purchased Shares after the date of vesting. Please note that it makes no difference under the regular tax rules whether or not you filed a section 83(b) election at the time you exercised your ISO. In either case, your regular taxable income is measured as of the time of vesting rather than the time of exercise.

SUMMARY OF ALTERNATIVE MINIMUM TAX

The alternative minimum tax (AMT) must be paid to the extent that it exceeds your regular federal income tax for the year. For 2015, the first $185,400 ($92,700 for a married taxpayer filing a separate return) of your alternative minimum taxable income for the year over the allowable exemption amount (see below) is subject to alternative minimum taxation at the rate of 26%. The balance of your alternative minimum taxable income is subject to alternative minimum taxation at the rate of 28%. The dollar thresholds dividing the 26% and 28% rates are indexed for inflation in future years. Your alternative minimum tax base is equal to your alternative minimum taxable income (AMTI) minus your exemption amount.

- **Alternative Minimum Taxable Income**. Your AMTI is equal to your regular taxable income, subject to certain adjustments and increased by items of tax preference. Among the many adjustments made in computing AMTI are the following:
  - State and local income and property taxes are not allowed as a deduction.
  - Miscellaneous itemized deductions are not allowed.
  - Certain interest deductions are not allowed.
  - The standard deduction and personal exemptions are not allowed.
  - When an ISO is exercised, the spread is added to income for AMT purposes. (See discussion below.)

- **Exemption Amount**. Before AMT is calculated, AMTI is reduced by the exemption amount. Under current law, the exemption amount is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Joint Returns</th>
<th>Single Returns</th>
<th>Separate Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$82,100</td>
<td>$52,800</td>
<td>$41,050</td>
</tr>
<tr>
<td>2015</td>
<td>$83,400</td>
<td>$53,600</td>
<td>$41,700</td>
</tr>
</tbody>
</table>

^2 Amounts are indexed for inflation in future years.
The allowable exemption amount is reduced by $0.25 for each $1.00 by which alternative minimum taxable income for the year exceeds the following amounts:

<table>
<thead>
<tr>
<th>Year</th>
<th>Joint Returns</th>
<th>Single Returns</th>
<th>Separate Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$156,500</td>
<td>$117,300</td>
<td>$78,250</td>
</tr>
<tr>
<td>2015</td>
<td>$158,900</td>
<td>$119,200</td>
<td>$79,450</td>
</tr>
</tbody>
</table>

This means, for example, in 2015, the $83,400 exemption amount is phased out completely for married individuals filing joint returns when their alternative minimum taxable income reaches $492,500 ($83,400 ÷ $0.25) + $158,900).

APPLICATION OF AMT WHEN ISO IS EXERCISED

As noted above, when an ISO is exercised, the spread is included in AMTI at the time of exercise, unless the Purchased Shares are not yet vested at the time of exercise. If the Purchased Shares are not yet vested, the value of the shares minus the exercise price is included in AMTI when the shares vest. However, if you make an election under section 83(b) within 30 days after exercise, then the spread is included in AMTI at the time of exercise. **YOU MUST FILE AN 83(B) ELECTION WITH THE INTERNAL REVENUE SERVICE WITHIN 30 DAYS AFTER THE NOTICE OF STOCK OPTION EXERCISE IS SIGNED.** The 30-day filing period cannot be extended.

A special rule applies if you dispose of the Purchased Shares in the same year in which you exercised the ISO. If the amount you realize on the sale is less than the value of the stock at the time of exercise, then the amount includible in AMTI on account of the ISO exercise is limited to the gain realized on the sale.  

To the extent that your AMT is attributable to the spread on exercising an ISO (and certain other items), you may be able to apply the AMT that you paid as a credit against your income tax liability in future years. But the rules on calculating the available tax credits were amended frequently in recent years and have become extraordinarily complex. On this issue in particular, you must consult your own tax adviser.

When Purchased Shares are sold, your basis for purposes of computing the capital gain or loss under the AMT system is increased by the option spread that exists at the time of exercise. Again, an ISO is treated under the AMT system much like an NSO is treated under the regular tax system. But your basis in the ISO shares for purposes of computing gain or loss under the regular tax system does not reflect any AMT that you pay on the spread at exercise. Therefore, if you pay AMT in the year of the ISO exercise and regular income tax in the year of selling the Purchased Shares, you could pay tax twice on the same gain (except to the extent that you can use the AMT credit described above).

3 Amounts are indexed for inflation in future years.
4 This is similar to the rule that applies under the regular tax system in the event of a disqualifying disposition of ISO stock. The amount of ordinary income that must be recognized in that case generally does not exceed the amount of the gain realized in the disposition.
SECTION 409A OF THE INTERNAL REVENUE CODE

The preceding summary assumes that section 409A of the Internal Revenue Code does not apply to your option. In general, your option is exempt from section 409A if the exercise price per share is at least equal to the fair market value per share of the Company’s Common Stock at the time the option was granted by the Board of Directors. Since shares of Common Stock are not traded on an established securities market, the determination of their fair market value generally is made by the Board of Directors or by an independent appraisal firm retained by the Company. In either case, there is no guarantee that the Internal Revenue Service will agree with the valuation.

If your option were found to be subject to section 409A, then you would be required to recognize ordinary income as early as the year in which the option (or portion thereof) vests. This amount would also be subject to a 20% federal tax in addition to the federal income tax at your usual marginal rate for ordinary income. Additional state income taxes may apply in some states.

DISCLAIMER UNDER IRS CIRCULAR 230

To ensure compliance with requirements imposed by U.S. tax authorities, we inform you that any U.S. tax advice contained in the foregoing summary is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding United States federal, state or local tax penalties, or (ii) promoting, marketing or recommending to another party any matters addressed herein (including any attachments).
The undersigned taxpayer hereby elects, pursuant to Sections 55 and 83(b) of the Internal Revenue Code of 1986, as amended, and pursuant to Treasury Regulations Section 1.83-2, to include in gross income as compensation for services the excess (if any) of the fair market value of the shares described below over an amount paid for those shares.

A. The taxpayer who performed the services is:
   Name: ____________________________
   Address: __________________________
   Social Security No.: __________________________

B. The property with respect to which the election is made is ______ shares of the common stock of Arcus Biosciences, Inc.

C. The property was transferred to the taxpayer on ______.

D. The taxable year for which the election is made is the calendar year ______.

E. The property is subject to a repurchase right pursuant to which the issuer has the right to acquire the property if for any reason taxpayer’s service with the issuer terminates. The issuer’s repurchase right lapses in a series of installments over a ______-year period ending on ______.

F. The fair market value of such property at the time of transfer (determined without regard to any restriction other than a restriction that by its terms will never lapse) is $ ______ per share x ______ shares = $ ______.

G. For the property transferred, the taxpayer paid $ ______ per share x ______ shares = $ ______.

H. The amount to include in gross income is $ ______. [The amount in Item F less the amount in Item G]

I. This statement is executed on ______.

Signature of Spouse (if any) ____________________________ Signature of Taxpayer ____________________________

Within 30 days after the date of transfer of the property, this election must be filed with the Internal Revenue Service office where the taxpayer files his or her annual federal income tax return. The filing should be made by registered or certified mail, return receipt requested. The taxpayer must (a) include a copy of the completed form with his or her federal income tax return for the taxable year in which the property is transferred and (b) deliver an additional copy to the Company.
**NOTICE OF STOCK OPTION EXERCISE (INSTALLMENT EXERCISE)**

You must sign this Notice on Page 3 before submitting it to the Company.

### OPTIONEE INFORMATION:

<table>
<thead>
<tr>
<th>Name:</th>
<th>Social Security Number:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address:</td>
<td>Employee Number:</td>
</tr>
</tbody>
</table>

### OPTION INFORMATION:

Date of Grant: __________, 20__

Exercise Price per Share: $ __________

Type of Stock Option:
- [ ] Nonstatutory (NSO)
- [ ] Incentive (ISO)

Total number of shares of Common Stock of Arcus Biosciences, Inc. (the “Company”) covered by the option: __________

### EXERCISE INFORMATION:

Number of shares of Common Stock of the Company for which the option is being exercised now: __________. (These shares are referred to below as the “Purchased Shares.”)

Total Exercise Price for the Purchased Shares: $ __________

Form of payment enclosed [check all that apply]:
- [ ] Check for $ __________, payable to “Arcus Biosciences, Inc.”
- [ ] Certificate(s) for __________ shares of Common Stock of the Company. These shares will be valued as of the date this notice is received by the Company. [Requires Company consent.]
- [ ] Attestation Form covering __________ shares of Common Stock of the Company. These shares will be valued as of the date this notice is received by the Company. [Requires Company consent.]

Name(s) in which the Purchased Shares should be registered [please review the attached explanation of the available forms of ownership, and then check one box]:
- [ ] In my name only
☐ In the names of my spouse and myself as community property

☐ In the names of my spouse and myself as community property with the right of survivorship

☐ In the names of my spouse and myself as joint tenants with the right of survivorship

☐ In the name of an eligible revocable trust [requires Stock Transfer Agreement] Full legal name of revocable trust:

________________________________________________________________________

________________________________________________________________________

The certificate for the Purchased Shares should be sent to the following address:

________________________________________________________________________

________________________________________________________________________

REPRESENTATIONS AND ACKNOWLEDGEMENTS OF THE OPTIONEE:

1. I represent and warrant to the Company that I am acquiring and will hold the Purchased Shares for investment for my account only, and not with a view to, or for resale in connection with, any “distribution” of the Purchased Shares within the meaning of the Securities Act of 1933, as amended (the “Securities Act”).

2. I understand that my purchase of the Purchased Shares has not been registered under the Securities Act by reason of a specific exemption therefrom and that the Purchased Shares must be held indefinitely, unless they are subsequently registered under the Securities Act or I obtain an opinion of counsel (in form and substance satisfactory to the Company and its counsel) that registration is not required.

3. I acknowledge that the Company is under no obligation to register the Purchased Shares or any sale or transfer thereof.

4. I am aware of Rule 144 under the Securities Act, which permits limited public resales of securities acquired in a non-public offering, subject to the satisfaction of certain conditions. These conditions may include (without limitation) that certain current public information about the issuer be available, that the resale occur only after a holding period required by Rule 144 has been satisfied, that the sale occur through an unsolicited “broker’s transaction” and that the amount of securities being sold during any three-month period not exceed specified limitations. I understand that the conditions for resale set forth in Rule 144 have not been satisfied as of the date set forth below, and that the Company is not required to take action to satisfy any conditions applicable to it.

5. I will not sell, transfer or otherwise dispose of the Purchased Shares in violation of the Securities Act, the Securities Exchange Act of 1934, or the rules promulgated thereunder, including Rule 144 under the Securities Act.

6. I acknowledge that I have received and had access to such information as I consider necessary or appropriate for deciding whether to invest in the Purchased Shares and that I had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the issuance of the Purchased Shares.
7. I am aware that my investment in the Company is a speculative investment that has limited liquidity and is subject to the risk of complete loss. I am able, without impairing my financial condition, to hold the Purchased Shares for an indefinite period and to suffer a complete loss of my investment in the Purchased Shares.

8. I acknowledge that the Purchased Shares remain subject to the Company’s right of first refusal and the market stand-off (sometimes referred to as the “lock-up”), all in accordance with the applicable Notice of Stock Option Grant and Stock Option Agreement.

9. I acknowledge that I am acquiring the Purchased Shares subject to all other terms of the Notice of Stock Option Grant and Stock Option Agreement.

10. I acknowledge that I have received a copy of the Company’s explanation of the forms of ownership available for my Purchased Shares. I acknowledge that the Company has encouraged me to consult my own adviser to determine the form of ownership that is appropriate for me. In the event that I choose to transfer my Purchased Shares to a trust, I agree to sign a Stock Transfer Agreement. In the event that I choose to transfer my Purchased Shares to a trust that does not satisfy the requirements described in the attached explanation (i.e., a trust that is not an eligible revocable trust), I also acknowledge that the transfer will be treated as a “disposition” for tax purposes. As a result, the favorable ISO tax treatment will be unavailable and other unfavorable tax consequences may occur.

11. I acknowledge that I have received a copy of the Company’s explanation of the federal income tax consequences of an option exercise. I acknowledge that the Company has encouraged me to consult my own adviser to determine the tax consequences of acquiring the Purchased Shares at this time.

12. I agree that the Company does not have a duty to design or administer the Amended and Restated 2015 Stock Plan or its other compensation programs in a manner that minimizes my tax liabilities. I will not make any claim against the Company or its Board of Directors, officers or employees related to tax liabilities arising from my options or my other compensation. In particular, I acknowledge that my options are exempt from section 409A of the Internal Revenue Code only if the exercise price per share is at least equal to the fair market value per share of the Company’s Common Stock at the time the option was granted by the Company’s Board of Directors. Since shares of the Company’s Common Stock are not traded on an established securities market, the determination of their fair market value was made by the Company’s Board of Directors or by an independent valuation firm retained by the Company. I acknowledge that there is no guarantee in either case that the Internal Revenue Service will agree with the valuation, and I will not make any claim against the Company or its Board of Directors, officers or employees in the event that the Internal Revenue Service asserts that the valuation was too low.

13. I agree to seek the consent of my spouse to the extent required by the Company to enforce the foregoing.

SIGNATURE: ____________________________

DATE: ____________________________
EXPLANATION OF FORMS OF STOCK OWNERSHIP

PURPOSE OF THIS EXPLANATION

The purpose of this explanation is to provide you with a brief summary of the forms of legal ownership available for the shares that you are purchasing (the “Purchased Shares”). For a number of reasons, this explanation is no substitute for personal legal advice:

• To make the explanation short and readable, only the highlights are covered. Some legal rules are not addressed, even though they may be important in particular cases.
• While the summary attempts to deal with the most common situations, your own situation may well be different from the norm.
• The law may change, and the Company is not responsible for updating this summary.
• The form in which you own your shares may have a substantial impact on the estate tax treatment that applies to those shares when you die or the income tax treatment that applies when your survivors sell the shares after your death.

FOR THESE REASONS, THE COMPANY STRONGLY ENCOURAGES YOU TO CONSULT YOUR OWN ADVISER BEFORE EXERCISING YOUR OPTION AND BEFORE MAKING A DECISION ABOUT THE FORM OF OWNERSHIP FOR YOUR SHARES.

OVERVIEW

The Notice of Stock Option Exercise offers five forms of taking title to the Purchased Shares:

• In your name only,
• In your name and the name of your spouse as community property,
• In your name and the name of your spouse as community property with the right of survivorship,
• In your name and the name of your spouse as joint tenants with the right of survivorship, or
• In the name of an eligible revocable trust.

Title in the Purchased Shares depends upon (a) your marital status, (b) the marital property laws of your state of residence and (c) any agreement with your spouse altering the existing marital property laws of your state of residence. If you are not married, you generally will take title in your name alone. If you are married, title depends upon the marital property laws of your state of residence. In general, states are classified either as “community property” states or as “common-law property” states. (But individual state law may vary within these classifications.)
Community property states include California, Texas, Washington, Arizona, Nevada, New Mexico, Idaho, Louisiana and Wisconsin. In a community property state, property acquired during marriage by either spouse is presumed to be one-half owned by each spouse. All other property is classified as the separate property of the spouse who acquires the property. While either spouse has equal management and control over the community property and may sell, spend or encumber all community property, neither spouse may gift community property or partition his/her one-half interest without the consent of the other spouse. Upon divorce, all community property is divided equally among the spouses and each spouse is entitled to retain all of his/her separate property. Upon the death of a spouse, one-half of the community property (and all of the decedent spouse’s separate property) will pass to the decedent spouse’s heirs. The other one-half of the community property remains the property of the surviving spouse.

Other states are common-law property states. In a common-law property state, each spouse is generally deemed to own whatever he/she earns or acquires.

A married couple may elect to alter the marital property rules by mutually agreeing to take title to property in other forms. For example, a couple residing in a community property state may generally enter into an agreement and transform what otherwise would be community property into the separate property of the spouse who earns or acquires the property.

In addition, many community property and common-law property states allow married couples to take joint title in property acquired during marriage. For example, California allows a married couple to take title in a joint tenancy with the right of survivorship. In a joint tenancy, each spouse owns a one-half interest in the property as separate property. This means that each spouse may transfer or sell his/her one-half interest in the property while he/she is alive. However, unlike traditional separate property, a spouse cannot transfer his/her one-half interest to heirs at death. Instead, the surviving spouse automatically receives the decedent spouse’s one-half interest and becomes the full owner of the property. (This is called the “right of survivorship.”) Both spouses must consent to taking property in a joint tenancy in lieu of having the community property laws apply.

California also allows a married couple to take title in the shares as community property with the right of survivorship. This means that the shares are treated like community property while both spouses are alive. However, if one spouse dies, then the other spouse automatically receives the decedent spouse’s one-half interest and becomes the full owner of the shares. In other words, the decedent spouse’s will or trust does not control the disposition of the shares.

If you have the Purchased Shares issued in a form other than those described above, then the transfer will be treated as a “disposition” for tax purposes. This means that the effect, for tax purposes, will be the same as selling the Purchased Shares. Please refer to the attached tax summary for additional information.
T RUSTS

A transfer to a trust generally should not be treated as a “disposition” of the Purchased Shares for tax purposes if the trust satisfies each of the following conditions:

• You are the sole grantor of the trust,
• You are the sole trustee, or you and your spouse are the sole co-trustees,
• The trustee or trustees are not required to distribute the income of the trust to any person other than you and/or your spouse while you are alive, and
• The trust permits you to revoke all or part of the trust and to have the trust’s assets returned to you, without the consent of any other person (including your spouse).

If you have the Purchased Shares issued to a trust that does not meet these requirements, then the transfer will be treated as a “disposition” for tax purposes. This means that the effect, for tax purposes, will be the same as selling the Purchased Shares. Please refer to the attached tax summary for additional information.

If you have the Purchased Shares issued to any trust, you will be required to sign a Stock Transfer Agreement in your capacity as trustee. Under the Stock Transfer Agreement, the Purchased Shares remain subject to the Company’s right of first refusal in accordance with the applicable Notice of Stock Option Grant and Stock Option Agreement.

EXPLANATION OF U.S. FEDERAL INCOME TAX CONSEQUENCES
(Current as of September 2015)

PURPOSE OF THIS EXPLANATION
The purpose of this explanation is to provide you with a brief summary of the tax consequences of exercising your option. For a number of reasons, this explanation is no substitute for personal tax advice:

• To make the explanation short and readable, only the highlights are covered. Some tax rules are not addressed, even though they may be important in particular cases.
• While the summary attempts to deal with the most common situations, your own tax situation may well be different from the norm.
• State and foreign income taxes are not addressed at all, even though they could have a significant impact on your tax planning. Likewise, federal gift and estate taxes and state inheritance taxes are not discussed.
• Tax planning involving incentive stock options is exceedingly complex, in part because of the possible application of the alternative minimum tax.
• This explanation assumes that your option is not subject to section 409A of the Internal Revenue Code. However, the Company cannot be certain that section 409A is inapplicable to your option. (Please refer to the last segment of this summary for more information about section 409A.)
• The tax rules change often, and the Company is not responsible for updating this summary. (Please refer to the date at the top of this page.)

FOR THESE REASONS, THE COMPANY STRONGLY ENCOURAGES YOU TO CONSULT YOUR OWN TAX ADVISER BEFORE EXERCISING YOUR OPTION.

EXERCISE OF NSO
If you are exercising an NSO, you will be taxed at the time of exercise. You will recognize ordinary income in an amount equal to the excess of (a) the fair market value of the Purchased Shares on the date of exercise over (b) the exercise price you are paying. If you are an employee or former employee of the Company, this amount is subject to withholding for income and payroll taxes. Your tax basis in the Purchased Shares (to calculate capital gain when you sell the shares) is equal to the sum of the exercise price you paid for the Purchased Shares plus any additional amount you recognized as income on the exercise date.
**Disposition of NSO Shares**

When you dispose of the Purchased Shares, you will recognize a capital gain equal to the excess of (a) the sale proceeds over (b) your tax basis in the Purchased Shares. If the sale proceeds are less than your tax basis, you will recognize a capital loss. The capital gain or loss will be long-term if you held the Purchased Shares for more than 12 months. The holding period starts when you exercise your NSO. In general, the maximum marginal federal income tax rate on long-term capital gains is 20% under current law, but lower long-term capital gain rates may apply to taxpayers in the 15% and 10% marginal federal income tax brackets.

Effective January 1, 2013, as a result of the Health Care and Education Reconciliation Act of 2010, an additional Medicare contribution tax is imposed at a rate of 3.8% on the “net investment income” of individuals with adjusted gross incomes in excess of $200,000 ($250,000 in the case of a joint return, and $125,000 in the case of a married taxpayer filing separately). “Net investment income” includes income from interest, dividends, and capital gains, reduced by the deductions properly allocated to such income.

Depending on the level of your adjusted gross income, the additional Medicare contribution tax may be imposed on any short-term and long-term capital gain income and can increase your marginal tax rate.

**Limit on ISO Treatment**

The Notice of Stock Option Grant indicates whether your option is a nonstatutory stock option (NSO) or an incentive stock option (ISO). The favorable tax treatment for ISOs is limited, regardless of what the Notice of Stock Option Grant indicates. Of the options that become exercisable in any calendar year, only options covering the first $100,000 of stock are eligible for ISO treatment. The excess over $100,000 automatically receives NSO treatment. For this purpose, stock is valued at the time of grant. This means that the value is generally equal to the exercise price.

For example, assume that you hold an option to buy 60,000 shares for $8 per share. Assume further that the entire option becomes exercisable in four equal annual installments. Only the first 50,000 shares qualify for ISO treatment. (12,500 times $8 equals $100,000.) The remaining 10,000 shares will be treated as if they had been acquired by exercising an NSO. This is true regardless of when the option is actually exercised; what matters is when it first could have been exercised.
EXERCISE OF ISO AND ISO HOLDING PERIODS

If you are exercising an ISO, you will not be taxed under the regular tax rules until you dispose of the Purchased Shares. (The alternative minimum tax rules are described below.) The tax treatment at the time of disposition depends on how long you hold the shares. You will satisfy the ISO holding periods if you hold the Purchased Shares until the later of the following dates:

• More than two years after the ISO was granted, and
• More than one year after the ISO is exercised.

DISPOSITION OF ISO SHARES

If you dispose of the Purchased Shares after satisfying both of the ISO holding periods, then you will recognize only a long-term capital gain at the time of disposition. The amount of the capital gain is equal to the excess of (a) the sale proceeds over (b) the exercise price. In general, the maximum marginal federal income tax rate on long-term capital gains is 20% under current law, but lower long-term capital gain rates may apply to taxpayers in the 15% and 10% marginal federal income tax brackets.

Effective January 1, 2013, as a result of the Health Care and Education Reconciliation Act of 2010, an additional Medicare contribution tax is imposed at a rate of 3.8% on the “net investment income” of individuals with adjusted gross incomes in excess of $200,000 ($250,000 in the case of a joint return, and $125,000 in the case of a married taxpayer filing separately). “Net investment income” includes income from interest, dividends, and capital gains, reduced by the deductions properly allocated to such income.

If you dispose of the Purchased Shares before either or both of the ISO holding periods are met, then you will recognize ordinary income at the time of disposition. The amount of ordinary income will be equal to the excess of (a) the fair market value of the Purchased Shares on the date of exercise over (b) the exercise price. But if the disposition is an arm’s length sale to an unrelated party, the amount of ordinary income will not exceed the total gain from the sale. Under current IRS rules, the ordinary income amount will not be subject to withholding for income or payroll taxes.

Your tax basis in the Purchased Shares will be equal to the sum of the exercise price you paid for the Purchased Shares plus any additional amount you recognized as ordinary income. Any gain in excess of your basis will be taxed as a capital gain—either long-term or short-term, depending on how long you held the Purchased Shares after the date of exercise.

SUMMARY OF ALTERNATIVE MINIMUM TAX

The alternative minimum tax (AMT) must be paid to the extent that it exceeds your regular federal income tax for the year. For 2015, the first $185,400 ($92,700 for a married taxpayer filing a separate return) of your alternative minimum taxable income for the year over the allowable exemption amount (see below) is subject to alternative minimum taxation at the rate of 26%. The balance of your alternative minimum taxable income is subject to alternative minimum taxation at the rate of 28%. The dollar thresholds dividing the 26% and 28% rates are indexed for inflation in future years. Your alternative minimum tax base is equal to your alternative minimum taxable income (AMTI) minus your exemption amount.

Generally, a “disposition” of shares purchased under an ISO encompasses any transfer of legal title, such as a transfer by sale, exchange or gift. It generally does not include a transfer to your spouse, a transfer into joint ownership with right of survivorship (if you remain one of the joint owners), a pledge, a transfer by bequest or inheritance, or certain tax-free exchanges permitted under the Internal Revenue Code. A transfer to a trust is a “disposition” unless the trust is an eligible revocable trust, as described in the attached explanation.
**Alternative Minimum Taxable Income.** Your AMTI is equal to your regular taxable income, subject to certain adjustments and increased by items of tax preference. Among the many adjustments made in computing AMTI are the following:

- State and local income and property taxes are not allowed as a deduction.
- Miscellaneous itemized deductions are not allowed.
- Certain interest deductions are not allowed.
- The standard deduction and personal exemptions are not allowed.
- When an ISO is exercised, the spread is added to income for AMT purposes. (See discussion below.)

**Exemption Amount.** Before AMT is calculated, AMTI is reduced by the exemption amount. Under current law, the exemption amount is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Joint Returns</th>
<th>Single Returns</th>
<th>Separate Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$82,100</td>
<td>$52,800</td>
<td>$41,050</td>
</tr>
<tr>
<td>2015</td>
<td>$83,400</td>
<td>$53,600</td>
<td>$41,700</td>
</tr>
</tbody>
</table>

The allowable exemption amount is reduced by $0.25 for each $1.00 by which alternative minimum taxable income for the year exceeds the following amounts:

<table>
<thead>
<tr>
<th>Year</th>
<th>Joint Returns</th>
<th>Single Returns</th>
<th>Separate Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$156,500</td>
<td>$117,300</td>
<td>$78,250</td>
</tr>
<tr>
<td>2015</td>
<td>$158,900</td>
<td>$119,200</td>
<td>$79,450</td>
</tr>
</tbody>
</table>

This means, for example, in 2015, the $83,400 exemption amount is phased out completely for married individuals filing joint returns when their alternative minimum taxable income reaches $492,500 ($83,400 ÷ $0.25) + $158,900].

**Application of AMT When ISO is Exercised**

As noted above, when an ISO is exercised, the spread is included in AMTI at the time of exercise.

A special rule applies if you dispose of the Purchased Shares in the same year in which you exercised the ISO. If the amount you realize on the sale is less than the value of the stock at the time of exercise, then the amount includible in AMTI on account of the ISO exercise is limited to the gain realized on the sale. 4

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2 Amounts are indexed for inflation in future years.
3 Amounts are indexed for inflation in future years.
4 This is similar to the rule that applies under the regular tax system in the event of a disqualifying disposition of ISO stock. The amount of ordinary income that must be recognized in that case generally does not exceed the amount of the gain realized in the disposition.
To the extent that your AMT is attributable to the spread on exercising an ISO (and certain other items), you may be able to apply the AMT that you paid as a credit against your income tax liability in future years. But the rules on calculating the available tax credits were amended frequently in recent years and have become extraordinarily complex. On this issue in particular, you must consult your own tax adviser.

When Purchased Shares are sold, your basis for purposes of computing the capital gain or loss under the AMT system is increased by the option spread that exists at the time of exercise. Again, an ISO is treated under the AMT system much like an NSO is treated under the regular tax system. But your basis in the ISO shares for purposes of computing gain or loss under the regular tax system does not reflect any AMT that you pay on the spread at exercise. Therefore, if you pay AMT in the year of the ISO exercise and regular income tax in the year of selling the Purchased Shares, you could pay tax twice on the same gain (except to the extent that you can use the AMT credit described above).

SECTION 409A OF THE INTERNAL REVENUE CODE

The preceding summary assumes that section 409A of the Internal Revenue Code does not apply to your option. In general, your option is exempt from section 409A if the exercise price per share is at least equal to the fair market value per share of the Company’s Common Stock at the time the option was granted by the Board of Directors. Since shares of Common Stock are not traded on an established securities market, the determination of their fair market value generally is made by the Board of Directors or by an independent appraisal firm retained by the Company. In either case, there is no guarantee that the Internal Revenue Service will agree with the valuation.

If your option were found to be subject to section 409A, then you would be required to recognize ordinary income as early as the year in which the option (or portion thereof) vests. This amount would also be subject to a 20% federal tax in addition to the federal income tax at your usual marginal rate for ordinary income. Additional state income taxes may apply in some states.

DISCLAIMER UNDER IRS CIRCULAR 230

To ensure compliance with requirements imposed by U.S. tax authorities, we inform you that any U.S. tax advice contained in the foregoing summary is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding United States federal, state or local tax penalties, or (ii) promoting, marketing or recommending to another party any matters addressed herein (including any attachments).
ARCUS BIOSCIENCES, INC.

2018 EQUITY INCENTIVE PLAN

(AS ADOPTED EFFECTIVE AS OF THE DATE OF THE INITIAL PUBLIC OFFERING)
ARTICLE 1. INTRODUCTION.

The Board adopted the Plan to become effective immediately, although no Awards may be granted prior to the IPO Date. The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Service Providers to focus on critical long-range corporate objectives, (b) encouraging the attraction and retention of Service Providers with exceptional qualifications and (c) linking Service Providers directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of Options (which may be ISOs or NSOs), SARs, Restricted Shares and Restricted Stock Units. Capitalized terms used in this Plan are defined in Article 14.

ARTICLE 2. ADMINISTRATION.

2.1 General. The Plan may be administered by the Board or one or more Committees. Each Committee shall comply with rules and regulations applicable to it, including under the rules of any exchange on which the Common Shares are traded, and shall have the authority and be responsible for such functions as have been assigned to it.

2.2 Section 16. To the extent desirable to qualify transactions hereunder as exempt under Exchange Act Rule 16b-3, the transactions contemplated hereunder will be approved by the entire Board or a Committee of two or more “non-employee directors” within the meaning of Exchange Act Rule 16b-3.

2.3 Powers of Administrator. Subject to the terms of the Plan, and in the case of a Committee, subject to the specific duties delegated to the Committee, the Administrator shall have the authority to (a) select the Service Providers who are to receive Awards under the Plan, (b) determine the type, number, vesting requirements and other features and conditions of such Awards, (c) determine whether and to what extent any Performance Goals have been attained, (d) interpret the Plan and Awards granted under the Plan, (e) make, amend and rescind rules relating to the Plan and Awards granted under the Plan, including rules relating to sub-plans established for the purposes of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws, (f) impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant of any Common Shares issued pursuant to an Award, including restrictions under an insider trading policy and restrictions as to the use of a specified brokerage firm for such resales, and (g) make all other decisions relating to the operation of the Plan and Awards granted under the Plan. In addition, with regard to the terms and conditions of Awards granted to Service Providers outside of the United States, the Administrator may vary from the provisions of the Plan to the extent it determines it necessary and appropriate to do so.

2.4 Effect of Administrator’s Decisions. The Administrator’s decisions, determinations and interpretations shall be final and binding on all interested parties.
2.5 Governing Law. The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice-of-law provisions).

ARTICLE 3. SHARES AVAILABLE FOR GRANTS.

3.1 Basic Limitation. Common Shares issued pursuant to the Plan may be authorized but unissued shares or treasury shares. The aggregate number of Common Shares issued under the Plan shall not exceed the sum of (a) 3,570,000 (1) Common Shares, (b) any Common Shares subject to outstanding awards under the Predecessor Plan on the IPO Date that subsequently are forfeited, expire or lapse unexercised and Common Shares issued pursuant to awards granted under the Predecessor Plan that are outstanding on the IPO Date and that are subsequently forfeited to or repurchased by the Company, (c) the number of Common Shares reserved under the Predecessor Plan that are not issued or subject to outstanding awards under the Predecessor Plan and (d) the additional Common Shares described in Articles 3.2 and 3.3; provided, however, that no more than 3,066,870 Common Shares, in the aggregate, shall be added to the Plan pursuant to clauses (b) and (c). The number of Common Shares that are subject to Stock Awards outstanding at any time under the Plan may not exceed the number of Common Shares that then remain available for issuance under the Plan. The numerical limitations in this Article 3.1 shall be subject to adjustment pursuant to Article 9.

3.2 Annual Increase in Shares. On the first day of each fiscal year of the Company during the term of the Plan, commencing in 2019 and ending in (and including) 2028, the aggregate number of Common Shares that may be issued under the Plan shall automatically increase by a number equal to the lesser of (a) 4% of the total number of Common Shares actually issued and outstanding on the last day of the preceding fiscal year, (b) 3,570,000 of Common Shares (subject to adjustment pursuant to Article 9.1 below), or (c) a number of Common Shares determined by the Board. Notwithstanding the foregoing, the Board retains the right in its sole discretion to forego an increase for any fiscal year following an annual review by the Board of the share reserve of the Plan.

3.3 Shares Returned to Reserve. To the extent that Options, SARs or Restricted Stock Units are forfeited, cancelled or expire for any reason before being exercised or settled in full, the Common Shares subject to such Options, SARs or Restricted Stock Units shall again become available for issuance under the Plan. If SARs are exercised or Restricted Stock Units are settled, then only the number of Common Shares (if any) actually issued to the Participant upon exercise of such SARs or settlement of such Restricted Stock Units, as applicable, shall reduce the number of Common Shares available under Article 3.1 and the balance shall again become available for issuance under the Plan. If Restricted Shares or Common Shares issued upon the exercise of Options are reacquired by the Company pursuant to a forfeiture provision, repurchase right or for any other reason, then such Common Shares shall again become available for issuance under the Plan. Common Shares applied to pay the Exercise Price of Options or to satisfy tax withholding obligations related to any Award shall again become available for issuance under the Plan. To the extent that an Award is settled in cash rather than Common Shares, the cash settlement shall not reduce the number of Shares available for issuance under the Plan.

(1) all share numbers reflect the 1-for-3.96 reverse split that became effective in March 2018.
3.4 Awards Not Reducing Share Reserve. To the extent permitted under applicable stock exchange listing standards, any dividend equivalents paid or credited under the Plan with respect to Restricted Stock Units shall not be applied against the number of Common Shares that may be issued under the Plan, whether or not such dividend equivalents are converted into Restricted Stock Units. In addition, Common Shares subject to Substitute Awards granted by the Company shall not reduce the number of Common Shares that may be issued under Article 3.1, nor shall shares subject to Substitute Awards again be available for Awards under the Plan in the event of any forfeiture, expiration or cash settlement of such Substitute Awards.

3.5 Code Section 422. Subject to adjustment in accordance with Article 9:

(a) No more than 6,636,870 Common Shares may be issued under the Plan upon the exercise of ISOs.

ARTICLE 4. ELIGIBILITY.

4.1 Incentive Stock Options. Only Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, an Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any of its Parents or Subsidiaries shall not be eligible for the grant of an ISO unless the additional requirements set forth in Code Section 422(c)(5) are satisfied.

4.2 Other Awards. Awards other than ISOs may only be granted to Service Providers.

ARTICLE 5. OPTIONS.

5.1 Stock Option Agreement. Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The Stock Option Agreement shall specify whether the Option is intended to be an ISO or an NSO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

5.2 Number of Shares. Each Stock Option Agreement shall specify the number of Common Shares subject to the Option, which number shall adjust in accordance with Article 9.

5.3 Exercise Price. Each Stock Option Agreement shall specify the Exercise Price, which shall be such price as is determined by the Administrator in its discretion; provided, however, that unless an Option is intended to comply with Code Section 409A (and not, for the avoidance of doubt, be exempt from Code Section 409A), the Exercise Price of any Option granted to a Participant subject to taxation in the United States shall not be less than 100% of the Fair Market Value of a Common Share on the date of grant; provided, further, that the preceding clause shall not apply to an Option that is a Substitute Award granted in a manner that would satisfy the requirements of Code Section 409A and, if applicable, Code Section 424(a).
5.4 Exercisability and Term. Each Stock Option Agreement shall specify the date or event when all or any installment of the Option is to become vested and/or exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that, except to the extent necessary to comply with applicable foreign law, the term of an Option shall in no event exceed 10 years from the date of grant. A Stock Option Agreement may provide for accelerated vesting and/or exercisability upon certain specified events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee’s Service.

5.5 Death of Optionee. After an Optionee’s death, any vested and exercisable Options held by such Optionee may be exercised by his or her beneficiary or beneficiaries. Each Optionee may designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Optionee’s death. If no beneficiary was designated or if no designated beneficiary survives the Optionee, then any vested and exercisable Options held by the Optionee may be exercised by his or her estate.

5.6 Modification or Assumption of Options. Within the limitations of the Plan, the Administrator may modify, reprice, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new Options for the same or a different number of shares and at the same or a different exercise price or in return for the grant of a different type of Award. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, impair his or her rights or obligations under such Option.

5.7 Buyout Provisions. The Administrator may at any time (a) offer to buy out for a payment in cash or cash equivalents an Option previously granted or (b) authorize an Optionee to elect to cash out an Option previously granted, in either case at such time and based upon such terms and conditions as the Administrator shall establish.

5.8 Payment for Option Shares. The entire Exercise Price of Common Shares issued upon exercise of Options shall be payable in cash or cash equivalents at the time when such Common Shares are purchased. In addition, the Administrator may, in its sole discretion and to the extent permitted by applicable law, accept payment of all or a portion of the Exercise Price through any one or a combination of the following forms or methods:

(a) Subject to any conditions or limitations established by the Administrator, by surrendering, or attesting to the ownership of, Common Shares that are already owned by the Optionee with a value on the date of surrender equal to the aggregate exercise price of the Common Shares as to which such Option will be exercised;

(b) By delivering (on a form prescribed by the Company) an irrevocable direction to a securities broker approved by the Company to sell all or part of the Common Shares being purchased under the Plan and to deliver all or part of the sales proceeds to the Company;

(c) Subject to such conditions and requirements as the Administrator may impose from time to time, through a net exercise procedure; or
ARTICLE 6. STOCK APPRECIATION RIGHTS.

6.1 SAR Agreement. Each grant of a SAR under the Plan shall be evidenced by a SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical.

6.2 Number of Shares. Each SAR Agreement shall specify the number of Common Shares to which the SAR pertains, which number shall adjust in accordance with Article 9.

6.3 Exercise Price. Each SAR Agreement shall specify the Exercise Price, which shall in no event be less than 100% of the Fair Market Value of a Common Share on the date of grant. The preceding sentence shall not apply to a SAR that is a Substitute Award granted in a manner that would satisfy the requirements of Code Section 409A.

6.4 Exercisability and Term. Each SAR Agreement shall specify the date when all or any installment of the SAR is to become vested and exercisable. The SAR Agreement shall also specify the term of the SAR; provided that except to the extent necessary to comply with applicable foreign law, the term of a SAR shall not exceed 10 years from the date of grant. A SAR Agreement may provide for accelerated vesting and exercisability upon certain specified events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee’s Service.

6.5 Exercise of SARs. Upon exercise of a SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (a) Common Shares, (b) cash or (c) a combination of Common Shares and cash, as the Administrator shall determine. The amount of cash and/or the Fair Market Value of Common Shares received upon exercise of SARs shall, in the aggregate, not exceed the amount by which the Fair Market Value (on the date of surrender) of the Common Shares subject to the SARs exceeds the Exercise Price. If, on the date when a SAR expires, the Exercise Price is less than the Fair Market Value on such date but any portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such portion. A SAR Agreement may also provide for an automatic exercise of the SAR on an earlier date.

6.6 Death of Optionee. After an Optionee’s death, any vested and exercisable SARs held by such Optionee may be exercised by his or her beneficiary or beneficiaries. Each Optionee may designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Optionee’s death. If no beneficiary was designated or if no designated beneficiary survives the Optionee, then any vested and exercisable SARs held by the Optionee at the time of his or her death may be exercised by his or her estate.

6.7 Modification or Assumption of SARs. Within the limitations of the Plan, the Administrator may modify, reprice, extend or assume outstanding SARs or may accept the cancellation of outstanding SARs (whether granted by the Company or by another issuer) in return for the grant of new SARs for the same or a different number of shares and at the same or a different exercise price or in return for the grant of a different type of Award. The foregoing notwithstanding, no modification of a SAR shall, without the consent of the Optionee, impair his or her rights or obligations under such SAR.
ARTICLE 7. RESTRICTED SHARES.

7.1 Restricted Stock Agreement. Each grant of Restricted Shares under the Plan shall be evidenced by a Restricted Stock Agreement between the recipient and the Company. Such Restricted Shares shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Restricted Stock Agreements entered into under the Plan need not be identical.

7.2 Payment for Awards. Restricted Shares may be sold or awarded under the Plan for such consideration as the Administrator may determine, including (without limitation) cash, cash equivalents, property, cancellation of other equity awards, promissory notes, past services and future services, and such other methods of payment as are permitted by applicable law.

7.3 Vesting Conditions. Each Award of Restricted Shares may or may not be subject to vesting and/or other conditions as the Administrator may determine. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. Such conditions, at the Administrator’s discretion, may include one or more Performance Goals. A Restricted Stock Agreement may provide for accelerated vesting upon certain specified events.

7.4 Voting and Dividend Rights. The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company’s other stockholders, unless the Administrator otherwise provides. A Restricted Stock Agreement, however, may require that any cash dividends paid on Restricted Shares (a) be accumulated and paid when such Restricted Shares vest, or (b) be invested in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the shares subject to the Stock Award with respect to which the dividends were paid. In addition, unless the Administrator provides otherwise, if any dividends or other distributions are paid in Common Shares, such Common Shares shall be subject to the same restrictions on transferability and forfeitability as the Restricted Shares with respect to which they were paid.

7.5 Modification or Assumption of Restricted Shares. Within the limitations of the Plan, the Administrator may modify or assume outstanding Restricted Shares or may accept the cancellation of outstanding restricted shares (whether granted by the Company or by another issuer) in return for the grant of new Restricted Shares for the same or a different number of shares or in return for the grant of a different type of Award. The foregoing notwithstanding, no modification of Restricted Shares shall, without the consent of the Participant, impair his or her rights or obligations under such Restricted Shares.

ARTICLE 8. RESTRICTED STOCK UNITS.

8.1 Restricted Stock Unit Agreement. Each grant of Restricted Stock Units under the Plan shall be evidenced by a Restricted Stock Unit Agreement between the recipient and the Company. Such Restricted Stock Units shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Restricted Stock Unit Agreements entered into under the Plan need not be identical.
8.2 Payment for Awards. To the extent that an Award is granted in the form of Restricted Stock Units, no cash consideration shall be required of the Award recipients.

8.3 Vesting Conditions. Each Award of Restricted Stock Units may or may not be subject to vesting, as determined by the Administrator. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Unit Agreement. Such conditions, at the Administrator’s discretion, may include one or more Performance Goals. A Restricted Stock Unit Agreement may provide for accelerated vesting upon certain specified events.

8.4 Vesting and Dividend Rights. The holders of Restricted Stock Units shall have no voting rights. Prior to settlement or forfeiture, Restricted Stock Units awarded under the Plan may, at the Administrator’s discretion, provide for a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Common Share while the Restricted Stock Unit is outstanding. Dividend equivalents may be converted into additional Restricted Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Common Shares, or in a combination of both. Prior to distribution, any dividend equivalents shall be subject to the same conditions and restrictions as the Restricted Stock Units to which they attach.

8.5 Form and Time of Settlement of Restricted Stock Units. Settlement of vested Restricted Stock Units may be made in the form of (a) cash, (b) Common Shares or (c) any combination of both, as determined by the Administrator. The actual number of Restricted Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors, including Performance Goals. Methods of converting Restricted Stock Units into cash may include (without limitation) a method based on the average value of Common Shares over a series of trading days. Vested Restricted Stock Units shall be settled in such manner and at such time(s) as specified in the Restricted Stock Unit Agreement. Until an Award of Restricted Stock Units is settled, the number of such Restricted Stock Units shall be subject to adjustment pursuant to Article 9.

8.6 Death of Recipient. Any Restricted Stock Units that become payable after the recipient’s death shall be distributed to the recipient’s beneficiary or beneficiaries. Each recipient of Restricted Stock Units under the Plan may designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient’s death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Restricted Stock Units that become payable after the recipient’s death shall be distributed to the recipient’s estate.

8.7 Modification or Assumption of Restricted Stock Units. Within the limitations of the Plan, the Administrator may modify or assume outstanding restricted stock units or may accept the cancellation of outstanding restricted stock units (whether granted by the Company or by another issuer) in return for the grant of new Restricted Stock Units for the same or a different number of shares or in return for the grant of a different type of Award. The foregoing notwithstanding, no modification of a Restricted Stock Unit shall, without the consent of the Participant, impair his or her rights or obligations under such Restricted Stock Unit.
8.8 Creditors’ Rights. A holder of Restricted Stock Units shall have no rights other than those of a general creditor of the Company. Restricted Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Restricted Stock Unit Agreement.

ARTICLE 9. ADJUSTMENTS; DISSOLUTIONS AND LIQUIDATIONS; CORPORATE TRANSACTIONS.

9.1 Adjustments. In the event of a subdivision of the outstanding Common Shares, a declaration of a dividend payable in Common Shares, a combination or consolidation of the outstanding Common Shares (by reclassification or otherwise) into a lesser number of Common Shares or any other increase or decrease in the number of issued Common Shares effected without receipt of consideration by the Company, proportionate adjustments shall be made to the following:

(a) The number and kind of shares available for issuance under Article 3, including the numerical share limits in Articles 3.1, 3.2(c) and 3.5(b);

(b) The number and kind of shares covered by each outstanding Option, SAR, Restricted Stock Unit and any outstanding and unexercised Award of Restricted Shares; and/or

(c) The Exercise Price applicable to each outstanding Option and SAR, and the repurchase price, if any, applicable to Restricted Shares.

In the event of a declaration of an extraordinary dividend payable in a form other than Common Shares in an amount that has a material effect on the price of Common Shares, a recapitalization, a spin-off or a similar occurrence, the Administrator may make such adjustments as it, in its sole discretion, deems appropriate to the foregoing. Any adjustment in the number of shares subject to an Award under this Article 9.1 shall be rounded down to the nearest whole share, although the Administrator in its sole discretion may make a cash payment in lieu of a fractional share. Except as provided in this Article 9, a Participant shall have no rights by reason of any issuance by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

9.2 Dissolution or Liquidation. To the extent not previously exercised or settled, Options, SARs and Restricted Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

9.3 Corporate Transactions. In the event that the Company is a party to a merger, consolidation, or a Change in Control (other than one described in Article 14.6(d)), all Common Shares acquired under the Plan and all Stock Awards outstanding on the effective date of the transaction shall be treated in the manner described in the definitive transaction agreement (or, in the event the transaction does not entail a definitive agreement to which the Company is party, in the manner determined by the Administrator, with such determination having final and binding effect on all parties), which agreement or determination need not treat all Stock Awards (or portions thereof) in an identical manner. Unless an Award Agreement provides otherwise, the treatment specified in the transaction agreement or by the Administrator may include (without limitation) one or more of the following with respect to each outstanding Stock Award:
(a) The continuation of such outstanding Stock Award by the Company (if the Company is the surviving entity);

(b) The assumption of such outstanding Stock Award by the surviving entity or its parent, provided that the assumption of an Option or a SAR shall comply with applicable tax requirements;

(c) The substitution by the surviving entity or its parent of an equivalent award for such outstanding Stock Award (including, but not limited to, an award to acquire the same consideration paid to the holders of Common Shares in the transaction), provided that the substitution of an Option or a SAR shall comply with applicable tax requirements;

(d) In the case of an Option or SAR, the cancellation of such Stock Award without payment of any consideration. An Optionee shall be able to exercise his or her outstanding Option or SAR, to the extent such Option or SAR is then vested or becomes vested as of the effective time of the transaction, during a period of not less than five full business days preceding the closing date of the transaction, unless (i) a shorter period is required to permit a timely closing of the transaction and (ii) such shorter period still offers the Optionee a reasonable opportunity to exercise such Option or SAR. Any exercise of such Option or SAR during such period may be contingent on the closing of the transaction;

(e) The cancellation of such Stock Award and a payment to the Participant with respect to each share subject to the portion of the Stock Award that is vested or becomes vested as of the effective time of the transaction equal to the excess of (A) the value, as determined by the Administrator in its absolute discretion, of the property (including cash) received by the holder of a Common Share as a result of the transaction, over (if applicable) (B) the per-share Exercise Price of such Stock Award (such excess, if any, the “Spread”). Such payment shall be made in the form of cash, cash equivalents, or securities of the surviving entity or its parent having a value equal to the Spread. In addition, any escrow, holdback, earn-out or similar provisions in the transaction agreement may apply to such payment to the same extent and in the same manner as such provisions apply to the holders of Common Shares, but only to the extent the application of such provisions does not adversely affect the status of the Award as exempt from Code Section 409A. If the Spread applicable to a Stock Award (whether or not vested) is zero or a negative number, then the Stock Award may be cancelled without making a payment to the Participant. In the event that a Stock Award is subject to Code Section 409A, the payment described in this clause (e) shall be made on the settlement date specified in the applicable Award Agreement, provided that settlement may be accelerated in accordance with Treasury Regulation Section 1.409A-3(j)(4); or

(f) The assignment of any reacquisition or repurchase rights held by the Company in respect of an Award of Restricted Shares to the surviving entity or its parent, with corresponding proportionate adjustments made to the price per share to be paid upon exercise of any such reacquisition or repurchase rights.
Unless an Award Agreement provides otherwise, each outstanding Stock Award held by a Participant who remains a Service Provider as of the effective time of a merger, consolidation or Change in Control (other than one described in Article 14.6(d)) (a “Current Participant”) shall become fully vested (in the case of a Stock Award subject to one or more Performance Goals at deemed attainment at 100% of target levels) and, if applicable, exercisable immediately prior to the effective time of the transaction. However the prior sentence shall not apply, and an outstanding Stock Award shall not become vested and, if applicable, exercisable, if and to the extent the Stock Award is continued, assumed or substituted as provided for in clauses (a), (b) or (c) above. In addition, the prior two sentences will not apply to a Stock Award held by a Participant who is not a Current Participant, unless an Award Agreement provides otherwise or unless the Company and the acquirer, purchaser or successor entity (as applicable) agree otherwise.

For avoidance of doubt, the Administrator shall have the discretion, exercisable either at the time a Stock Award is granted or at any time while the Stock Award remains outstanding, to provide for the acceleration of vesting upon the occurrence of a Change in Control, whether or not the Stock Award is to be assumed or replaced in the transaction, or in connection with a termination of the Participant’s Service following a transaction. Furthermore, no modification or substitution of an Award shall, without the consent of the Participant, impair the Participant’s rights or increase the Participant’s obligations under such Award.

Any action taken under this Article 9.3 shall either preserve a Stock Award’s status as exempt from Code Section 409A or comply with Code Section 409A.

ARTICLE 10. OTHER AWARDS.

Subject in all events to the limitations under Article 3 above as to the number of Common Shares available for issuance under this Plan, the Company may grant other forms of equity-based awards not specifically described herein and may grant awards under other plans or programs, where such awards are settled in the form of Common Shares issued under this Plan. Such Common Shares shall be treated for all purposes under the Plan like Common Shares issued in settlement of Restricted Stock Units and shall, when issued, reduce the number of Common Shares available under Article 3.

ARTICLE 11. LIMITATION ON RIGHTS.

11.1 Retention Rights. Neither the Plan nor any Award granted under the Plan shall be deemed to change the at-will nature of an individual’s relationship with the Company or give any individual a right to remain a Service Provider. The Company and its Parents, Subsidiaries and Affiliates reserve the right to terminate the Service of any Service Provider at any time, with or without cause, subject to applicable laws, the Company’s certificate of incorporation and by-laws and a written employment agreement (if any).

11.2 Stockholders’ Rights. Except as set forth in Article 7.4 or 8.4 above, a Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Shares covered by his or her Award prior to the time when a stock certificate for such Common Shares is issued or, if applicable, the time when he or she becomes entitled to receive such Common Shares by filing any required notice of exercise and paying any required Exercise Price. No adjustment shall be made for cash dividends or other rights for which the record date is prior to such time, except as expressly provided in the Plan.
11.3 Regulatory Requirements. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Common Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Common Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Common Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed necessary by the Company’s counsel to be necessary to the lawful issuance and sale of any Common Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Common Shares as to which such requisite authority will not have been obtained.

11.4 Transferability of Awards. The Administrator may, in its sole discretion, permit transfer of an Award in a manner consistent with applicable law. Unless otherwise determined by the Administrator, Awards shall be transferable by a Participant only by (a) beneficiary designation, (b) a will or (c) the laws of descent and distribution; provided that, in any event, an ISO may only be transferred by will or by the laws of descent and distribution and may be exercised during the lifetime of the Optionee only by the Optionee or by the Optionee’s guardian or legal representative.

11.5 Other Conditions and Restrictions on Common Shares. Any Common Shares issued under the Plan shall be subject to such forfeiture conditions, rights of repurchase, rights of first refusal, other transfer restrictions and such other terms and conditions as the Administrator may determine. Such conditions and restrictions shall be set forth in the applicable Award Agreement and shall apply in addition to any restrictions that may apply to holders of Common Shares generally. In addition, Common Shares issued under the Plan shall be subject to such conditions and restrictions imposed either by applicable law or by Company policy, as adopted from time to time, designed to ensure compliance with applicable law or laws with which the Company determines in its sole discretion to comply including in order to maintain any statutory, regulatory or tax advantage. All Awards granted under the Plan, all amounts paid under the Plan and all Common Shares issued under the Plan shall be subject to recoupment in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and any implementing regulations and/or listing standards thereunder, any compensation recovery policy adopted by the Company or as otherwise required by applicable law.

ARTICLE 12. TAXES.

12.1 General. It is a condition to each Award under the Plan that a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any federal, state, local or foreign withholding tax obligations that arise in connection with any Award granted under the Plan. The Company shall not be required to issue any Common Shares or make any cash payment under the Plan unless such obligations are satisfied.

12.2 Share Withholding. To the extent that applicable law subjects a Participant to tax withholding obligations, the Administrator may permit such Participant to satisfy all or part of such obligations by having the Company withhold all or a portion of any Common Shares that
otherwise would be issued to him or her or by surrendering all or a portion of any Common Shares that he or she previously acquired. Such Common Shares shall be valued on the date when they are withheld or surrendered. Any payment of taxes by assigning Common Shares to the Company may be subject to restrictions including any restrictions required by SEC, accounting or other rules.

12.3 Section 409A Matters. Except as otherwise expressly set forth in an Award Agreement, it is intended that Awards granted under the Plan either be exempt from, or comply with, the requirements of Code Section 409A. To the extent an Award is subject to Code Section 409A (a “409A Award”), the terms of the Plan, the Award and any written agreement governing the Award shall be interpreted to comply with the requirements of Code Section 409A so that the Award is not subject to additional tax or interest under Code Section 409A, unless the Administrator expressly provides otherwise. A 409A Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order for it to comply with the requirements of Code Section 409A. In this regard, if any amount under a 409A Award is payable upon a “separation from service” to an individual who is considered a “specified employee” (as each term is defined under Code Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the Participant’s separation from service or (ii) the Participant’s death, but only to the extent such delay is necessary to prevent such payment from being subject to Code Section 409A(a)(1).

12.4 Limitation on Liability. Neither the Company nor any person serving as Administrator shall have any liability to a Participant in the event an Award held by the Participant fails to achieve its intended characterization under applicable tax law.

ARTICLE 13. FUTURE OF THE PLAN.

13.1 Term of the Plan. The Plan, as set forth herein, shall become effective on the date of its adoption by the Board, subject to approval of the Company’s stockholders under Article 13.3 below. The Plan shall terminate automatically 10 years after the date when the Board adopted the Plan.

13.2 Amendment or Termination. The Board may, at any time and for any reason, amend or terminate the Plan. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan, or any amendment thereof, shall not affect any Award previously granted under the Plan.

13.3 Stockholder Approval. To the extent required by applicable law, the Plan will be subject to the approval of the Company’s stockholders within 12 months of its adoption date. An amendment of the Plan shall be subject to the approval of the Company’s stockholders only to the extent required by applicable laws, regulations or rules.

ARTICLE 14. DEFINITIONS.

14.1 “Administrator” means the Board or any Committee administering the Plan in accordance with Article 2.

14.2 “Affiliate” means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.
14.3 “Award” means any award granted under the Plan, including as an Option, a SAR, a Restricted Share or a Restricted Stock Unit.

14.4 “Award Agreement” means a Stock Option Agreement, a SAR Agreement, a Restricted Stock Agreement, a Restricted Stock Unit Agreement or such other agreement evidencing an Award granted under the Plan.

14.5 “Board” means the Company’s Board of Directors, as constituted from time to time and, where the context so requires, reference to the “Board” may refer to a Committee to whom the Board has delegated authority to administer any aspect of this Plan.

14.6 “Change in Control” means:

(a) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then-outstanding voting securities;

(b) The consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets;

(c) The consummation of a merger or consolidation of the Company with or into any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation; or

(d) Individuals who are members of the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the members of the Board over a period of 12 months; provided, however, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of this Plan, be considered as a member of the Incumbent Board.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company’s incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company’s securities immediately before such transaction. In addition, if a Change in Control constitutes a payment event with respect to any Award which provides for a deferral of compensation and is subject to Code Section 409A, then notwithstanding anything to the contrary in the Plan or applicable Award Agreement the transaction with respect to such Award must also constitute a “change in control event” as defined in Treasury Regulation Section 1.409A-3(i)(5) to the extent required by Code Section 409A.


14.8 “Committee” means a committee of one or more members of the Board, or of other individuals satisfying applicable laws, appointed by the Board to administer the Plan.
14.9 “Common Share” means one share of the common stock of the Company.


14.11 “Consultant” means a consultant or adviser who provides bona fide services to the Company, a Parent, a Subsidiary or an Affiliate as an independent contractor and who qualifies as a consultant or advisor under Instruction A.1.(a)(1) of Form S-8 under the Securities Act.

14.12 “Employee” means a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.


14.14 “Exercise Price,” in the case of an Option, means the amount for which one Common Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. “Exercise Price,” in the case of a SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of one Common Share in determining the amount payable upon exercise of such SAR.

14.15 “Fair Market Value” means the closing price of a Common Share on any established stock exchange or a national market system on the applicable date or, if the applicable date is not a trading day, on the last trading day prior to the applicable date, as reported in a source that the Administrator deems reliable. If Common Shares are not traded on an established stock exchange or a national market system, the Fair Market Value shall be determined by the Administrator in good faith on such basis as it deems appropriate. The Administrator’s determination shall be conclusive and binding on all persons.

14.16 “IPO Date” means the effective date of the registration statement filed by the Company with the Securities and Exchange Commission for its initial offering of the Common Shares to the public.

14.17 “ISO” means an incentive stock option described in Code Section 422(b).

14.18 “NSO” means a stock option not described in Code Sections 422 or 423.

14.19 “Option” means an ISO or NSO granted under the Plan and entitling the holder to purchase Common Shares.

14.20 “Optionee” means an individual or estate holding an Option or SAR.

14.21 “Outside Director” means a member of the Board who is not an Employee.

14.22 “Parent” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.
14.23 “Participant” means an individual or estate holding an Award.

14.24 “Performance Goal” means a goal established by the Administrator for the applicable Performance Period. Depending on the performance criteria used, a Performance Goal may be expressed in terms of overall Company performance or the performance of a business unit, division, product line, Subsidiary, Affiliate or an individual. A Performance Goal may be measured either in absolute terms or relative to the performance of one or more comparable companies or one or more relevant indices or other external measures of the selected performance criteria. In addition, a Performance Goal may be measured on an absolute or per-share basis, a GAAP or non-GAAP basis, in terms of growth or percentage change, or on a pre-tax or post-tax basis (if applicable). The Administrator may adjust the results under any performance criterion to exclude any of the following events that occurs during a Performance Period: (a) asset write-downs, (b) litigation, claims, judgments or settlements, (c) the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results, (d) accruals for reorganization and restructuring programs, (e) extraordinary, unusual or non-recurring items, (f) exchange rate effects for non-U.S. dollar denominated net sales and operating earnings, or (g) statutory adjustments to corporate tax rates.

14.25 “Performance Period” means a period of time selected by the Administrator over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to an Award that vests based on the achievement of Performance Goals. Performance Periods may be of varying and overlapping duration, at the discretion of the Administrator.

14.26 “Plan” means this Arcus Biosciences, Inc. 2018 Equity Incentive Plan, as amended from time to time.

14.27 “Predecessor Plan” means the Company’s Amended and Restated 2015 Stock Plan, as amended.

14.28 “Restricted Share” means a Common Share awarded under the Plan.

14.29 “Restricted Stock Agreement” means the agreement between the Company and the recipient of a Restricted Share that contains the terms, conditions and restrictions pertaining to such Restricted Share.

14.30 “Restricted Stock Unit” means a bookkeeping entry representing the equivalent of one Common Share, as awarded under the Plan.

14.31 “Restricted Stock Unit Agreement” means the agreement between the Company and the recipient of a Restricted Stock Unit that contains the terms, conditions and restrictions pertaining to such Restricted Stock Unit.

14.32 “SAR” means a stock appreciation right granted under the Plan.

14.33 “SAR Agreement” means the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to his or her SAR.
14.34 “Securities Act” means the Securities Act of 1933, as amended.

14.35 “Service” means service as an Employee, Outside Director or Consultant.

14.36 “Service Provider” means any individual who is an Employee, Outside Director or Consultant.

14.37 “Stock Award” means any equity-based award granted under the Plan, including an Option, a SAR, a Restricted Share or a Restricted Stock Unit.

14.38 “Stock Option Agreement” means the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to his or her Option.

14.39 “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

14.40 “Substitute Awards” means Awards or Common Shares issued by the Company in assumption of, or substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a corporation acquired by the Company or any Affiliate or with which the Company or any Affiliate combines to the extent permitted by NYSE Listed Company Manual Section 303A.08 or any successor thereto.
You have been granted the following option to purchase shares of the common stock of Arcus Biosciences, Inc. (the “Company”):

Name of Optionee: «Name»
Total Number of Shares: «TotalShares»
Type of Option:
   «ISO» Incentive Stock Option (ISO)
   «NSO» Nonstatutory Stock Option (NSO)
Exercise Price per Share: «PricePerShare»
Date of Grant: «DateGrant»
Vesting Commencement Date: «VestDay»
Vesting Schedule: This option vests and becomes exercisable with respect to 1/48th of the shares subject to this option when you complete each month of continuous service as an Employee or Consultant (“Service”) after the Vesting Commencement Date. In addition, this option may become vested and exercisable on an accelerated basis, as provided in the Stock Option Agreement.
Expiration Date: «ExpDate». This option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement, and may terminate earlier in connection with certain corporate transactions as described in Article 9 of the Plan.

You and the Company agree that this option is granted under and governed by the terms and conditions of the Company’s 2018 Equity Incentive Plan (the “Plan”) and the Stock Option Agreement, both of which are attached to, and made a part of, this document. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Plan and the Stock Option Agreement.

The Company may, in its sole discretion, decide to deliver any documents related to options awarded under the Plan, future options that may be awarded under the Plan and all other documents that the Company is required to deliver to security holders (including annual reports and proxy statements) by email or other electronic means (including by posting them on a website maintained by the Company or a third party under contract with the Company). You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.
**Grant of Option**

Subject to all of the terms and conditions set forth in the Notice of Stock Option Grant (the “Grant Notice”), this Stock Option Agreement (the “Agreement”) and the Plan, the Company has granted you an option to purchase up to the total number of shares specified in the Grant Notice at the exercise price indicated in the Grant Notice.

All capitalized terms used in this Agreement shall have the meanings assigned to them in this Agreement, the Grant Notice or the Plan.

**Tax Treatment**

This option is intended to be an incentive stock option under Section 422 of the Code or a nonstatutory stock option, as provided in the Grant Notice. However, even if this option is designated as an incentive stock option in the Grant Notice, it shall be deemed to be a nonstatutory stock option to the extent it does not qualify as an incentive stock option under federal tax law, including under the $100,000 annual limitation under Section 422(d) of the Code.

**Vesting**

This option vests and becomes exercisable in accordance with the vesting schedule set forth in the Grant Notice. In addition, this option shall vest and become exercisable in full if the Company is subject to certain corporate transactions before your Service terminates and this option is not continued, assumed or substituted with a new award as set forth in Article 9.3 of the Plan.

Further, this option shall vest and become exercisable in full if the Company is subject to a Change in Control (as defined below) before your Service terminates, and you are subject to an Involuntary Termination (as defined below) within 12 months following such Change in Control, subject to your execution and nonrevocation of a general release of claims against the Company and certain related parties, in the form provided by the Company. You must execute and return the release on or before the date specified by the Company, which will in no event be later than 50 days after your Service terminates. If you fail to return the release by the deadline or if you revoke the release, you will not be entitled to the vesting acceleration described in this paragraph.

Notwithstanding the foregoing, if you are, or become, eligible for more favorable vesting acceleration provisions pursuant to a written agreement with the Company (an “Outside Agreement”), the more favorable terms in such Outside Agreement shall apply instead of the acceleration terms in this Agreement.
No additional shares will vest or become exercisable after your Service has terminated for any reason, except as set forth in this Agreement or such Outside Agreement, to the extent you are eligible for benefits thereunder.

**Term of Option**

This option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Grant, as shown in the Grant Notice. (This option will expire earlier if your Service terminates earlier, as described below, and this option may be terminated earlier as provided in Article 9 of the Plan.)

**Termination of Service**

If your Service terminates for any reason, this option will expire to the extent it is unvested as of your termination date and does not vest as a result of your termination of Service. The Company determines when your Service terminates for all purposes of this option.

If your Service terminates, except for Cause or due to your death or Disability, then this option, to the extent vested as of your termination date, will expire at the close of business at Company headquarters on the date three months after your termination date.

**Termination of Service Due to Cause**

If your Service terminates due to Cause, then this option, to the extent vested as of your termination date, will terminate immediately and be of no further force and effect.

**Death**

If you die before your Service terminates, then this option, to the extent vested as of your termination date, will expire at the close of business at Company headquarters on the date twelve months after the date of death.

**Disability**

If your Service terminates because of your Disability, then this option, to the extent vested as of your termination date, will expire at the close of business at Company headquarters on the date 6 months after your termination date.

For all purposes under this Agreement, “Disability” means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.

**Leaves of Absence and Part-Time Work**

For purposes of this option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing. However, your Service terminates when the approved leave ends, unless you immediately return to active work.
If you go on an unpaid leave of absence that lasts more than 30 days, then, to the extent permitted by applicable law, the vesting schedule specified in the Grant Notice will be suspended on the thirty-first day of such unpaid leave, and this option will not vest or become exercisable with respect to any additional shares during the remainder of such leave. Vesting will resume when you return to active Service. If you go on a paid leave of absence, the vesting schedule specified in the Notice of Stock Option Grant may be adjusted and/or suspended by the Company.

If you commence working on a part-time basis, the Company may adjust the vesting schedule so that the rate of vesting is commensurate with your reduced work schedule.

Restrictions on Exercise
The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

Notice of Exercise
When you wish to exercise this option, you must notify the Company by filing the proper “Notice of Exercise” form at the address given on the form or, if the Company has designated a third party to administer the Plan, you must notify such third party in the manner such third party requires. Your notice must specify how many shares you wish to purchase. The notice will be effective when the Company receives it.

However, if you wish to exercise this option by executing a same-day sale (as described below), you must follow the instructions of the Company and the broker who will execute the sale.

If someone else wants to exercise this option after your death, that person must prove to the Company’s satisfaction that he or she is entitled to do so.

You may only exercise your option for whole shares.

Form of Payment
When you submit your notice of exercise, you must make arrangements for the payment of the option exercise price for the shares that you are purchasing. To the extent permitted by applicable law, payment may be made in one (or a combination of two or more) of the following forms:

- By delivering to the Company your personal check, a cashier’s check or a money order, or arranging for a wire transfer.
- By giving to a securities broker approved by the Company irrevocable directions to sell all or part of your option shares and to deliver to the Company, from the sale proceeds, an amount sufficient to pay the option exercise price and any withholding taxes. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given in accordance with the instructions of the Company and the broker. This exercise method is sometimes called a “same-day sale.”

Withholding Taxes
Regardless of any action the Company (or, if applicable, the Parent, Subsidiary or Affiliate employing or retaining you (the “Employer”)) takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to the participation in
the Plan and legally applicable to you (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company and/or the Employer. You further acknowledge that the Company and the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the options, including, but not limited to, the grant, vesting or exercise of the option, the issuance of shares upon exercise of the option, the subsequent sale of shares acquired pursuant to such exercise and the receipt of any dividends and/or any dividend equivalents; and (2) do not commit to and are under no obligation to structure the terms of the option or any aspect of the option to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you are subject to tax in more than one jurisdiction, you acknowledge that the Company and/or the Employer may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

You will not be allowed to exercise this option unless you make arrangements acceptable to the Company and/or the Employer to pay any Tax-Related Items that the Company and/or the Employer determine must be withheld. These arrangements include payment in cash or via the same-day sale procedure described above. With the Company’s consent, these arrangements may also include (a) withholding shares of Company stock that otherwise would be issued to you when you exercise this option with a value equal to withholding taxes, (b) surrendering shares that you previously acquired with a value equal to the withholding taxes, or (c) withholding cash from other compensation. The value of withheld or surrendered shares, determined as of the date when taxes otherwise would have been withheld in cash, will be applied to the Tax-Related Items.

### Restrictions on Resale

You agree not to sell any option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify. You further agree to comply with the Company’s Insider Trading Policy when selling shares of the Company’s common stock.

### Transfer of Option

Prior to your death, only you may exercise this option. You cannot transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will or by means of a written beneficiary designation which must be filed with the Company on the proper form; provided, however, that your beneficiary or a representative of your estate acknowledges and agrees in writing in a form reasonably acceptable to the Company, to be bound by the provisions of this Agreement and the Plan as if such beneficiary or representative of the estate were you.
Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse’s interest in your option in any other way.

No Retention Rights
You understand that neither this option nor this Agreement alters the at-will nature of your relationship with the Company. Your option or this Agreement does not give you the right to be retained by the Company, a Parent, Subsidiary, or an Affiliate in any capacity. The Company and its Parents, Subsidiaries, and Affiliates reserve the right to terminate your Service at any time, with or without cause.

Stockholder Rights
You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this option by giving the required notice to the Company, paying the exercise price, and satisfying any applicable withholding taxes. No adjustments are made for dividends or other rights if the applicable record date occurs before you exercise this option, except as described in the Plan.

Recoupment Policy
This option, and the shares acquired upon exercise of this option, shall be subject to any Company recoupment or clawback policy in effect from time to time.

Adjustments
In the event of a stock split, a stock dividend or a similar change in Company stock, the number of shares covered by this option and the exercise price per share will be adjusted pursuant to the Plan.

Effect of Significant Corporate Transactions
If the Company is a party to a merger, consolidation, or certain change in control transactions, then this option will be subject to the applicable provisions of Article 9 of the Plan; provided that no modification or substitution of this option shall, without your consent, impair your rights or increase your obligations under such option.

Applicable Law
This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its choice-of-law provisions).

The Plan and Other Agreements
The text of the Plan is incorporated in this Agreement by reference.

The Plan, this Agreement and the Grant Notice constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only by another written agreement between the parties.
Definitions

For purposes of this Agreement, “Cause” shall mean your (a) unauthorized use or disclosure of the Company’s confidential information or trade secrets, which use or disclosure causes material harm to the Company, (b) material breach of any agreement with the Company, (c) material failure to comply with the Company’s written policies or rules, (d) conviction of, or plea of “guilty” or “no contest” to, a felony under the laws of the United States or any State, (e) gross negligence or willful misconduct, (f) continuing failure to perform assigned duties after receiving written notification of the failure from the Company or its Board of Directors or (g) failure to cooperate in good faith with a governmental or internal investigation of the Company or its directors, officers or employees, if the Company has requested such cooperation.

For purposes of this Agreement, “Change in Control” shall mean (a) a sale, conveyance or other disposition of all or substantially all of the assets, property or business of the Company, except where such sale, conveyance or other disposition is to a wholly owned subsidiary of the Company, (b) a merger or consolidation of the Company with or into another corporation, entity or person, other than any such transaction in which the holders of voting capital stock of the Company outstanding immediately prior to the transaction continue to hold a majority of the voting capital stock of the Company (or the surviving or acquiring entity) outstanding immediately after the transaction (taking into account only stock of the Company held by such stockholders immediately prior to the transaction and stock issued on account of such stock in the transaction), or (c) the direct or indirect acquisition (including by way of a tender or exchange offer) by any person, or persons acting as a group, of beneficial ownership or a right to acquire beneficial ownership of shares representing a majority of the voting power of the then outstanding shares of capital stock of the Company; provided, however, that a Change in Control shall not include any transaction or series of related transactions (1) principally for bona fide equity financing purposes or (2) effected exclusively for the purpose of changing the domicile of the Company. A series of related transactions shall be deemed to constitute a single transaction for purposes of determining whether a Change in Control has occurred. In addition, if a Change in Control constitutes a payment event with respect to any amount that is subject to Code Section 409A, then the transaction must also constitute a “change in control event” as defined in Treasury Regulation Section 1.409A-3(i)(5) to the extent required by Code Section 409A.

For purposes of this Agreement, “Involuntary Termination” shall mean either your (a) Termination Without Cause or (b) Resignation for Good Reason.

For purposes of this Agreement, “Resignation for Good Reason” shall mean a Separation (as defined below) as a result of your resignation within 12 months after one of the following conditions has come into existence without your consent: (a) a reduction in your base salary by more than 10%, other than a general reduction in base salary that is part of a cost-


reduction program that affects all similarly situated employees in substantially the same proportions, (b) a relocation of your principal workplace by more than 25 miles from its location prior to the Change in Control and, with respect only to employees at the vice-president level or above, (c) a material reduction of responsibilities, authority, or duties, provided that neither a mere change in title alone nor reassignment following a Change in Control to a position that is similar to the position held prior to the Change in Control shall constitute a material reduction in job responsibilities. A Resignation for Good Reason will not be deemed to have occurred unless you give the Company written notice of the condition within 90 days after the condition comes into existence and the Company fails to remedy the condition within 30 days after receiving such written notice.

For purposes of this Agreement, “Termination Without Cause” shall mean a Separation as a result of the termination of Service by the Company without Cause, provided you are willing and able to continue performing services within the meaning of Treasury Regulation 1.409A-1(n)(1).

For purposes of this Agreement, “Separation” shall mean a “separation from service,” as defined in the regulations under Section 409A of the Code.

BY ACCEPTING THIS OPTION GRANT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.
<table>
<thead>
<tr>
<th>Name of Recipient:</th>
<th>«Name»</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of RSUs Granted:</td>
<td>«TotalRSUs»</td>
</tr>
<tr>
<td>Date of Grant:</td>
<td>«DateGrant»</td>
</tr>
<tr>
<td>Vesting Schedule:</td>
<td>[1/16 th of the RSUs subject to this award will vest on the final day of each three-month period following «Vesting Commencement Date»], provided that you remain in continuous service as an Employee or Consultant (“Service”) through each such date. In addition, the RSUs may become vested on an accelerated basis, as provided in theRestricted Stock Unit Agreement.</td>
</tr>
</tbody>
</table>

You and the Company agree that these RSUs are granted under and governed by the terms and conditions of the Company’s 2018 Equity Incentive Plan (the “Plan”) and the Restricted Stock Unit Agreement, both of which are attached to, and made a part of, this document. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Plan and the Restricted Stock Unit Agreement.

The Company may, in its sole discretion, decide to deliver any documents related to RSUs awarded under the Plan, future RSUs that may be awarded under the Plan and all other documents that the Company is required to deliver to security holders (including annual reports and proxy statements) by email or other electronic means (including posting them on a website maintained by the Company or a third party under contract with the Company). You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.
Grant of RSUs
Subject to all of the terms and conditions set forth in the Notice of Restricted Stock Unit Award (the “Grant Notice”), this Restricted Stock Unit Agreement (the “Agreement”) and the Plan, the Company has granted to you the number of RSUs set forth in the Grant Notice.

All capitalized terms used in this Agreement shall have the meanings assigned to them in this Agreement, the Grant Notice or the Plan.

Nature of RSUs
Your RSUs are bookkeeping entries. They represent only the Company’s unfunded and unsecured promise to issue shares of common stock on a future date. As a holder of RSUs, you have no rights other than the rights of a general creditor of the Company.

Payment for RSUs
No payment is required for the RSUs that you are receiving.

Vesting
The RSUs vest in accordance with the vesting schedule set forth in the Grant Notice.
In addition, the RSUs shall vest in full if the Company is subject to certain corporate transactions before your Service terminates and the RSUs are not continued, assumed or substituted with a new award as set forth in Article 9.3 of the Plan.

In addition, these RSUs shall vest in full if the Company is subject to a Change in Control (as defined below) before your Service terminates, and you are subject to an Involuntary Termination (as defined below) within 12 months following such Change in Control, subject to your execution and nonrevocation of a general release of claims against the Company and certain related parties, in the form provided by the Company. You must execute and return the release on or before the date specified by the Company, which will in no event be later than 50 days after your Service terminates. If you fail to return the release by the deadline or if you revoke the release, you will not be entitled to the vesting acceleration described in this paragraph.

Notwithstanding the foregoing, if you are, or become, eligible for more favorable vesting acceleration provisions pursuant to a written agreement with the Company (an “Outside Agreement”), the more favorable terms in such Outside Agreement shall apply instead of the acceleration terms in this Agreement.
Forfeiture

If your Service terminates for any reason, then your RSUs will be forfeited to the extent that they have not vested before the termination date and do not vest as a result of the termination of your Service. This means that any RSUs that have not vested under this Agreement will be cancelled immediately. You receive no payment for RSUs that are forfeited. The Company determines when your Service terminates for all purposes of your RSUs.

Leaves of Absence and Part-Time Work

For purposes of these RSUs, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing. However, your Service terminates when the approved leave ends, unless you immediately return to active work.

If you go on an unpaid leave of absence that lasts more than 30 days, then, to the extent permitted by applicable law, the vesting schedule specified in the Grant Notice will be suspended on the thirty-first day of such unpaid leave, and this award will not vest with respect to any additional RSUs during the remainder of such leave. Vesting will resume when you return to active Service. If you go on a paid leave of absence, the vesting schedule specified in the Grant Notice may be adjusted and/or suspended by the Company.

If you commence working on a part-time basis, the Company may adjust the vesting schedule so that the rate of vesting is commensurate with your reduced work schedule.

Settlement of RSUs

Each RSU will be settled when it vests (unless you and the Company have agreed in writing to a later settlement date pursuant to procedures the Company may prescribe at its discretion).

At the time of settlement, you will receive one share of the Company’s common stock for each vested RSU.

No fractional shares will be issued upon settlement.

Section 409A

Unless you and the Company have agreed to a deferred settlement date (pursuant to procedures that the Company may prescribe at its discretion), settlement of these restricted stock units is intended to be exempt from the application of Code Section 409A pursuant to Treasury Regulation 1.409A-1(b)(4) and shall be administered and interpreted in a manner that complies with such exception.
Notwithstanding the foregoing, if it is determined that settlement of these RSUs is not exempt from Code Section 409A and the Company determines that you are a “specified employee,” as defined in the regulations under Code Section 409A at the time of your “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h), then this paragraph will apply. If this paragraph applies, and the event triggering settlement is your “separation from service,” then any RSUs that otherwise would have been settled during the first six months following your “separation from service” will instead be settled on the first business day following the earlier of (i) the six-month anniversary of your separation from service or (ii) your death.

Each installment of RSUs that vests is hereby designated as a separate payment for purposes of Code Section 409A.

**No Voting Rights or Dividends**

Your RSUs carry neither voting rights nor rights to cash dividends. You have no rights as a stockholder of the Company unless and until your RSUs are settled by issuing shares of the Company’s common stock.

**RSUs Nontransferable**

You may not sell, transfer, assign, pledge or otherwise dispose of any RSUs. For instance, you may not use your RSUs as security for a loan. In addition, regardless of any marital property settlement agreement, the Company is not obligated to recognize your former spouse’s interest in your RSUs in any way.

**Beneficiary Designation**

You may dispose of your RSUs in a written beneficiary designation. A beneficiary designation must be filed with the Company on the proper form. It will be recognized only if it has been received at the Company’s headquarters before your death. If you file no beneficiary designation or if none of your designated beneficiaries survives you, then your estate will receive any vested RSUs that you hold at the time of your death.

**Withholding Taxes**

Regardless of any action the Company (or, if applicable, the Parent, Subsidiary or Affiliate employing or retaining you (the “Employer”) takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to the participation in the Plan and legally applicable to you (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company and/or the Employer. You further acknowledge that the Company and the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the RSUs, including, but not limited to, the grant or vesting of
the RSUs, the issuance of shares upon vesting of the RSUs, the subsequent sale of shares acquired pursuant to such vesting and the receipt of any dividends and/or any dividend equivalents; and (2) do not commit to and are under no obligation to structure the terms of the RSUs or any aspect of the RSUs to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you are subject to tax in more than one jurisdiction, you acknowledge that the Company and/or the Employer may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

No shares will be distributed to you unless you have made arrangements satisfactory to the Company and/or the Employer for the payment of any Tax-Related Items that the Company and/or the Employer determine must be withheld. In this regard, you authorize the Company, at its sole discretion, to satisfy your Tax-Related Items by one or a combination of the following:

- Withholding the amount of any Tax-Related Items from your wages or other cash compensation paid to you by the Company and/or the Employer.

- Instructing a brokerage firm selected by the Company for this purpose to sell on your behalf a number of whole shares of Company stock to be issued to you when the RSUs are settled that the Company determines are appropriate to generate cash proceeds sufficient to satisfy the Tax-Related Items. You acknowledge that the Company or its designee is under no obligation to arrange for such sale at any particular price. Regardless of whether the Company arranges for such sale, you will be responsible for all fees and other costs of sale, and you agree to indemnify and hold the Company harmless from any losses, costs, damages or expenses relating to any such sale.

- Withholding shares of Company stock that would otherwise be issued to you when the RSUs are settled equal in value to the Tax-Related Items. The fair market value of the withheld shares, determined as of the date when taxes otherwise would have been withheld in cash, will be applied to the Tax-Related Items.

- Any other means approved by the Company.

You agree to pay to the Company in cash any amount of Tax-Related Items that the Company does not elect to satisfy by the means described above. To the extent you fail to make satisfactory arrangements for the payment of any required withholding taxes, you will permanently forfeit the applicable RSUs.
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<td>If the Company is a party to a merger, consolidation, or certain change in control transactions, then your RSUs will be subject to the applicable provisions of Article 9 of the Plan, provided that any action taken must either (a) preserve the exemption of your RSUs from Code Section 409A or (b) comply with Code Section 409A.</td>
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<td>The text of the Plan is incorporated in this Agreement by reference. The Plan, this Agreement and the Grant Notice constitute the entire understanding between you and the Company regarding this award. Any prior agreements, commitments or negotiations concerning this award are superseded. This Agreement may be amended only by another written agreement between the parties.</td>
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For purposes of this Agreement, “Change in Control” shall mean (a) a sale, conveyance or other disposition of all or substantially all of the assets, property or business of the Company, except where such sale, conveyance or other disposition is to a wholly owned subsidiary of the Company, (b) a merger or consolidation of the Company with or into another corporation, entity or person, other than any such transaction in which the holders of voting capital stock of the Company outstanding immediately prior to the transaction continue to hold a majority of the voting capital stock of the Company (or the surviving or acquiring entity) outstanding immediately after the transaction (taking into account only stock of the Company held by such stockholders immediately prior to the transaction and stock issued on account of such stock in the transaction), or (c) the direct or indirect acquisition (including by way of a tender or exchange offer) by any person, or persons acting as a group, of beneficial ownership or a right to acquire beneficial ownership of shares representing a majority of the voting power of the then outstanding shares of capital stock of the Company; provided, however, that a Change in Control shall not include any transaction or series of related transactions (1) principally for bona fide equity financing purposes or (2) effected exclusively for the purpose of changing the domicile of the Company. A series of related transactions shall be deemed to constitute a single transaction for purposes of determining whether a Change in Control has occurred. In addition, if a Change in Control constitutes a payment event with respect to any amount that is subject to Code Section 409A, then the transaction must also constitute a “change in control event” as defined in Treasury Regulation Section 1.409A-3(i)(5) to the extent required by Code Section 409A.

For purposes of this Agreement, “Involuntary Termination” shall mean either your (a) Termination Without Cause or (b) Resignation for Good Reason.
For purposes of this Agreement, “Resignation for Good Reason” shall mean a Separation (as defined below) as a result of your resignation within 12 months after one of the following conditions has come into existence without your consent: (a) a reduction in your base salary by more than 10%, other than a general reduction in base salary that is part of a cost-reduction program that affects all similarly situated employees in substantially the same proportions, (b) a relocation of your principal workplace by more than 25 miles from its location prior to the Change in Control and, with respect only to employees at the vice-president level or above, (c) a material reduction of responsibilities, authority, or duties, provided that neither a mere change in title alone nor reassignment following a Change in Control to a position that is similar to the position held prior to the Change in Control shall constitute a material reduction in job responsibilities. A Resignation for Good Reason will not be deemed to have occurred unless you give the Company written notice of the condition within 90 days after the condition comes into existence and the Company fails to remedy the condition within 30 days after receiving such written notice.

For purposes of this Agreement, “Termination Without Cause” shall mean a Separation as a result of the termination of Service by the Company without Cause, provided you are willing and able to continue performing services within the meaning of Treasury Regulation 1.409A-1(n)(1).

For purposes of this Agreement, “Separation” shall mean a “separation from service,” as defined in the regulations under Section 409A of the Code.

BY ACCEPTING THIS RSU AWARD, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.
2018 EMPLOYEE STOCK PURCHASE PLAN

(ADOPTED EFFECTIVE AS OF THE DATE OF THE INITIAL PUBLIC OFFERING)
SECTION 1. PURPOSE OF THE PLAN.

The Board adopted the Plan effective as of the IPO Date. The purpose of the Plan is to provide Eligible Employees with an opportunity to increase their proprietary interest in the success of the Company by purchasing Stock from the Company on favorable terms and to pay for such purchases through payroll deductions or other approved contributions.

SECTION 2. ADMINISTRATION OF THE PLAN.

(a) General. The Plan may be administered by the Board or one or more Committees. Each Committee shall comply with rules and regulations applicable to it, including under the rules of any exchange on which the Stock is traded, and shall have the authority and be responsible for such functions as have been assigned to it.

(b) Powers of the Administrator. Subject to the terms of the Plan, and in the case of a Committee, subject to the specific duties delegated to the Committee, the Administrator shall interpret the Plan and make all other policy decisions relating to the operation of the Plan. The Administrator may adopt such rules, guidelines and forms as it deems appropriate to implement the Plan.

(c) Effects of Administrator’s Decisions. The Administrator’s decisions, determinations and interpretations shall be final and binding on all interested parties.

(d) Governing Law. The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice of law provisions).

SECTION 3. STOCK OFFERED UNDER THE PLAN.

(a) Authorized Shares. The number of shares of Stock available for purchase under the Plan shall be 714,000 shares of the Company’s Stock (subject to adjustment pursuant to Subsection (c) below), plus the additional shares described in Subsection (b) below. Shares of Stock issued pursuant to the Plan may be authorized but unissued shares or treasury shares.

(b) Annual Increase in Shares. As of the first day of each fiscal year of the Company during the term of the Plan, commencing in 2019 and ending in (and including) 2038, the aggregate number of shares of Stock that may be issued under the Plan shall automatically increase by a number equal to the least of (i) 1% of the total number of shares of Stock actually issued and outstanding on the last day of the preceding fiscal year, (ii) 1,071,000 shares of Stock (subject to adjustment pursuant to Subsection (c) below), or (iii) a number of shares of Stock determined by the Board.
Anti-Dilution Adjustments. In the event that any dividend or other distribution (whether in the form of cash, stock or other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, reclassification, repurchase, or exchange of Stock or other securities of the Company, or other similar change in the corporate structure of the Company affecting the Stock and effected without receipt or payment of consideration by the Company occurs, then in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, there will be a proportionate adjustment of the number and class of Stock that may be delivered under the Plan, the Purchase Price per share and the number of shares and class of Stock covered by each option under the Plan which has not yet been exercised, and the numerical limits of Sections 3(a), 3(b)(ii) and 9(c).

Reorganizations. In the event of a Corporate Reorganization, any Offering Period then in progress may be continued, assumed or substituted by the surviving entity or its parent. If such acquirer refuses to continue, assume or substitute for any such Offering Period, then a new Purchase Date shall be set prior to the effective time of the Corporate Reorganization, the Participants’ accumulated contributions will be applied to purchase Stock on such date, and any such Offering Periods shall terminate immediately after such purchase. In the event a new Purchase Date is set under this Section 3(d), Participants will be given notice of the new Purchase Date. The Plan shall in no event be construed to restrict in any way the Company’s right to undertake a dissolution, liquidation, merger, consolidation or other reorganization.

SECTION 4. ENROLLMENT AND PARTICIPATION.

(a) Offering Periods and Purchase Periods.

(i) Initial Offering Period and Base Offering Periods. Unless changed by the Administrator, the initial Offering Period (the “Initial Offering Period”) shall begin on the IPO Date and end on May 31, 2020 and shall consist of four consecutive Purchase Periods as follows:

a) beginning on the IPO Date and ending on November 30, 2018;

b) beginning on December 1, 2018, and ending on May 31, 2019;

c) beginning on June 1, 2019, and ending on November 30, 2019; and

d) beginning on December 1, 2019, and ending on May 31, 2020.

Following commencement of the Initial Offering Period, unless changed by the Administrator, a new Offering Period of 24 months’ duration shall begin on each June 1 and December 1 and end on the May 31 or November 30, as applicable, in the second calendar year after the start of such Offering Period (each, a “Base Offering Period”). Each Base
Offering Period shall consist of four consecutive Purchase Periods, each of 6 months’ duration, commencing on each June 1 and December 1 in the Base Offering Period and ending on the earlier of the next November 30 or May 31, as applicable. Notwithstanding the foregoing, the Administrator may determine that the first Base Offering Period applicable to the Eligible Employees of a new Participating Company shall commence on any other date specified by the Administrator. The Administrator may change the frequency and duration of the Base Offering Periods as deemed appropriate from time to time; provided that a Base Offering Period shall in no event be longer than 27 months (or such other period as may be imposed under applicable tax law). The Initial Offering Period and Base Offering Periods are intended to qualify under Code Section 423.

(ii) **Additional Offering Periods.** At the discretion of the Administrator, additional Offering Periods (the “**Additional Offering Periods**”) may be conducted under the Plan or, if necessary or advisable, in the sole discretion of the Administrator, under a separate sub-plan or sub-plans permitting grants to Eligible Employees of certain Participating Companies (each, a “**Sub-Plan**”). Such Additional Offering Periods will be designed to achieve desired tax objectives in particular locations outside the United States or to comply with local laws applicable to offerings in such foreign jurisdictions and may, but need not, qualify under Code Section 423. The Administrator shall determine the commencement and duration of each Additional Offering Period, and Additional Offering Periods may be consecutive or overlapping. The other terms and conditions of each Additional Offering Period shall be those set forth in this Plan document or in the applicable Sub-Plan, with such changes or additional features as the Administrator determines necessary to comply with local law. Each Sub-Plan shall be considered a separate plan from the Plan (the “**Statutory Plan**”). The total number of Shares authorized to be issued under the Plan as provided in Section 3 above applies in the aggregate to both the Statutory Plan and any Sub-Plan. Unless otherwise superseded by the terms of such Sub-Plan, the provisions of this Plan document shall govern the operation of such Sub-Plan.

(iii) **Separate Offerings.** The Initial Offering Period, each Base Offering Period and each Additional Offering Period conducted under the Plan or any Sub-Plan is intended to constitute a separate “offering” for purposes of Code Section 423.

(iv) **Equal Rights and Privileges.** To the extent an Offering Period is intended to qualify under Code Section 423, all participants in such Offering Period shall have the same rights and privileges with respect to their participation in such Offering Period in accordance with Code Section 423 and the regulations thereunder except for differences that may be mandated by local law and are consistent with the requirements of Code Section 423(b)(5).
(b) **Enrollment at IPO**. Each individual who qualifies as an Eligible Employee on the IPO Date shall automatically become a Participant on such day, and shall be considered to have been granted an option to participate in the Initial Offering Period under the Plan at the maximum applicable participation rate. To maintain participation in the Initial Offering Period, each Participant who was automatically enrolled on the IPO Date must file the prescribed enrollment form with the Company. The enrollment form shall be filed at the prescribed location by a date specified by the Company, but in no event later than 10 business days after the IPO Date. If a Participant who was automatically enrolled on the IPO Date fails to file such form in a timely manner, then such Participant shall be deemed to have withdrawn from the Plan under Section 6(a).

(c) **Enrollment After IPO**. In the case of any individual who qualifies as an Eligible Employee on the first day of any Offering Period other than the Initial Offering Period, he or she may elect to become a Participant on such day by filing the prescribed enrollment form with the Company. The enrollment form shall be filed at the prescribed location by a date specified by the Company, but in no event later than 10 business days (or such other period as the Administrator may designate) prior to such day.

(d) **Duration of Participation**. Once enrolled in the Plan, a Participant shall continue to participate in the Plan until he or she:

(i) Reaches the end of the Offering Period or Purchase Period, as applicable, in which his or her employee contributions were discontinued under Section 5(c) or 9(b);

(ii) Is deemed to withdraw from the Plan under Subsection (b) above;

(iii) Withdraws from the Plan under Section 6(a); or

(iv) Ceases to be an Eligible Employee.

A Participant whose employee contributions were discontinued automatically under Section 9(b) shall automatically resume participation as described therein. In all other cases, a former Participant may again become a Participant, if he or she then is an Eligible Employee, by following the procedure described in Subsection (c) above.

(e) **Applicable Offering Period**. For purposes of calculating the Purchase Price under Section 8(b), the applicable Offering Period shall be determined as follows:

(i) Once a Participant is enrolled in the Plan for an Offering Period, such Offering Period shall continue to apply to him or her until the earliest of (A) the end of such Offering Period, (B) the end of his or her participation under Subsection (d) above, or (C) re-enrollment for a subsequent Offering Period under Paragraph (ii) or (iii) below.
(ii) In the event that the Fair Market Value of a Share on the first day of the Offering Period for which the Participant is enrolled is higher than on the first day of any subsequent Offering Period, the Participant shall automatically be re-enrolled for such subsequent Offering Period.

(iii) Any other provision of the Plan notwithstanding, the Administrator (at its sole discretion) may determine prior to the commencement of any new Offering Period that all Participants shall be re-enrolled for such new Offering Period.

(iv) When a Participant reaches the end of an Offering Period but his or her participation is to continue, then such Participant shall automatically be re-enrolled for the Offering Period that commences immediately after the end of the prior Offering Period.

SECTION 5. EMPLOYEE CONTRIBUTIONS.

(a) Commencement of Payroll Deductions. A Participant may purchase shares of Stock under the Plan by means of payroll deductions or (if so approved by the Administrator with respect to all Participants in an Offering Period) other approved contributions in form and substance satisfactory to the Administrator. Payroll deductions or other approved contributions shall commence as soon as reasonably practicable after the Company has received the prescribed enrollment form. In jurisdictions where payroll deductions are not permitted under local law, Participants may purchase shares of Stock by making contributions in the form that is acceptable and approved by the Administrator.

(b) Amount of Payroll Deductions. An Eligible Employee shall designate on the prescribed enrollment form the portion of his or her Compensation that he or she elects to have withheld for the purchase of Stock. Such portion shall be a whole percentage of the Eligible Employee’s Compensation, but not less than 1% nor more than 15%.

(c) Reducing Withholding Rate or Discontinuing Payroll Deductions. If a Participant wishes to reduce his or her rate of payroll withholding, such Participant may do so by filing a new enrollment form with the Company at the prescribed location at any time. The new withholding rate shall be effective as soon as reasonably practicable after the Company has received such form. The new withholding rate may be 0% or any whole percentage of the Participant’s Compensation, but not more than his or her old withholding rate. No Participant shall make more than one election under this Subsection (c) during any Purchase Period. (In addition, employee contributions may be discontinued automatically pursuant to Section 9(b).)

(d) Increasing Withholding Rate. If a Participant wishes to increase his or her rate of payroll withholding, such Participant may do so by filing a new enrollment form with the Company at the prescribed location at any time. The new withholding rate may be effective on the first day of the next-upcoming Purchase Period in which the Participant participates, provided that the Participant has filed the enrollment form with the Company at the prescribed location at least 10 business days (or such other period as the Administrator may designate) prior to such day. The new withholding rate may be any whole percentage of the Participant’s Compensation, but not less than 1% nor more than 15%. An increase in a Participant’s rate of payroll withholding may not take effect during a Purchase Period.
SECTION 6. WITHDRAWAL FROM THE PLAN.

(a) **Withdrawal**. A Participant may elect to withdraw from the Plan (or, if applicable, from an Offering Period) by filing the prescribed form with the Company at the prescribed location at any time before a Purchase Date. As soon as reasonably practicable thereafter, payroll deductions or other approved contributions shall cease and the entire amount credited to the Participant’s Plan Account with respect to such Offering Period shall be refunded to him or her in cash, without interest (except as otherwise required by the laws of the local jurisdiction). No partial withdrawals from an Offering Period shall be permitted.

(b) **Re-Enrollment After Withdrawal**. A former Participant who has withdrawn from the Plan shall not be a Participant until he or she re-enrolls in the Plan under Section 4(c). Re-enrollment may be effective only at the commencement of an Offering Period.

SECTION 7. CHANGE IN EMPLOYMENT STATUS.

(a) **Termination of Employment**. Termination of employment as an Eligible Employee for any reason, including death, shall be treated as an automatic withdrawal from the Plan under Section 6(a).

(b) **Transfers of Employment**. If a Participant transfers employment from a Participating Company that is participating in the Initial Offering Period or a Base Offering Period to a Participating Company that is participating in an Additional Offering Period, he or she will immediately cease to participate in the Initial Offering Period or Base Offering Period as applicable; however, such Participant’s Plan Account will be transferred to the Additional Offering Period, and such Participant will immediately join such Additional Offering Period on the terms and conditions applicable to such Additional Offering Period, except for any modifications required by applicable law. If a Participant transfers employment from a Participating Company that is participating in an Additional Offering Period to a Participating Company that is participating in the Initial Offering Period or a Base Offering Period, he or she will continue to participate in the Additional Offering Period until the earlier of (i) the end of such Additional Offering Period, or (ii) the commencement of the first Base Offering Period in which he or she is eligible. If a Participant transfers employment from a Participating Company to a Related Corporation that is not a Participating Company, he or she shall be deemed to have withdrawn from the Plan pursuant to Section 6(a).

(c) **Leave of Absence**. For purposes of the Plan, employment shall not be deemed to terminate when the Participant goes on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing. Employment, however, shall be deemed to terminate on the first day following three months after the Participant goes on a leave, unless a contract or statute guarantees his or her right to return to work. Employment shall be deemed to terminate in any event when the approved leave ends, unless the Participant immediately returns to work.
(d) **Death**. In the event of the Participant’s death, the amount credited to his or her Plan Account shall be paid to a beneficiary designated by him or her for this purpose on the prescribed form or, if none, to the Participant’s estate. Such form shall be valid only if it was filed with the Company at the prescribed location before the Participant’s death.

**SECTION 8. PLAN ACCOUNTS AND PURCHASE OF SHARES.**

(a) **Plan Accounts**. The Company shall maintain a Plan Account on its books in the name of each Participant. Whenever an amount is deducted from the Participant’s Compensation under the Plan, such amount shall be credited to the Participant’s Plan Account. Amounts credited to Plan Accounts shall not be trust funds and may be commingled with the Company’s general assets and applied to general corporate purposes. Unless otherwise required by the laws of the local jurisdiction, no interest shall be credited to Plan Accounts.

(b) **Purchase Price**. The Purchase Price for each share of Stock purchased on a Purchase Date shall be the lower of:

(i) 85% of the Fair Market Value of such share on the first trading day of such Offering Period; or

(ii) 85% of the Fair Market Value of such share on the Purchase Date.

(c) **Number of Shares Purchased**. On each Purchase Date, each Participant shall be deemed to have elected to purchase the number of shares of Stock calculated in accordance with this Subsection (c), unless the Participant has previously elected to withdraw from the Offering Period in accordance with Section 6(a). The amount then in the Participant’s Plan Account shall be divided by the Purchase Price, and the number of shares that results shall be purchased from the Company with the funds in the Participant’s Plan Account. The foregoing number of shares of Stock purchasable by a Participant are subject to the limitations set forth in Section 9. The Administrator may determine with respect to all Participants that any fractional share, as calculated under this Subsection (c), shall be (i) rounded down to the next lower whole share or (ii) credited as a fractional share.

(d) **Available Shares Insufficient**. In the event that the aggregate number of shares that all Participants elect to purchase with respect to a particular Purchase Period exceeds (i) the number of shares of Stock that were available under Section 3 above for sale under the Plan on the first day of the applicable Offering Period, or (ii) the number of shares that were available under Section 3 above for sale under the Plan on the applicable Purchase Date, then the number of shares to which each Participant is entitled shall be determined by multiplying the number of shares available for issuance by a fraction. The numerator of such fraction is the number of shares that such Participant has elected to purchase, and the denominator of such fraction is the number of shares that all Participants have elected to purchase. The Company may make a pro rata allocation of the shares available on the first day of an applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company’s stockholders subsequent to such date. In the event of a pro-rata allocation under this Section (d), the Administrator may determine in its discretion to continue all Offering Periods then in effect or terminate all Offering Periods then in effect pursuant to Section 14.
(c) Issuance of Stock. The shares of Stock purchased by a Participant under the Plan may be registered in the name of such Participant, or jointly in the name of such Participant and his or her spouse as joint tenants with the right of survivorship or as community property (with or without the right of survivorship). The Company may permit or require that shares be deposited directly with a broker designated by the Company or to a designated agent of the Company, and the Company may utilize electronic or automated methods of share transfer. The Company may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. (The two preceding sentences shall apply whether or not the Participant is required to pay income tax in the United States.)

(f) Tax Withholding. To the extent required by applicable federal, state, local or foreign law, a Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any shares of Stock under the Plan until such obligations, if any, are satisfied.

(g) Unused Cash Balances. Subject to the final sentence of Section 8(c), any amount remaining in a Participant’s Plan Account at the end of a Purchase Period solely by reason of the inability to purchase a fractional share will be carried over to the next Purchase Period. Any balance remaining in a Participant’s Plan Account for any other reason will be promptly refunded to the Participant in cash, without interest (except as otherwise required by the laws of the local jurisdiction).

(h) Stockholder Approval. Any other provision of the Plan notwithstanding, no shares of Stock shall be purchased under the Plan unless and until the Company’s stockholders have approved the adoption of the Plan.

SECTION 9. PLAN LIMITATIONS.

(a) Five Percent Limit. Any other provision of the Plan notwithstanding, no Participant shall be granted a right to purchase Stock under the Plan if, immediately after such right is granted, such Participant would own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any Related Corporation, applying the stock attribution rules of Code Section 424(d), and including any stock in which the Participant may purchase under outstanding options as stock owned by such Participant.

(b) Dollar Limit. As specified by Code Section 423(b)(8), no Participant shall be entitled to accrue rights to purchase Stock pursuant to any such rights outstanding under the Plan if and to the extent such accrual, when aggregated with (i) rights to purchase Stock accrued under any other right to purchase Stock under the Plan, and (ii) similar rights accrued under other employee stock purchase plans (within the meaning of Code Section 423) of the Company or any Related Corporation, would otherwise permit such Participant to purchase more than $25,000 worth of Stock of the Company or any Related Corporation (determined on the basis of the Fair Market Value per share on the date such rights are granted, and which, with respect to the Plan, will be determined as of the beginning of the respective Offering Period) for each calendar year such rights are at any time outstanding.
If a Participant is precluded by this Subsection (b) from purchasing additional Stock under the Plan, then his or her employee contributions shall automatically be discontinued and shall automatically resume at the beginning of the next Purchase Period with a scheduled Purchase Date in the next calendar year, provided that he or she is an Eligible Employee at the beginning of such Purchase Period.

(c) Purchase Period Share Purchase Limit. Any other provision of the Plan notwithstanding, no Participant shall purchase more than 3,000 shares of Stock with respect to any Purchase Period; provided that the Administrator may, for future Offering Periods, increase or decrease in its absolute discretion, the maximum number of shares of Stock that a Participant may purchase during each Purchase Period.

SECTION 10. RIGHTS NOT TRANSFERABLE.

The rights of any Participant under the Plan, or any Participant’s interest in any Stock or moneys to which he or she may be entitled under the Plan, shall not be transferable by voluntary or involuntary assignment or by operation of law, or in any other manner other than by beneficiary designation or the laws of descent and distribution. If a Participant in any manner attempts to transfer, assign or otherwise encumber his or her rights or interest under the Plan, other than by beneficiary designation or the laws of descent and distribution, then such act shall be treated as an election by the Participant to withdraw from the Plan under Section 6(a).

SECTION 11. NO RIGHTS AS AN EMPLOYEE.

Nothing in the Plan or in any right granted under the Plan shall confer upon the Participant any right to continue in the employ of a Participating Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Participating Companies or of the Participant, which rights are hereby expressly reserved by each, to terminate his or her employment at any time and for any reason, with or without cause.

SECTION 12. NO RIGHTS AS A STOCKHOLDER.

A Participant shall have no rights as a stockholder with respect to any shares of Stock that he or she may have a right to purchase under the Plan until such shares have been purchased on the applicable Purchase Date.
SECTION 13. SECURITIES LAW REQUIREMENTS.

Shares of Stock shall not be issued, and the Company shall have no liability for failure to issue shares of Stock, under the Plan unless the issuance and delivery of such shares comply with (or are exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company’s securities may then be traded.

SECTION 14. AMENDMENT OR DISCONTINUANCE.

(a) General Rule. The Administrator, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Administrator, in its discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Stock on the next Purchase Date, or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to Section 3(c) or (d)). If the Offering Periods are terminated prior to expiration, all amounts then credited to Participants’ accounts which have not been used to purchase shares of Stock will be returned to the Participants (without interest thereon, except as otherwise required by the laws of the local jurisdiction) as soon as administratively practicable.

(b) Administrator’s Discretion. Without stockholder consent and without limiting Section 14(a), the Administrator will be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company’s processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Stock for each Participant properly correspond with amounts withheld from the Participant’s Compensation, and establish such other limitations or procedures as it determines in its sole discretion advisable which are consistent with the Plan.

(c) Accounting Consideration. In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Administrator may, in its discretion and, to the extent necessary or desirable, modify, amend or terminate the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(i) Amending the Plan to conform with the safe harbor definition under Financial Accounting Standards Board Accounting Standards Codification Topic 718, including with respect to an Offering Period underway at the time;
(ii) Altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;
(iii) Shortening any Offering Period (and any Purchase Periods encompassed by such Offering Period) by setting a new Purchase Date, including with respect to an Offering Period underway at the time of the Administrator’s action;
Reducing the maximum percentage of Compensation a Participant may elect to set aside as payroll deductions; and

Reducing the maximum number of shares of Stock a Participant may purchase during any Purchase Period.

Such modifications or amendments will not require stockholder approval or the consent of any Plan Participants.

(d) **Stockholder Approval.** Except as provided in Section 3, any increase in the aggregate number of shares of Stock that may be issued under the Plan shall be subject to the approval of the Company’s stockholders. In addition, any other amendment of the Plan shall be subject to the approval of the Company’s stockholders to the extent required under Section 14(e) or by any applicable law or regulation.

(e) **Plan Termination.** The Plan shall terminate automatically 20 years after its adoption by the Board, unless (i) the Plan is extended by the Board and (ii) the extension is approved within 12 months by a vote of the stockholders of the Company.

### SECTION 15. DEFINITIONS.

(a) “**Administrator**” means the Board or any Committee administering the Plan in accordance with Section 2.

(b) “**Board**” means the Board of Directors of the Company, as constituted from time to time.

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

(d) “**Committee**” means a committee of one or more members of the Board, or of other individuals satisfying applicable laws, appointed by the Board to administer the Plan.

(e) “**Company**” means Arcus Biosciences, Inc., a Delaware corporation.

(f) “**Compensation**” means, unless otherwise determined by the Administrator, cash base salary or base hourly pay (which, for avoidance of doubt, shall exclude any overtime pay or shift differentials) paid to a Participant by a Participating Company, excluding commissions, bonuses and all other (cash or non-cash) allowances or reimbursements, such as moving or relocation allowances, cost-of-living equalization payments, car allowances, tuition reimbursements, imputed income attributable to cars or life insurance, severance pay, fringe benefits, contributions or benefits received under employee benefit plans, income attributable to equity compensation awards of the Company, and similar items. The Administrator shall determine whether a particular item is included in Compensation.

(g) “**Corporate Reorganization**” means:

   (i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization; or
(ii) The sale, transfer or other disposition of all or substantially all of the Company’s assets or the complete liquidation or dissolution of the Company.

(h) “Eligible Employee” means, unless otherwise determined by the Administrator prior to the commencement of an Offering Period, a common law employee of a Participating Company who is employed to work more than 20 hours per week. The foregoing notwithstanding, an individual shall not be considered an Eligible Employee if his or her participation in the Plan is prohibited by the law of any country that has jurisdiction over him or her.


(j) “Fair Market Value” means the price at which Stock was last sold in the principal U.S. market for the Stock on the applicable date or, if the applicable date was not a trading day, on the last trading day prior to the applicable date. If Stock is no longer traded on a public U.S. securities market, the Fair Market Value shall be determined by the Administrator in good faith on such basis as it deems appropriate. The Administrator’s determination shall be conclusive and binding on all persons. For purposes of the Initial Offering Period, the Fair Market Value on the first day of such Initial Offering Period shall be the price at which one share of Stock is offered to the public in the IPO.

(k) “IPO” means the Company’s initial offering of Stock to the public.

(l) “IPO Date” means the effective date of the registration statement filed by the Company with the Securities and Exchange Commission for its initial offering of Stock to the public.

(m) “Offering Period” means any period, including as the context requires the Initial Offering Period, Base Offering Periods and Additional Offering Periods, with respect to which the right to purchase Stock may be granted under the Plan, as determined pursuant to Section 4(a).

(n) “Participant” means an Eligible Employee who participates in the Plan or any Sub-Plan, as provided in Section 4.

(o) “Participating Company” means (i) the Company and (ii) each present or future Subsidiary designated by the Administrator as a Participating Company.

(p) “Plan” means this Arcus Biosciences, Inc. 2018 Employee Stock Purchase Plan, as it may be amended from time to time.

(q) “Plan Account” means the account established for each Participant pursuant to Section 8(a).

(r) “Purchase Date” means the last trading day of a Purchase Period.
(s) **Purchase Period** means a period within an Offering Period (which for an Offering Period with only a single Purchase Period would be coterminous with the Offering Period) during which contributions may be made toward the purchase of Stock under the Plan, as determined pursuant to Section 4(a).

(t) **Purchase Price** means the price at which Participants may purchase Stock under the Plan, as determined pursuant to Section 8(b).

(u) **Related Corporation** means any “parent corporation” of the Company as defined in Code Section 424(e) or any Subsidiary.

(v) **Stock** means the common stock of the Company.

(w) **Subsidiary** means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.
CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the reference to our firm under the caption “Experts” and to the use of our report dated February 16, 2018 (except for the third paragraph of Note 2 and the first paragraph of Note 14 to the consolidated financial statements, as to which the date is March  , 2018), in Amendment No. 1 to the Registration Statement (Form S-1 No. 333-223086) and related Prospectus of Arcus Biosciences, Inc. for the registration of shares of its common stock.

Ernst & Young LLP

Redwood City, California

The foregoing consent is in the form that will be signed upon the effectiveness of the reverse stock split described in the third paragraph of Note 2 to the consolidated financial statements.

/s/ Ernst & Young LLP

Redwood City, California
March 5, 2018