

PUMA BIOTECHNOLOGY, INC.  
Form 10-K  
March 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35703

PUMA BIOTECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware 77-0683487  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

10880 Wilshire Boulevard, Suite 2150

Los Angeles, CA 90024

(424) 248-6500

Edgar Filing: PUMA BIOTECHNOLOGY, INC. - Form 10-K

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

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

Title of each class	Name of each exchange on which registered
	The NASDAQ Stock Market LLC

Common Stock, par value \$0.0001 per share (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

Edgar Filing: PUMA BIOTECHNOLOGY, INC. - Form 10-K

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$1,999.8 million as of June 29, 2018, based upon the closing price of \$59.15 per share of the registrant's common stock on the NASDAQ Global Select Market on Friday, June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter. Shares of common stock held by each executive officer, director and holder of 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of February 15, 2019, there were 38,497,981 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference:

Portions of the Proxy Statement for the registrant's 2019 Annual Meeting of Stockholders, or the 2019 Proxy Statement, are incorporated by reference into Part III of the Form 10-K to the extent stated herein.

---

## TABLE OF CONTENTS

	Page
<u>Part I</u>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	31
Item 1B. <u>Unresolved Staff Comments</u>	55
Item 2. <u>Properties</u>	55
Item 3. <u>Legal Proceedings</u>	55
Item 4. <u>Mine Safety Disclosure</u>	56
<u>Part II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	56
Item 6. <u>Selected Financial Data</u>	59
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	60
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	72
Item 8. <u>Financial Statements and Supplementary Data</u>	73
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	73
Item 9A. <u>Controls and Procedures</u>	73
Item 9B. <u>Other Information</u>	75
<u>Part III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	75
Item 11. <u>Executive Compensation</u>	75
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	75
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	75
Item 14. <u>Principal Accounting Fees and Services</u>	75
<u>Part IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	75
Item 16. <u>Form 10-K Summary</u>	76
<u>Exhibit Index</u>	77
<u>Signatures</u>	81
<u>Index to Consolidated Financial Statements</u>	F-1

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions, future events or performance are not historical facts and may be forward looking. These forward-looking statements include, but are not limited to, statements about:

- the commercialization of NERLYNX<sup>®</sup> (neratinib);
- the development of our drug candidates, including when we expect to undertake, initiate and complete clinical trials of our product candidates;
- the anticipated timing of regulatory filings;
- the regulatory approval of our drug candidates;
- our use of clinical research organizations and other contractors;
- our ability to find collaborative partners for research, development and commercialization of potential products;
- efforts of our licensees to obtain regulatory approval and commercialize NERLYNX in areas outside the United States;
- our ability to market any of our products;
- our history of operating losses;
- our expectations regarding our costs and expenses;
- our anticipated capital requirements and estimates regarding our needs for additional financing;
- our ability to compete against other companies and research institutions;
- our ability to secure adequate protection for our intellectual property;
- our intention and ability to vigorously defend against any litigation to which we are or may become party;
- our estimates for damages that we may be required to pay in connection with the class action lawsuit to which we are a party;
- our ability to attract and retain key personnel; and
- our ability to obtain adequate financing.

These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend” and similar words or phrases. Accordingly, these statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. Discussions containing these forward-looking statements may be found throughout this Annual Report, including the sections entitled “Item 1. Business” in Part I and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II of this Annual Report. These forward-looking statements involve risks and uncertainties, including the risks discussed in the section entitled “Item 1A. Risk Factors” in Part I of this Annual Report, that could cause our actual results to differ materially from those in the forward-looking statements. We undertake no obligation to update the forward-looking statements or to reflect events or circumstances after the date of this document. The risks discussed in this Annual Report should be considered in evaluating our prospects and future financial performance.

## PART I

### ITEM 1. BUSINESS

#### Company Overview

Unless otherwise provided in this Annual Report, references to the “Company,” “we,” “us,” and “our” refer to Puma Biotechnology, Inc., a Delaware corporation formed on April 27, 2007 and formerly known as Innovative Acquisitions Corp., together with its wholly-owned subsidiaries, Puma Biotechnology Ltd and Puma Biotechnology B.V., and all references to “Former Puma” refer to Puma Biotechnology, Inc., a privately-held Delaware corporation formed on September 15, 2010, that merged with and into us in October 2011. We refer to this transaction as the “Merger.”

We are a biopharmaceutical company with a focus on the development and commercialization of innovative products to enhance cancer care. We in-license the global development and commercialization rights to three drug candidates – PB272 (neratinib, oral), PB272 (neratinib, intravenous) and PB357. Neratinib is a potent irreversible tyrosine kinase inhibitor, or TKI, that blocks signal transduction through the human epidermal growth factor receptors, HER1, HER2 and HER4. Currently, we are primarily focused on the U.S. commercialization of NERLYNX (neratinib), our first U.S. Food and Drug Administration, or FDA, approved product, and on the further development of the oral version of neratinib for additional indications in the treatment of HER2-positive breast cancer. We believe neratinib has clinical application in the treatment of several other cancers as well, including non-small cell lung cancer and other tumor types that over-express or have a mutation in HER2. Until recently, we have focused our efforts and resources primarily on obtaining regulatory approval for NERLYNX (neratinib) and on acquiring and developing our pharmaceutical technologies, raising capital and recruiting personnel.

In July 2017, we received regulatory approval of our first product, NERLYNX (neratinib), formally known as PB 272 (neratinib (oral)), for the extended adjuvant treatment of adult patients with early stage HER2-overexpressed/amplified breast cancer following adjuvant trastuzumab-based therapy from the FDA. After receiving FDA approval, we commenced commercialization of NERLYNX in the United States using a direct sales force.

In September 2018, the European Commission, or EC, granted marketing authorization for our Marketing Authorisation Application, or MAA, which was filed in July 2016 for the extended adjuvant treatment of adult patients with early stage hormone receptor positive HER2-overexpressed/amplified breast cancer and who are less than one year from the completion of prior adjuvant trastuzumab based therapy. Additionally, we are in the process of applying for or awaiting approval in many of the territories for which we have entered into exclusive license agreements with partners. We have license agreements with Specialised Therapeutics Asia Pte Ltd., or STA, Medison Pharma Ltd., or Medison, CANbridgepharma Limited, or CANbridge, Pint Pharma International SA, or Pint, and Knight Therapeutics, or Knight, to pursue regulatory approval and commercialize NERLYNX, if approved, in various specified regions outside of the United States. We plan to continue to pursue commercialization of NERLYNX in other countries throughout the world, if approved, and will evaluate various commercialization options in those countries, including developing a direct sales force, contracting with third parties to provide sales and marketing capabilities, or some combination of these two options. We expect that our sales and marketing expenses will increase should we choose to develop a direct sales force outside the United States.

Breast cancer is the leading cause of cancer death among women worldwide. Studies show that approximately 20% to 25% of breast cancer tumors have an over-expression of the HER2 protein. Women with breast cancer that over-expresses HER2, referred to as HER2-positive breast cancer, are at greater risk for disease progression and death than women whose tumors do not over-express HER2. Therapeutic strategies, such as the use of trastuzumab (marketed as Herceptin), pertuzumab (marketed as Perjeta) and T-DM1 (marketed as Kadcyla), each produced by Genentech, and lapatinib (marketed as Tykerb) produced by Novartis, given either alone or in combination with chemotherapy, have been developed to improve the treatment of this type of breast cancer by binding to the HER2 protein. There are a number of trials ongoing that involve various combinations of these drugs (for example, Perjeta).

Based on pre-clinical studies and clinical trials to date, we believe that neratinib may offer an advantage over existing treatments by more potently inhibiting HER2 at a different site and using a different mechanism than these other drugs.

In February 2013, we reached agreement with the FDA under a Special Protocol Assessment, or SPA, for our Phase III clinical trial of PB272 in patients with HER2-positive metastatic breast cancer who have failed two or more prior lines of HER2-directed treatments (third-line disease) in the setting of metastatic disease. The European Medicines Agency, or EMA, has provided follow-on scientific advice consistent with that of the FDA regarding our ability to use the trial to support regulatory approval in the European Union, or EU. We refer to this trial as PUMA-NER-1301, or the NALA trial. The trial enrolled 621 patients who were randomized (1:1) to receive either neratinib plus capecitabine or lapatinib plus capecitabine. The trial was conducted globally at sites in North America, Europe, Asia-Pacific and South America. The co-primary endpoints of the trial are centrally confirmed progression free survival, or PFS, and overall survival, or OS. An alpha level of 1% was allocated to the PFS and 4% allocated to OS. The study was to be considered positive if either of the co-primary endpoints was positive. In December 2018, we announced that for the primary analysis of centrally confirmed PFS, treatment with neratinib plus capecitabine resulted in a statistically significant improvement in centrally confirmed PFS ( $p=0.0059$ ) compared to treatment with lapatinib plus capecitabine. For the primary analyses of OS, neratinib plus capecitabine resulted in a numerical improvement in OS that did not achieve statistical significance ( $p=0.21$ ). For the secondary endpoint of time to intervention for symptomatic central nervous system disease (also referred to as brain metastases), the results of the trial showed that treatment with neratinib plus capecitabine led to an improvement over the combination of lapatinib plus capecitabine ( $p=0.043$ ).

Additionally, in December 2016, we initiated a managed access program for neratinib. Managed access programs provide physicians and patients access to medicines when there are limited or no other therapeutic options available. Our managed access program for neratinib enables participation from countries outside the United States, including European Union member states, where permitted by applicable rules, procedures and regulatory authorities. The program provides access to neratinib for the treatment of early stage HER2-positive breast cancer (extended adjuvant setting), HER2-positive metastatic breast cancer and HER2-mutated solid tumors. In order for patients to qualify for our managed access program they must be unable to participate in any ongoing neratinib clinical trial. Patients in the managed access program are given neratinib and are instructed to take a prophylaxis during treatment to manage neratinib-related diarrhea, which consists of high dose loperamide and budesonide. We have partnered with Caligor Opco LLC, which specializes in early access to medicines, to oversee the managed access program for neratinib.

In addition to continuing to follow the patients from the ExteNET trial, which was our Phase III clinical trial of neratinib for the extended adjuvant treatment of early stage HER2-positive breast cancer, as well as patients from the NALA trial, we are actively conducting the following trials to evaluate the safety and efficacy of neratinib in various indications:

- Phase II clinical trial of neratinib for the extended adjuvant treatment of patients with early stage HER2-overexpressed/amplified breast cancer who have received prior adjuvant trastuzumab (Herceptin)-based therapy in which patients are given either: 1) antidiarrheal prophylaxis including loperamide alone or in combination with budesonide or other agents or 2) escalating doses of neratinib during the first month (dose titration) in order to prevent and reduce the neratinib-related diarrhea;
- Phase II clinical trial of neratinib in combination with the drug ado-trastuzumab emtansine (T-DM1, Kadcyla) in patients with HER2-positive metastatic breast cancer that has metastasized to the brain;
- Phase II clinical trial of neratinib monotherapy or in combination with the drug trastuzumab and or other anticancer drugs in the treatment of patients with HER2-negative cancers that have a HER2 mutation;
- Phase II clinical trial of neratinib monotherapy in the treatment of solid tumors that have an activating EGFR exon 18, or HER4 mutation; and
- Phase I/II trial of neratinib plus Kadcyla in patients with metastatic HER2-positive breast cancer.

We license the commercial rights to our current drug candidates from Pfizer, Inc., or Pfizer, which had previously been responsible for the clinical trials regarding neratinib. Going forward, we expect to augment our product pipeline by acquiring, through license or otherwise, additional drug candidates for research and development, and potential commercialization. In evaluating potential drug candidates, we employ disciplined decision criteria that favor drug candidates that have undergone at least some clinical study. Our decision to acquire a drug candidate will also depend on our evaluation of the scientific merits of the underlying technology, the costs of the transaction and other economic terms of any proposed license, the amount of capital that we anticipate will be required to develop the drug candidate and the economic potential of the drug candidate if approved for commercialization. We believe this strategy minimizes our clinical development risk and allows us to accelerate the development and potential commercialization of current and future drug candidates.

## Strategy

Our primary objective is to build neratinib into a significant oncology franchise as a single agent, and potentially in combination with other therapies. The following elements comprise our strategy to achieve this objective:

- Seek regulatory approval and commence commercialization of neratinib in regions outside the United States. Before we can market neratinib outside the United States for any indication, including the FDA-approved indication associated with NERLYNX, we must obtain regulatory approval in those countries. We have entered into exclusive license agreements with STA, Medison, Pint, CANbridge, and Knight pursuant to which each will commercialize NERLYNX in its respective territory. Pursuant to these agreements, we have received upfront payments and will potentially receive regulatory milestone and sales-based milestone payments, and royalties based on net sales of NERLYNX once commercialized. In June 2016, we submitted an MAA to the EMA for neratinib for the extended



adjuvant treatment of patients with early-stage HER2-overexpressed/amplified breast cancer who have received prior adjuvant trastuzumab-based therapy. The MAA submission was based upon the results of the ExteNET trial, which reached its primary endpoint whereby neratinib demonstrated a statistically significant reduction of risk of invasive disease recurrence or death versus placebo. In September 2018, the EC granted marketing authorisation for extended adjuvant treatment of adult patients with early stage hormone receptor positive HER-2-overexpressed/amplified breast cancer and who are less than one year from the completion of prior adjuvant trastuzumab-based therapy. We are continuing to also evaluate potential commercialization options for the extended adjuvant setting in additional countries outside the United States, including developing a direct sales force, contracting with third parties to provide sales and marketing capabilities, some combination of these two options or other strategic options.

3

---

Continue to advance the development of neratinib for the treatment of other HER2-positive or HER2 mutated breast cancer indications. We are primarily focused on developing neratinib for the treatment of patients with HER2-positive breast cancer or HER2-negative cancers with a HER2 mutation.

Expand our product pipeline by pursuing additional applications of neratinib. We believe there are additional applications for neratinib in the treatment of patients with HER2-negative cancers who have a HER2 mutation; and in tumor types where HER2 is over-expressed or mutated. We intend to further evaluate the safety and efficacy of neratinib for treating these cancers.

Build a sustainable product pipeline by employing multiple therapeutic approaches and disciplined decision criteria based on clearly defined proof of principal goals. We seek to build a sustainable product pipeline by employing multiple therapeutic approaches and by acquiring drug candidates belonging to known drug classes. In addition, we employ disciplined decision criteria to assess drug candidates, favoring drug candidates that have undergone at least some clinical study. Our decision to license a drug candidate will also depend on the scientific merits of the technology; the costs of the transaction and other economic terms of the proposed license; the amount of capital required to develop the technology; and the economic potential of the drug candidate, should it be commercialized. We believe this strategy minimizes our clinical development risk and allows us to accelerate the development and potential commercialization of current and future drug candidates. We intend to pursue regulatory approval for a majority of our drug candidates in multiple indications.

Evaluate the commercialization strategies on a product-by-product basis in order to maximize the value of each. We are currently commercializing NERLYNX using a direct sales force in the United States and using out-licenses in certain countries outside of the United States. As we move additional drug candidates through development toward regulatory approval, we plan to evaluate several options for each drug candidate's commercialization strategy. These options include building our own internal sales force; entering into a joint marketing partnership with another pharmaceutical or biotechnology company, whereby we jointly sell and market the product; and out-licensing our product, whereby another pharmaceutical or biotechnology company sells and markets our product and pays us a royalty on sales. Our decision may be different for each product that reaches commercialization and will be based on a number of factors including capital necessary to execute on each option, size of the market to be addressed and terms of potential offers from other pharmaceutical and biotechnology companies.

#### Breast Cancer Overview

Breast cancer is the leading cause of cancer death among women worldwide, with approximately 1 million new cases reported each year and more than 400,000 deaths per year. Approximately 20% to 25% of breast cancer tumors show over-expression of the HER2 protein. Women with breast cancer that over-expresses HER2 are at greater risk for disease progression and death than women whose tumors do not over-express HER2. Therapeutic strategies have been developed to block HER2 in order to improve the treatment of this type of breast cancer.

Trastuzumab, pertuzumab, lapatinib and T-DM1 are all drugs that bind to the HER2 protein and thereby cause the cells to cease reproducing. Today, these drugs are used as single agents, in combination with other drugs and in combination with chemotherapy to treat patients with HER2-positive breast cancer at various stages.

Currently, the only treatment approved by the FDA for the treatment of neoadjuvant (newly diagnosed) HER2-positive breast cancer is the combination of pertuzumab plus trastuzumab and taxane chemotherapy. The FDA-approved therapy for the adjuvant treatment of HER2-positive early stage breast cancer is the combination of pertuzumab plus trastuzumab and chemotherapy. In addition, in December 2018, a Phase III clinical trial showed that Kadcylla significantly improved invasive disease-free survival compared to Herceptin in patients with HER2-positive early stage breast cancer with residual disease after neoadjuvant treatment. We are also aware of a Phase III clinical trial that is comparing trastuzumab plus pertuzumab plus taxane following anthracyclines versus T-DM1 plus pertuzumab following anthracyclines as an adjuvant therapy.

Trastuzumab and pertuzumab given in combination with taxane chemotherapy is the current first-line standard of care for HER2-positive metastatic breast cancer. Lapatinib (Tykerb), given in combination with the chemotherapy drug capecitabine, is also FDA-approved for the treatment of patients who have failed prior treatments. In a Phase II

clinical trial, lapatinib demonstrated a median PFS of eight to nine weeks and a response rate of 5 – 7%. In a Phase III clinical trial, patients with HER2-positive metastatic breast cancer who received the combination of lapatinib plus capecitabine demonstrated a median progression free survival of 27.1 weeks and a response rate of 23.7%. In the Phase III EMILIA trial, the combination of lapatinib plus capecitabine demonstrated a median PFS of 25.6 weeks and a response rate of 30.8%. T-DM1 is approved by the FDA for the treatment of patients with HER2-positive metastatic breast cancer who previously received first line trastuzumab-based therapy. Unfortunately, the disease eventually progresses for most patients with HER2-positive breast cancer while on these treatments. For these reasons, there is a need for alternatives to block HER2 signaling in patients who fail treatment with prior HER2 directed treatments. Neratinib is an orally active small molecule that inhibits HER2 at a different site and uses a different mechanism than trastuzumab. As a result, we believe that neratinib may have utility in patients with HER2-positive metastatic breast cancer who have failed treatment with other HER2 inhibitors.

We believe that there are approximately 28,300 patients in the United States and 37,000 patients in the EU with early stage HER2-positive breast cancer that get treated with adjuvant treatment. Based on our internal estimates, we believe that the worldwide Herceptin adjuvant revenue was approximately \$4.5 to \$5.0 billion in 2015. We also believe that there are approximately 6,400 patients in the United States with third-line and 4,700 patients in the United States with fourth line HER2-positive metastatic breast cancer. The number of patients with third-line or later HER2 positive metastatic breast cancer may decrease in future years as the introduction of new neoadjuvant, adjuvant and extended adjuvant treatments may reduce the number of patients with recurrence of HER2 positive breast cancer and therefore reduce the number of patients with HER2 positive metastatic breast cancer. In 2017, worldwide sales of Tykerb for this indication were approximately \$186 million.

We believe that approximately 1-12% of all cancer patients have mutation in HER2 kinase in the United States and that approximately 7 – 9% of all estrogen receptor positive metastatic breast cancer patients who have received prior endocrine treatment have a mutation in HER2 kinase (approximately 8,000 to 10,000 patients in the United States).

### Product Development Pipeline

The following chart shows each of our current drug candidates and their clinical development stage.

#### Neratinib

Neratinib is a potent irreversible tyrosine kinase inhibitor, or TKI, that blocks signal transduction through the epidermal growth factor receptors, HER1, HER2 and HER4. Based on pre-clinical studies and clinical trials to date, we believe that neratinib may offer an advantage over existing treatments that are used in the treatment of patients with HER2-positive metastatic breast cancer who have failed prior treatments, including treatment with trastuzumab, pertuzumab, and T-DM1. Currently, the treatment of metastatic breast cancer patients involves treatment with these agents either alone or in combination with chemotherapy. We believe that by more potently inhibiting HER2 at a different site and acting via a mechanism different from other agents, neratinib may have therapeutic benefits in patients who have failed these existing treatments, most notably due to its increased selectivity and irreversible inhibition of the HER2 target enzyme.

In addition, we believe neratinib has clinical application in the treatment of other cancers, including non-small cell lung cancer and other tumor types that over-express or have a mutation in HER2.

Our initial focus is on the commercialization and development of the oral formulation of neratinib. We are also evaluating for potential development an intravenous formulation of neratinib and PB357, a back-up compound to neratinib.

PB272 (neratinib oral)—Early Stage Breast Cancer

Extended Adjuvant Breast Cancer

Two-Year ExteNET Data. In July 2014, we announced top line results from our ExteNET trial, a Phase III clinical trial of neratinib for the extended adjuvant treatment of early stage HER2-positive breast cancer. The data from this trial was presented in an oral presentation at the American Society of Clinical Oncology, or ASCO, Annual Meeting in June 2015 and was published online in *The Lancet Oncology* in February 2016. The ExteNET trial was a double-blind, placebo-controlled, Phase III trial of neratinib versus placebo after adjuvant treatment with Herceptin in women with early stage HER2-positive breast cancer. More specifically, the ExteNET trial enrolled 2,840 patients in 41 countries with early stage HER2-positive breast cancer who had undergone surgery and adjuvant treatment with trastuzumab. After completion of adjuvant treatment with trastuzumab, patients were randomized to receive extended adjuvant treatment with either neratinib or placebo for a period of one year. Patients were then followed for recurrent disease, ductal carcinoma in situ (DCIS), or death for a period of two years after randomization in the trial.

The safety results of the study showed that the most frequently observed adverse event for the neratinib-treated patients was diarrhea, with approximately 39.9% of the neratinib-treated patients experiencing grade 3 or higher diarrhea (one patient, 0.1%, had grade 4 diarrhea). Patients who received neratinib in this trial did not receive any prophylaxis with antidiarrheal agents to prevent the neratinib-related diarrhea. We have reported clinical data from several trials that have demonstrated that the use of high-dose prophylactic loperamide may greatly reduce the rate of grade 3 diarrhea with neratinib, with grade 3 diarrhea rates ranging from 0-17% in studies in which high-dose loperamide prophylaxis was used. We are currently conducting an international, open-label, Phase II study investigating the use of antidiarrheal prophylaxis with loperamide alone or with other agents in the prevention and reduction of neratinib-associated diarrhea and, more specifically, grade 3 diarrhea. The interim results of this trial (data cut-off of November 2017) showed that the incidence of grade 3 diarrhea for the 137 patients who received the loperamide prophylaxis was 30.7% , the incidence of grade 3 diarrhea for the 64 patients who received the combination of loperamide plus budesonide was 26.6% and the incidence of grade 3 diarrhea for the 120 patients who received the combination of loperamide plus colestipol was 10.8%. In all of our current ongoing studies, we are instituting the use of antidiarrheal prophylaxis for the first cycle of treatment in order to continue to reduce the neratinib-related diarrhea. See “—PB272 (neratinib, oral)—Metastatic Breast Cancer—Safety Database” for additional information.

The primary endpoint of the ExteNET trial was invasive disease-free survival, or DFS. The results of the trial demonstrated that treatment with neratinib resulted in a 33% reduction of risk of invasive disease recurrence or death versus placebo (hazard ratio = 0.67,  $p = 0.009$ ). The two-year DFS rate for the neratinib arm was 93.9% and the two-year DFS rate for the placebo arm was 91.6%. The secondary endpoint of the trial was disease-free survival including ductal carcinoma in situ, or DFS-DCIS. The results of the trial demonstrated that treatment with neratinib resulted in a 37% reduction of risk of disease recurrence including DCIS or death versus placebo (hazard ratio = 0.63,  $p = 0.002$ ). The two-year DFS-DCIS rate for the neratinib arm was 93.9% and the two-year DFS-DCIS rate for the placebo arm was 91.0%.

As an inclusion criteria for the ExteNET trial, patients needed to have tumors that were HER2-positive using local assessment. In addition, as a pre-defined subgroup in the trial, patients had centralized HER2 testing performed on their tumor as well. At the time the two-year data was compiled, centralized HER2 testing had been performed on 1,704 (60%) of the patients in the ExteNET trial and further central testing on available samples was currently ongoing. For the 1,463 patients whose tumors were HER2-positive by central confirmation, the results of the trial demonstrated that treatment with neratinib resulted in a 49% reduction of risk of invasive disease recurrence or death versus placebo (hazard ratio = 0.51,  $p = 0.002$ ). The two-year DFS rate for the centrally confirmed patients in the neratinib arm was 94.7% and the 2-year DFS rate for the centrally confirmed patients in the placebo arm was 90.6%. For the patients in the trial whose tumors were HER2-positive by central confirmation, the results of the trial demonstrated that treatment with neratinib resulted in a 51% reduction of risk of disease recurrence including DCIS or

death versus placebo (hazard ratio = 0.49,  $p < 0.001$ ). The two-year DFS-DCIS rate for the centrally confirmed patients in the neratinib arm was 94.7% and the two-year DFS rate for centrally confirmed patients in the placebo arm was 90.2%.

For the pre-defined subgroup of patients with hormone receptor positive disease, the results of the trial demonstrated that treatment with neratinib resulted in a 49% reduction of risk of invasive disease recurrence or death versus placebo (hazard ratio = 0.51,  $p = 0.001$ ). The two-year DFS rate for the neratinib arm was 95.4% and the two-year DFS rate for the placebo arm was 91.2%. For the patients in the trial whose tumors were HER2-positive by central confirmation, the results of the trial demonstrated that treatment with neratinib resulted in a 75% reduction of risk of invasive disease recurrence or death (hazard ratio = 0.25,  $p < 0.001$ ). The two-year DFS rate for the centrally confirmed patients in the neratinib arm was 97.0% and the two-year DFS rate for centrally confirmed patients in the placebo arm was 88.4%.

Based on the results from the ExteNET trial, in June and July 2016, we submitted an MAA with the EMA and filed an NDA with the FDA, respectively, for regulatory approval of neratinib in the extended adjuvant setting.

Five-Year ExteNET Data. In September 2017, we presented updated data from the ExteNET trial at the European Society of Medical Oncology, or ESMO, 2017 Congress in Madrid, Spain. The data represented a predefined five-year invasive disease free survival, or iDFS, analysis as a follow-up to the primary two-year iDFS analysis of the Phase III ExteNet trial. The results of the trial demonstrated that after a median follow up of 5.2 years, treatment with neratinib resulted in a 27% reduction of risk of invasive disease recurrence or death versus placebo (hazard ratio = 0.73,  $p = 0.008$ ). The five-year iDFS rate for the neratinib arm was 90.2% and the 5-year iDFS rate for the placebo arm was 87.7%. The secondary endpoint of the trial was invasive disease free survival including ductal carcinoma in situ, or iDFS-DCIS. The results of the trial demonstrated that treatment with neratinib resulted in a 29% reduction of risk of disease recurrence, including DCIS or death versus placebo (hazard ratio = 0.71,  $p = 0.004$ ). The five-year iDFS-DCIS rate for the neratinib arm was 89.7% and the five-year iDFS-DCIS rate for the placebo arm was 86.8%.

For the pre-defined subgroup of patients with hormone receptor positive disease, the results of the trial demonstrated that treatment with neratinib resulted in a 40% reduction of risk of invasive disease recurrence or death versus placebo (hazard ratio = 0.60,  $p = 0.002$ ). The five-year iDFS rate for the neratinib arm was 91.2% and the five-year iDFS rate for the placebo arm was 86.8%. For the pre-defined subgroup of patients with hormone receptor negative disease, the results of the trial demonstrated that treatment with neratinib resulted in a hazard ratio of 0.95 ( $p = 0.762$ ).

The results of the ExteNET trial showed that after two years of follow-up, for patients with hormone receptor positive, HER2-positive early stage breast cancer patients who were treated within one year after the completion of trastuzumab based adjuvant therapy, iDFS was 95.3% in the patients treated with neratinib compared with 90.8% in those receiving placebo (hazard ratio = 0.49; 95% CI: (0.30, 0.78);  $p=0.002$ ).

The safety results were unchanged from the primary two-year iDFS analysis of the study that showed the most frequently observed adverse event for the neratinib-treated patients was diarrhea, with approximately 39.9% of the neratinib-treated patients experiencing grade 3 or higher diarrhea (one patient, or 0.1%, had grade 4 diarrhea). Patients who received neratinib in this trial did not receive any prophylaxis with antidiarrheal agents to prevent the neratinib-related diarrhea.

#### Neoadjuvant Breast Cancer

At the 2010 CTRC-AACR San Antonio Breast Cancer Symposium, the results of the Neoadjuvant Lapatinib and/or Trastuzumab Treatment Optimisation Study, or the Neo-ALTTO study, were presented. In this trial, patients with HER2-positive breast cancer were randomized to receive either the combination of paclitaxel plus trastuzumab, the combination of paclitaxel plus lapatinib or the combination of paclitaxel plus trastuzumab plus lapatinib, as a neoadjuvant (preoperative) therapy. The results of the trial demonstrated that patients who received the combination of paclitaxel plus trastuzumab demonstrated a pathological complete response rate, or pCR, of 27.6% in the breast and lymph nodes, the patients who received paclitaxel plus lapatinib had a pCR of 20.0% and the patients who received the combination of paclitaxel plus trastuzumab plus lapatinib had a pCR of 46.8%.

Also at the 2010 CTRC-AACR San Antonio Breast Cancer Symposium, the results of the Neo-Sphere study were presented. In this trial, patients with HER2-positive breast cancer were randomized to receive either the combination of docetaxel plus trastuzumab, the combination of docetaxel plus pertuzumab, the combination of trastuzumab plus pertuzumab or the combination of docetaxel plus trastuzumab plus pertuzumab, as a neoadjuvant (preoperative) therapy. The results of the trial demonstrated that the patients who received the combination of docetaxel plus trastuzumab had a pCR of 21.5% in the breast and lymph nodes, the patients who received docetaxel plus pertuzumab had a pCR of 17.7%, the patients who received pertuzumab plus trastuzumab had a pCR of 11.2% and the patients who received the combination of docetaxel plus trastuzumab plus pertuzumab had a pCR of 39.3%.

I-SPY 2 TRIAL. In 2010, the Foundation for the National Institutes of Health initiated the I-SPY 2 TRIAL (Investigation of Serial Studies to Predict Your Therapeutic Response with Imaging And moLecular Analysis 2). The I-SPY 2 TRIAL is a randomized Phase II clinical trial for women with newly diagnosed Stage 2 or higher (tumor size

at least 2.5 cm) breast cancer that addresses whether adding investigational drugs to standard chemotherapy in the neoadjuvant setting is better than standard chemotherapy. The primary endpoint was pCR in the breast and the lymph nodes at the time of surgery. The goal of the trial was to match investigational regimens with patient subsets on the basis of molecular characteristics, referred to as biomarker signatures, that benefit from the regimen.

The I-SPY 2 TRIAL involved an adaptive trial design based on Bayesian predictive probability that a regimen will be shown to be statistically superior to standard therapy in an equally randomized 300-patient confirmatory trial. Regimens that have a high Bayesian predictive probability of showing superiority in at least one of 10 predefined signatures graduate from the trial. Regimens are dropped for futility if they show a low predictive probability of showing superiority over standard therapy in all 10 signatures. A maximum total of 120 patients can be assigned to each experimental regimen. A regimen can graduate early and at any time after having 60 patients assigned to it.



In April 2014, we announced the results for the neratinib-containing regimen of the I-SPY 2 TRIAL. The neratinib-containing regimen (neratinib plus paclitaxel followed by doxorubicin and cyclophosphamide) graduated from the I-SPY 2 TRIAL based on having a high probability of success in Phase III with a signature of HER2 positive/HR negative. In this group, treatment with the neratinib-containing regimen resulted in an estimated pCR rate of 55.6% compared to the control arm (standard neoadjuvant chemotherapy: paclitaxel in combination with trastuzumab followed by doxorubicin and cyclophosphamide), which had an estimated pCR rate of 32.6%. The Bayesian probability of superiority for the neratinib-containing regimen (compared to standard therapy) is 94.9%, which is analogous to a p-value of 0.051. In addition, the Bayesian predictive probability of showing statistical superiority in a 300-patient Phase III randomized trial of paclitaxel plus neratinib versus paclitaxel plus trastuzumab, both followed by doxorubicin/cyclophosphamide, is 79.1%.

For the 65 patients in the trial who were HER2 positive (including those who were either hormone receptor positive or negative), treatment with the neratinib-containing regimen resulted in an estimated pCR rate of 39.4% compared to the control arm, which demonstrated an estimated pCR rate of 22.8%. The Bayesian probability of superiority for the neratinib-containing regimen is 95.4%, which is analogous to a p-value of 0.046. In addition, the Bayesian predictive probability of showing statistical superiority in a 300-patient Phase III randomized trial of paclitaxel plus neratinib versus paclitaxel plus trastuzumab is 72.7%.

Patients in the I-SPY 2 TRIAL were screened using the MammaPrint 70-gene signature test to determine if they had a heightened risk of breast cancer recurrence. The median MammaPrint score from the patients in the previous I-SPY 1 TRIAL who fit the eligibility criteria for I-SPY 2 was used as a predefined stratification factor for the I-SPY 2 TRIAL. Patients in I-SPY 2 were stratified as either MammaPrint High (below the median from I-SPY 1) or MammaPrint Ultra High (above the median from I-SPY 1). For the 41 neratinib treated patients in the trial who were MammaPrint Ultra High (80.5% of whom were HER2 negative), treatment with the neratinib-containing regimen resulted in an estimated pCR rate of 47.5% compared to the control arm, which demonstrated an estimated pCR rate of 29.4%. The Bayesian probability of superiority for the neratinib-containing regimen is 93.3%, which is analogous to a p-value of 0.067. In addition, the Bayesian predictive probability of showing statistical superiority in a 300-patient Phase III randomized trial of paclitaxel plus neratinib versus paclitaxel alone for HER2-negative patients, or in combination with trastuzumab for the HER2-positive patients, is 71.8%.

The results of the I-SPY2 TRIAL with neratinib were published in The New England Journal of Medicine in July 2016.

FB-7 Trial. In 2010, Pfizer, in collaboration with the National Surgical Adjuvant Breast and Bowel Project, or NSABP, a clinical trials cooperative group supported by the National Cancer Institute, or NCI, initiated the FB-7 study to investigate the use of neratinib as a neoadjuvant therapy for newly diagnosed HER2-positive breast cancer. In this trial, a total of 126 patients were randomized to receive neratinib plus the chemotherapy drug paclitaxel or trastuzumab plus paclitaxel prior to having surgery to remove their tumors. The purpose of this study was to test whether adding neratinib to paclitaxel chemotherapy is better than trastuzumab plus paclitaxel chemotherapy before having surgery. This trial was modified in 2012 to include a third treatment arm where patients will receive the combination of neratinib plus trastuzumab plus paclitaxel prior to having surgery to remove their tumors.

Data from this trial were presented at the 2015 CTRC-AACR San Antonio Breast Cancer Symposium. Patients were randomly assigned to trastuzumab (T) or neratinib (N) or the combination (T+N) with weekly paclitaxel (P) followed by standard doxorubicin and cyclophosphamide chemotherapy (AC) administered prior to surgery. 126 U.S., Canadian, and European patients were randomly assigned to Arm 1 (T+P followed by AC), Arm 2 (N+P followed by AC) or Arm 3 (T+N+P followed by AC). The primary endpoint of the trial was pathological complete response rate (pCR) in the breast and lymph nodes. Tumor tissue was collected on patients at the time of diagnosis. This tissue will be analyzed for several biomarkers including AKT, cMET, EGFR, ESR-alpha, HER2, HER3, HER4, p95 HER2 and PI3K and intrinsic subtypes. A key secondary endpoint of this trial is the molecular and genetic correlates of response for each of these biomarkers.

For the intent-to-treat patient population (hormone receptor positive (HR+) and hormone receptor negative (HR-)), the pCR rate for Arm 1 was 38.1%, for Arm 2 was 33.3% and for Arm 3 was 50.0%. For the HR+ patients, the pCR rate for Arm 1 was 29.6%, for Arm 2 was 27.6% and for Arm 3 was 30.4%. For the HR- patients, the pCR rate for Arm 1 was 57.1%, for Arm 2 was 46.2% and for Arm 3 was 73.7%.

The most frequently observed severe adverse event in the two neratinib treated arms of the trial (Arm 2 and Arm 3) was diarrhea. In the first 19 patients treated in Arm 2 of the trial, high dose loperamide (16 mg per day initially) as primary prophylaxis was not given to prevent the neratinib-related diarrhea. In this subset of patients the grade 3 diarrhea rate was 42% (8/19). In the next 10 patients treated in Arm 2 and the first 20 patients treated in Arm 3, high dose primary prophylaxis (16 mg per day initially) with loperamide was given during the initial two weeks of the first cycle of treatment. Using two weeks of intensive loperamide prophylactically, the grade 3 diarrhea rate in Arm 2 was 30% (3/10) and the grade 3 diarrhea rate in Arm 3 was 35% (7/20). In the next 13 patients in Arm 2 and 22 patients in Arm 3, high dose prophylaxis (16 mg per day initially) was given for the entire first cycle of treatment (4 weeks). The grade 3 diarrhea rate was 15% (2/13) in Arm 2 and 23% (5/22) in Arm 3.

In December 2016, a biomarker analysis of the FB-7 trial was presented at the 2016 CTRC-AACR San Antonio Breast Cancer Symposium. Pre-treatment core biopsy samples (n=59) and post treatment surgical samples (n=17) were obtained from a subset of patients treated in the FB-7 trial. pCR data were available for 51 patients from the biomarker cohort. After excluding low tumor content non-evaluable samples, correlative biomarker analysis was performed in 42 patients.

Expression levels and the activation status of EGFR/HER2 signaling proteins were investigated. The results of the phosphorylated HER2 (phosphoHER2) showed that median levels of phosphoHER2 were higher in the patients who achieved a pCR with neratinib (n=7) than in the patients who did not achieve a pCR who received either trastuzumab (n=8, p=0.07) or the combination of trastuzumab plus neratinib (n=4, p=0.035). There was not a significant difference in the median levels of phosphoHER2 in the patients who achieved a pCR with neratinib (n=7), trastuzumab (n=8, p=0.16) or the combination of trastuzumab plus neratinib (n=4, p=0.10).

The truncated form of HER2 known as p95HER2 was measured by the proprietary assay of Pierian Bioscience. p95HER2 represents a truncated form of the HER2 receptor that lacks the extracellular trastuzumab binding domain. It is believed to represent a mechanism of trastuzumab resistance. Median p95HER2 levels were higher in samples from patients who achieved a pCR with neratinib than in the patients who did not achieve a pCR and who received either trastuzumab (p=0.027) or the combination of trastuzumab plus neratinib (p=0.009). There was not a significant difference in the median levels of p95HER2 in the patients who achieved a pCR with neratinib (n=7), trastuzumab (n=8, p=0.16) or the combination of trastuzumab plus neratinib (n=4, p=0.35).

The MammaPrint assay was performed on 59 samples to determine if there was any imbalance between arms. This assay is a genomic test that analyzes the activity of 70 genes and then calculates a recurrence score that is either low risk or high risk. The results of the MammaPrint showed that the patients in all three arms of the FB-7 trial were balanced with the median MammaPrint risk score being similar across arms. There were only three patients with a MammaPrint low score.

#### PB272 (neratinib, oral)—Metastatic Breast Cancer

**Trials of Neratinib as a Single Agent.** In 2009, Pfizer presented data at the CTRC-AACR San Antonio Breast Cancer Symposium from a Phase II trial of neratinib administered as a single agent to patients with HER2-positive metastatic breast cancer. Final results from this trial were published in the Journal of Clinical Oncology in March 2010.

The trial involved a total of 136 patients, 66 of whom had received prior treatment with trastuzumab and 70 of whom had not received prior treatment with trastuzumab. The results of the study showed that neratinib was reasonably well-tolerated among both the pretreated patients and the patients who had not received prior treatment with trastuzumab. Diarrhea was the most common side effect, but was manageable with antidiarrheal agents and dose modification. Efficacy results from the trial showed that the objective response rate was 24% for patients who had received prior trastuzumab treatment and 56% for patients with no prior trastuzumab treatment. Furthermore, the median PFS was 22.3 weeks for the patients who had received prior trastuzumab and 39.6 weeks for the patients who had not received prior trastuzumab.

**Other Trials of Neratinib in Combination with Other Anti-Cancer Drugs.** In November 2014, we announced top line results from a Phase II clinical trial of neratinib for the treatment of first-line HER2-positive locally recurrent or metastatic breast cancer (NEfERTT trial). Data from this trial was presented at the American Society of Clinical Oncology (ASCO) 2015 Annual Meeting in June 2015. The NEfERTT trial was a randomized, two-arm Phase II trial of neratinib plus the anticancer drug paclitaxel versus trastuzumab (Herceptin) plus paclitaxel as a first-line treatment for HER2-positive locally recurrent or metastatic breast cancer. The trial enrolled 479 patients in 33 countries with locally recurrent or metastatic breast cancer who had not received prior anticancer therapy for locally recurrent or metastatic disease. Patients were randomized to receive first-line treatment with either paclitaxel plus neratinib or paclitaxel plus trastuzumab. The primary endpoint of the trial was progression free survival. The secondary endpoints

of the study included objective response rate and the incidence of central nervous system (CNS) metastases, including brain metastases.

The results of the trial demonstrated that the PFS for the patients who received the combination of paclitaxel plus neratinib was 12.9 months and the PFS for the patients who received the combination of paclitaxel plus trastuzumab was 12.9 months ( $p=0.777$ ). The objective response rate in the trial for the patients who received the combination of paclitaxel plus neratinib was 74.8% and the objective response rate for the patients who received the combination of paclitaxel plus trastuzumab was 77.6% ( $p=0.522$ ). With respect to the incidence of central nervous system, or CNS, metastases, such as brain metastases, treatment with the combination of paclitaxel plus neratinib resulted in a 52% reduction in the incidence of CNS metastases compared to the incidence of CNS metastases in patients who received the combination of paclitaxel plus trastuzumab. Symptomatic or progressive CNS recurrences occurred in 20 patients (8.3%) in the neratinib-paclitaxel group and 41 patients (17.3%) in the trastuzumab-paclitaxel group (relative risk 0.48,  $p=0.002$ ). The estimated Kaplan-Meier 2-year incidence of CNS recurrences was 16.3% in the neratinib-paclitaxel group and 31.2% in the trastuzumab-paclitaxel group (hazard ratio 0.45,  $p=0.004$ ). These results reflect a statistically significant difference between the two treatment arms. We believe that this represents the first randomized trial with a HER2 targeted agent that has shown a statistically significant reduction in the incidence of CNS metastases. The Phase II trial results were published online in the JAMA Oncology in April 2016.

Pfizer presented data from a Phase II trial at the 2010 CTRC-AACR San Antonio Breast Cancer Symposium, which evaluated the safety and efficacy of neratinib when given in combination with the anti-cancer drug vinorelbine in patients with HER2-positive metastatic breast cancer. In the 56 patients who had not been previously treated with the anti-HER2 therapy lapatinib, treatment with the combination of vinorelbine plus neratinib resulted in an overall response rate of 57% and PFS was 44.1 weeks. For those patients who had received prior treatment with lapatinib, the overall response rate was 50%. The combination of vinorelbine and neratinib was generally well tolerated.

Data from a third Phase II study, in which patients with confirmed HER2-positive metastatic breast cancer who had failed treatment with trastuzumab and taxane chemotherapy were given neratinib in combination with capecitabine, was presented at the 2011 CTRC-AACR San Antonio Breast Cancer Symposium. The results of the study showed that the combination of PB272 and capecitabine had acceptable tolerability. The efficacy results from the trial showed that for the 61 patients in the trial who had not been previously treated with the HER2 targeted anti-cancer drug lapatinib, there was an overall response rate of 64% and a clinical benefit rate of 72%. In addition, for the seven patients in the trial who had previously been treated with lapatinib, there was an overall response rate of 57% and a clinical benefit rate of 71%. The median PFS for patients who had not received prior treatment with lapatinib was 40.3 weeks and the median PFS for the patients who had received prior lapatinib treatment was 35.9 weeks.

In February 2013, we reached agreement with the FDA under an SPA for our Phase III clinical trial (PUMA-NER-1301 or the NALA trial) of neratinib in patients with HER2-positive metastatic breast cancer who have failed two or more prior treatments (third-line disease). The SPA is a written agreement between us, as the trial's sponsor, and the FDA regarding the design, endpoints, and planned statistical analysis of the Phase III trial with respect to the effectiveness of PB272 for the indication to be studied to support an NDA. The EMA has also provided follow-on SA, consistent with that of the FDA regarding our Phase III trial design and endpoints to be used and ability of such design to support the submission of an MAA in the EU.

Pursuant to the SPA and SA, the Phase III NALA trial is a randomized controlled trial of neratinib plus capecitabine versus Tykerb® (lapatinib) plus capecitabine in patients with third-line HER2-positive metastatic breast cancer. The trial enrolled 621 patients who were randomized (1:1) to receive either neratinib plus capecitabine or lapatinib plus capecitabine. The trial was conducted globally at sites in North America, Europe, Asia-Pacific and South America. The co-primary endpoints of the trial are centrally confirmed progression free survival, or PFS, and overall survival, or OS. An alpha level of 1% was allocated to the PFS and 4% allocated to OS.

In December 2018 we announced that for the primary analysis of centrally confirmed PFS, treatment with neratinib plus capecitabine resulted in a statistically significant improvement in centrally confirmed PFS ( $p=0.0059$ ) compared to treatment with lapatinib plus capecitabine. For the primary analyses of OS, neratinib plus capecitabine resulted in a numerical improvement in OS that did not achieve statistical significance ( $p=0.21$ ). For the secondary endpoint of time to intervention for symptomatic central nervous system disease (also referred to as brain metastases), the results of the trial showed that treatment with neratinib plus capecitabine led to an improvement over the combination of lapatinib plus capecitabine ( $p=0.043$ ).

The safety profile of neratinib in the Phase III NALA study was consistent with previous clinical trials of neratinib.

Full results of the trial will be submitted to health authorities around the world, including the FDA and EMA. Results of the trial will be submitted for presentation at a major medical conference in 2019.

In 2010, Pfizer also initiated a Phase I/II trial of neratinib in combination with the anti-cancer drug temsirolimus, or Torisel, in patients with HER2-positive metastatic breast cancer who have failed multiple prior treatments. The trial was conducted as a Phase I/II trial of PB272 given in combination with the anticancer drug temsirolimus in patients with HER2-positive metastatic breast cancer. The Phase I portion of the trial, which was reported previously, determined that the maximum tolerated dose was 240 mg of neratinib daily with 8 mg of temsirolimus weekly and the dose limiting toxicity was diarrhea. The interim Phase II data was presented at the 2014 CTRC-AACR San Antonio

Breast Cancer Symposium. The Phase II portion of the study was conducted in two cohorts. The first cohort, referred to as the Maximum Tolerated Dose, or MTD, cohort, received 240 mg of neratinib daily with 8 mg of temsirolimus weekly. This cohort of patients received low dose loperamide (4 mg per day) prophylactically in order to reduce the neratinib-related diarrhea. The second cohort of patients, referred to as the dose escalation cohort, received 240 mg of neratinib daily and initially received 8 mg of temsirolimus weekly. This cohort of patients received high dose loperamide (16 mg per day initially) prophylactically in order to reduce the neratinib-related diarrhea. If patients in the dose escalation cohort had no tolerability issues with the combination of neratinib and temsirolimus given at 8 mg per week during the first cycle of treatment, patients in this dose escalation cohort were allowed to dose escalate the temsirolimus to 15 mg per week for the remainder of the study. Patients in both cohorts in the study received a median of 3 prior regimens in the metastatic setting (range 1-8 prior regimens) before entering the trial. The 37 patients in the MTD cohort were enrolled at 3 centers in the United States and the 45 patients in the dose escalation cohort were enrolled at 8 centers in the United States, Europe and Asia. The interim safety results of the study showed that the most frequently observed adverse event for the patients who received the combination of neratinib plus temsirolimus was diarrhea. For the 37 patients in the MTD cohort, who received low dose loperamide prophylactically, 12 patients (32%) experienced grade 3 diarrhea. For the 41 patients in the dose escalation cohort, who received high dose loperamide prophylactically and were allowed to dose escalate the temsirolimus dose, 7 patients (17%) reported grade 3 diarrhea. 4 (57%) of the 7 patients in the dose escalation cohort who

experienced grade 3 diarrhea were not compliant with the high dose loperamide prophylaxis. There were 4 patients in the dose escalation cohort who did not yet have safety data reported and are therefore not included in the safety population. For the patients in the dose escalation cohort, thus far 47% of the patients have been able to dose escalate temsirolimus from 8 mg per week to 15 mg per week. The interim efficacy results from the trial showed that for the 37 patients in the MTD cohort, 11 patients (30%) experienced a partial response. The median duration of response for this cohort of patients was 3.0 months and the median progression-free survival was 4.8 months. For the 37 evaluable patients in the dose escalation cohort, the efficacy results from the trial demonstrated that 11 patients (30%) experienced a partial response.

#### Metastatic Breast Cancer with Brain Metastases

Approximately one-third of the patients with HER2-positive metastatic breast cancer develop metastases that spread to their brain. The current antibody-based treatments, including trastuzumab, pertuzumab and T-DM1, do not enter the brain and therefore are not believed to be effective in treating these patients. In a Phase II trial with lapatinib given as a single agent, lapatinib demonstrated a 6% objective response rate in the patients with HER2-positive metastatic breast cancer whose disease spread to their brain. In January 2012, a Phase II trial of neratinib as a single agent and in combination with the anticancer drug capecitabine in patients with HER2-positive metastatic breast cancer that has spread to their brain was initiated in conjunction with the Dana Farber Translational Breast Cancer Research Consortium. In June 2014, at the ASCO 2014 Annual Meeting, results from the first cohort (n=40) who were administered neratinib monotherapy was presented. The efficacy results from the first cohort of the trial showed that for the 40 evaluable patients, three (7.5%) patients experienced a partial response, four (10%) patients experienced prolonged stable disease for greater than or equal to six months and 12 (30%) patients experienced stable disease for less than six months. The median PFS of the 40 evaluable patients was seen to be 1.9 months and the median overall survival was seen to be 8.7 months.

In June 2017, we presented additional data from this trial at the ASCO 2017 Annual Meeting. The multicenter Phase II clinical trial enrolled patients with HER2-positive metastatic breast cancer who have brain metastases. The trial enrolled three cohorts of patients. Patients in the second cohort (n=5) represent patients who had brain metastases which were amenable to surgery and who were administered neratinib monotherapy prior to and after surgical resection. The third cohort (target enrollment=60) enrolled two sub-groups of patients (prior lapatinib-treated and no prior lapatinib) with progressive brain metastases who were administered neratinib in combination with the chemotherapy drug capecitabine. The oral presentation reflected only the patients in the third cohort of patients without prior lapatinib exposure (cohort 3A, n=37), who all had progressive brain metastases at the time of enrollment and who received the combination of capecitabine plus neratinib. Results from the second cohort and cohort 3B (prior lapatinib-treated) will be presented at a forthcoming medical meeting.

In cohort 3A, 30% of the patients had received prior craniotomy, 65% of the patients had received prior whole brain radiotherapy, and 35% had received prior stereotactic radiosurgery to the brain. No patients had received prior treatment with lapatinib.

The primary endpoint of the trial was CNS Objective Response Rate according to a composite criteria that included volumetric brain MRI measurements, steroid use, neurological signs and symptoms, and RECIST evaluation for non-CNS sites. The secondary endpoint of the trial was CNS response by Response Assessment in Neuro-Oncology-Brain Metastases, or RANO-BM, criteria. The efficacy results from the trial showed that 49% of patients experienced a CNS Objective Response by the composite criteria. The results also showed that the CNS response rate using the RANO-BM criteria was 24%. The median time to CNS progression was 5.5 months and the median overall survival was 13.5 months, though 49% of patients remain alive and survival data are immature.

The results for cohort 3A showed that the most frequently observed severe adverse event for the 37 patients evaluable for safety was diarrhea. Patients received antidiarrheal prophylaxis consisting of high dose loperamide, given together with the combination of capecitabine plus neratinib for the first cycle of treatment in order to try to reduce the

neratinib-related diarrhea. Among the 37 patients evaluable for safety, 32% of the patients had grade 3 diarrhea and 41% had grade 2 diarrhea.

In April 2018, we announced that NERLYNX (neratinib) has been included as a recommended treatment option in the latest National Comprehensive Cancer Network, or NCCN, Clinical Practice Guidelines in Oncology Central Nervous System Cancers for Breast Cancer patients with brain metastases. The NCCN designated NERLYNX in combination with capecitabine as a category 2A treatment option and NERLYNX in combination with paclitaxel as a category 2B treatment option. Use, as designated for breast cancer patients with brain metastases, is outside the FDA-approved indication for NERLYNX and considered investigational, and we do not market or promote NERLYNX for these uses.

Safety Database. Our safety database includes over 3,000 patients who have been treated with neratinib. To date, the most significant grade 3 or higher adverse event associated with neratinib has been diarrhea, which occurs in approximately 30% of patients receiving the drug. Historically, once diarrhea occurred, patients were treated with loperamide and/or a reduction in the dose of neratinib. We have evaluated a prophylactic protocol pursuant to which a high dose of loperamide, approximately 16 mg, is given together with the initial dose of neratinib and then tapered down during the first cycle of treatment. We plan to continue evaluating this protocol as the preliminary data has suggested that this prophylactic regimen significantly reduces the incidence of diarrhea with neratinib.



In February 2015, Puma initiated a Phase II open-label trial of neratinib monotherapy for one year in 120 patients with early HER2-positive breast cancer who have completed one year of adjuvant trastuzumab, or the CONTROL trial. The CONTROL trial is an international, open-label, Phase II study investigating the use of loperamide prophylaxis with or without other agents in the reduction of neratinib-associated diarrhea that has a primary endpoint of the incidence of grade 3 diarrhea. In the CONTROL trial, patients with HER2-positive early stage breast cancer who had completed trastuzumab-based adjuvant therapy received neratinib daily for a period of one year. The trial initially tested high dose loperamide prophylaxis given for the first 2 cycles (56 days) of treatment (12 mg on days 1-14, 8 mg on days 15-56 and as needed thereafter). In the original protocol, 4 mg loperamide is self-administered with the first dose of neratinib, followed by 2 mg loperamide every 4 hours for the first 3 days, reducing to 2 mg loperamide every 6 to 8 hours through the first 2 cycles of therapy. With Amendment 1 of the protocol, the loperamide dosing schedule was modified to simplify the regimen. Following Amendment 1 of the protocol, 4 mg loperamide is self-administered with the first dose of neratinib, followed by 4 mg loperamide three times a day for 2 weeks, followed by 4 mg loperamide twice daily through the first 2 cycles of therapy. After two cycles, patients do not take loperamide prophylactically but take it as needed throughout the remainder of the treatment duration if diarrhea occurs.

In December 2017, interim results from the CONTROL trial were presented at the 2017 CTRC-AACR San Antonio Breast Cancer Symposium. The CONTROL trial was then expanded to include two additional cohorts. One cohort received the combination of loperamide and budesonide and the other cohort received the combination of loperamide plus colestipol. Budesonide is a locally acting corticosteroid that the Company believes targets the inflammation identified in a preclinical model of neratinib-induced diarrhea and colestipol is a bile acid sequestrant that the Company believes targets potential bile acid malabsorption that could result from such inflammation.

The interim analysis of the trial presented in the poster included a total of 137 patients who received neratinib plus loperamide prophylaxis, 64 patients who received neratinib plus loperamide prophylaxis for 2 cycles and budesonide for 1 cycle, and 120 patients who received neratinib plus loperamide prophylaxis for 1 cycle and colestipol for 1 cycle. The results of the trial showed that the incidence of grade 3 diarrhea for the 137 patients who received the loperamide prophylaxis was 30.7%. For the 137 patients who received the loperamide prophylaxis, the median number of grade 3 diarrhea episodes per patient was 1 and the median cumulative duration of grade 3 diarrhea was 3 days. For the 137 patients who received loperamide prophylaxis, 20.4% discontinued neratinib due to diarrhea. For the 64 patients who received the combination of loperamide plus budesonide, the results of the trial showed that the incidence of grade 3 diarrhea was 26.6%. The median number of grade 3 diarrhea episodes per patient was 1 and the median cumulative duration of grade 3 diarrhea was 2 days. For the 64 patients who received loperamide plus budesonide prophylaxis, 10.9% discontinued neratinib due to diarrhea.

For the 120 patients who received the combination of loperamide plus colestipol, the results of the trial showed that the incidence of grade 3 diarrhea was 10.8%. The median number of grade 3 diarrhea episodes per patient was 1 and the median cumulative duration of grade 3 diarrhea was 3 days. For the 120 patients who received loperamide plus colestipol prophylaxis, 1.7% discontinued neratinib due to diarrhea. Further information is provided in Table 1 below:

Table 1: Characteristics of Treatment-Emergent Diarrhea

Study	CONTROL		Loperamide + colestipol (n=120)	ExteNET Loperamide prn (n=1408)
	Loperamide (n=137)	Loperamide + budesonide (n=64)		
<b>Diarrhea, %</b>				
Any grade	79.6	86.0	66.7	95.4
Grade 1	24.8	25.0	30.0	22.9
Grade 2	24.1	34.4	25.8	32.5
Grade 3 <sup>a</sup>	30.7	26.6	10.8	39.8
Grade 4	0	0	0	0.1
<b>Median cumulative duration, days</b>				
Any grade	14.0	24.0	16.0	59.0
Grade $\geq 2$	5.0	6.0	3.5	10.0
Grade $\geq 3$	3.0	2.0	3.0	5.0
<b>Median diarrhea episodes/patient</b>				
Any grade	2.0	9.0	2.5	8.0
Grade $\geq 2$	2.0	3.0	1.0	3.0
Grade $\geq 3$	1.0	1.0	1.0	2.0
<b>Action taken, %</b>				
Dose hold	15.3	18.8	9.2	33.9
Dose reduction	7.3	3.1	4.2	26.4
Discontinuation	20.4	10.9	1.7	16.8
Hospitalization	1.5	0	0	1.4
<b>Duration of neratinib treatment, months</b>				
Median	11.5	11.9	3.7	11.6

<sup>a</sup> No grade 4 events in the CONTROL study; one grade 4 event in the ExteNET study.

#### PB272 (neratinib, oral)—Other Potential Applications

##### Non-Small Cell Lung Cancer (NSCLC)

Approximately 2% to 4% of patients with NSCLC have a HER2 mutation in the kinase domain. This mutation is believed to narrow the ATP binding cleft, which results in increased tyrosine kinase activity. The mutation is also believed to result in increased PI3K activity and mTOR activation. Published data suggests that patients with HER2-mutated non-small cell lung cancer do not respond to platinum chemotherapy and do not respond to epidermal growth factor receptor inhibitors.

In September 2014, we reported initial data from the ongoing, open label Phase II clinical trial of PB272 (neratinib) for the treatment of patients with NSCLC with HER2 mutations as a late-breaking oral presentation at the ESMO 2014 Congress. In the trial, patients with confirmed Stage IIIB or Stage IV NSCLC with documented somatic HER2 mutations were randomized to receive either oral neratinib monotherapy at a dose of 240 mg per day or the

combination of oral neratinib (at a dose of 240 mg daily) with intravenous temsirolimus administered at a dose of 8 mg per week. In order to attempt to reduce the neratinib-related diarrhea, high-dose loperamide prophylaxis (Imodium) was given to all patients in both arms of the study beginning on day 1 of neratinib dosing. The data presented in the oral presentation involved a total of 27 patients who completed the first stage of the trial; 13 of these patients received neratinib monotherapy and 14 of these patients received the combination of neratinib plus temsirolimus. The results of the study showed that the combination of PB272 and temsirolimus had acceptable tolerability. Historically the most frequently seen adverse event associated with neratinib has been diarrhea. In the previous Phase I trial of neratinib plus temsirolimus (published in the Journal of Clinical Oncology in 2014) the diarrhea with neratinib was seen to be dose dependent and its incidence increased with increasing neratinib dosage. In that Phase I trial, grade 3 or higher diarrhea was seen in approximately 30% of the patients treated with doses of neratinib that were 200 mg or higher. In the Phase II study, all patients received high-dose loperamide in order to attempt to prevent or reduce the neratinib-related diarrhea. For the 13 patients enrolled in the neratinib monotherapy arm, 1 patient (8%) experienced grade 3 diarrhea, and for the 14 patients enrolled in the combination of neratinib plus temsirolimus arm, 2 patients (14%) experienced grade 3 diarrhea. There were no grade 4 diarrhea events seen in the trial. For the 3 patients in the study (1 in the monotherapy arm, 2 in the combination arm) who experienced grade 3 diarrhea, 2 of the 3 patients were not compliant with the loperamide prophylaxis regimen and were not taking loperamide at the onset of grade 3 diarrhea.

The efficacy results from the trial showed that for the 13 patients in the trial who received neratinib monotherapy, no patient experienced a partial response, 7 patients (54%) achieved stable disease and 4 patients (31%) achieved clinical benefit (defined as a partial response or stable disease for 12 or more weeks). For the 14 patients who received the combination of neratinib plus temsirolimus, 3 patients (21%) experienced a partial response, 11 patients (79%) experienced stable disease and 9 patients (64%) achieved clinical benefit. The median PFS of the neratinib monotherapy arm was 2.9 months and the median PFS of the arm that received neratinib plus temsirolimus was 4.0 months. Patients continue to be enrolled in the arm of the trial that is receiving the combination of neratinib plus temsirolimus.

#### HER2 Mutation-Positive Solid Tumors

Based on the results from the Cancer Genome Atlas Study, we estimate that between 2% and 12% of each solid tumor has a mutation in HER2. In the United States, this includes new diagnoses of an estimated 7,000 – 7,500 patients with bladder cancer; 4,000 – 4,500 patients with colorectal cancer; 1,500 – 2,000 patients with glioblastoma; 1,000 patients with melanoma; 4,000 – 5,000 patients with prostate cancer; 1,000 patients with stomach cancer; and 1,000 – 2,000 patients with uterine cancer.

**Basket Trial for HER2 Mutation-Positive Solid Tumors.** In October 2013, we announced that we had initiated a Phase II clinical trial of neratinib as a single agent in patients with solid tumors that have an activating HER2 mutation, which we refer to as the SUMMIT basket trial. The Phase II SUMMIT basket trial is an open-label, multicenter, multinational study to evaluate the safety and efficacy of PB272 administered daily to patients who have solid tumors with activating HER2 or HER3 mutations. The study initially included six cohorts of patients, one for each of the following cancers: (i) bladder/urinary tract cancer; (ii) colorectal cancer; (iii) endometrial cancer; (iv) gastric/esophageal cancer; (v) ovarian cancer; and (vi) all other solid tumors (including prostate, melanoma and pancreatic cancer). Each cohort initially consists of seven patients. If a certain predetermined objective response rate is seen in the initial cohort of seven patients, the cohort will be expanded to include a larger number of patients.

#### HER2-Mutated, Non-Amplified Breast Cancer

A HER2 mutation in patients with HER2-negative breast cancer was identified as part of a study performed by the Cancer Genome Atlas Network and published in *Cancer Discovery* in December 2012. We believe this mutation may occur in an estimated 2% of patients with breast cancer. Pre-clinical data from this publication demonstrated that neratinib was active in pre-clinical models of HER2-negative breast cancer that have this HER2 mutation and that neratinib has more anti-cancer activity than either trastuzumab or lapatinib in cells with this mutation. A Phase II trial of neratinib in HER2-negative breast cancer patients who have a HER2 mutation opened for enrollment in December 2012.

As stated above, in May 2014 we expanded the first cohort from the SUMMIT basket trial. Interim results from this ongoing Phase II trial were presented at the 2017 American Association for Cancer Research Annual Meeting. All patients received loperamide (16 mg per day initially) prophylactically for the first cycle of treatment in order to reduce the neratinib-related diarrhea. Included in the presentation were data on 141 patients enrolled in the neratinib monotherapy arm of the trial, including 124 patients with HER2 mutations and 17 patients with HER3 mutations. This included patients with 21 unique tumor types, with the most common being breast, lung, bladder and colorectal cancer. There were also 30 distinct HER2 and 12 distinct HER3 mutations observed among these patients, with the most frequent HER2 variants involving S310, L755, A755\_G776insYVMA and V777.

In the HER2-mutant cohort, clinical responses were observed in tumors with S310, L755, V777, P780\_Y781insGSP and A775\_G776insYVMA mutations. When stratified by tumor type, responses were observed in patients with breast, cervical, biliary, salivary and non-small-cell lung cancers, which led to cohort expansions in these tumor types. No

activity was observed in the HER3-mutant cohort. A more detailed presentation of the data is presented in the table below.

14

---

The neratinib safety profile observed in the SUMMIT study has been consistent with that observed previously in metastatic patients with HER2 amplified tumors. With anti-diarrheal prophylaxis and management, diarrhea has not been a treatment-limiting side effect in SUMMIT. The interim safety results of the study showed that the most frequently observed adverse event has been diarrhea. For the 141 patients enrolled in the neratinib monotherapy arm with safety data available as of March 10, 2017, 31 patients (22%) reported grade 3 diarrhea. The median duration of grade 3 diarrhea for those patients was two days. Four patients (2.8%) permanently discontinued neratinib due to diarrhea and 21 patients (14.9%) temporarily discontinued neratinib due to diarrhea and then restarted after the diarrhea subsided.

Table 1: SUMMIT Trial Interim Efficacy Results as of March 10, 2017

	HER2 <sup>mut</sup>	HER2 <sup>mut</sup>	HER2 <sup>mut</sup>	HER2 <sup>mut</sup>	HER2 <sup>mut</sup>	HER2 <sup>mut</sup>	HER3 <sup>mut</sup>
	HER2 <sup>mut</sup>	HER2 <sup>mut</sup>	Lung	Colorectal	Biliary tract	Cervical	NOS
	Breast (n=25)	Bladder (n=16)	(n=26)	(n=12)	(n=9)	(n=5)	(n=17)
ORR at week 8, n (%)	8 (32.0)	0 (0.0)	1 (3.8)	0 (0.0)	2 (22.2)	1 (20.0)	0 (0.0)
(95% CI)	(14.9—53.5)	(0.0—20.6)	(0.1—19.6)	(0.0—26.5)	(2.8—60.0)	(0.5—71.6)	(0.0—20.6)
Clinical benefit rate, n (%)	10 (40.0)	3 (18.8)	11 (42.3)	1 (8.3)	3 (33.3)	3 (60.0)	2 (11.8)
(95% CI)	(21.1—61.3)	(4.0—45.6)	(23.4—63.1)	(0.2—38.5)	(7.5—70.1)	(14.7—94.7)	(1.6—38.3)
Median PFS, months	3.5	1.8	5.5	1.8	2.8	20.1	1.7
(95% CI)	(1.9—4.3)	(1.7—3.5)	(2.7—10.9)	(1.4—1.9)	(0.5—3.7)	(0.5—NA)	(1.4—2.0)

In December 2018, we announced that updated results from the SUMMIT basket trial in the HER2-mutant, hormone receptor positive breast cancer cohort were presented at the San Antonio Breast Cancer Symposium. The results included data from 47 patients who received 240 mg of neratinib daily in combination with fulvestrant at the labeled dose. In this cohort, 43 patients (92%) had HER2-non-amplified disease, and patients had received a median of three prior lines of therapy in the metastatic setting (range 0-11 prior regimens) before entering the trial. All patients had been previously treated with an endocrine agent prior to entering the study, including 25 patients (53%) who had received prior fulvestrant. Further, 20 patients (43%) received prior cyclin-dependent kinase 4/6 (CDK4/6) -inhibitor therapy.

The efficacy summary of the breast cohort that received neratinib + fulvestrant is shown in the table below. The interim efficacy results from the trial showed that for the 47 efficacy evaluable patients, 14 patients (30%) experienced an objective response, which included four patients with a complete response and 10 patients with partial responses, and 22 patients (47%) experienced clinical benefit (clinical benefit is defined as confirmed complete response or partial response or stable disease for at least 24 weeks). The median duration of response was 9.2 months and the median progression free survival was 5.4 months. Subgroup analysis showed that patients who had received prior fulvestrant or CDK4/6 inhibitor targeted therapy prior to entering the trial also benefited from treatment of neratinib and fulvestrant. Of note, six patients (30%) with prior CDK4/6-inhibitor exposure showed confirmed responses, with the duration of responses ranging from 4.5–14.8 months. Four patients were still on treatment at the time of data reporting.

Table 1: HER2-Mutant, HR-Positive Metastatic Breast Cancer

## Phase II SUMMIT Trial Interim Efficacy Summary as of October 19, 2018

Efficacy Endpoint <sup>a</sup> :	Neratinib + Fulvestrant		
	All Patients (n=47)	Subgroups Prior Fulvestrant (n=25)	Prior CDK4/6 Inhibitor -Based Therapy (n=20)
Objective response (confirmed) <sup>b</sup> – n	14	4	6
CR	4	0	1
PR	10	4	5
Objective response rate (95% CI)	30 (17–45)	16 (5–36)	30 (12–54)
Median <sup>c</sup> DOR, months (95% CI)	9.2 (5.5–16.6)		
DOR for each responder		9.2; 9.3*; 14.8*; 16.6	4.5; 7.3; 9.2*; 9.3*; 11.2*; 14.8*
Clinical benefit <sup>d</sup> – n	22	9	8
CR or PR	14	4	6
SD	8	5	2
Clinical benefit rate (95% CI)	47 (32–62)	36 (18–58)	40 (19–64)
Median <sup>c</sup> PFS (95% CI) time to event, months	5.4 (3.7–9.2)	3.7 (3.5–6.9)	4.1 (1.9–10.9)

15

	Patients with RECIST v1.1 Measurable Disease		
	All Patients	Subgroups	
Efficacy Endpoint <sup>a</sup> :	(n=39)	Prior Fulvestrant (n=21)	Prior CDK4/6 Inhibitor -Based Therapy (n=15)
Objective response (confirmed) <sup>b</sup> – n	12	4	5
CR	2	0	0
PR	10	4	5
Objective response rate (95% CI)	31 (17–48)	19 (5–42)	33 (12–62)
Median <sup>c</sup> DOR, months (95% CI)	9.0 (4.5–16.6)		
DOR for each responder		9.2; 9.3*; 14.8*; 16.6	4.5; 7.3; 9.2*; 9.3*; 14.8*
Clinical benefit <sup>d</sup> – n	18	8	6
CR or PR	12	4	5
SD	6	4	1
Clinical benefit rate (95% CI)	46 (30–63)	38 (18–62)	40 (16–68)
Median <sup>c</sup> PFS (95% CI) time to event, months	5.4 (3.5–10.3)	NA	NA

<sup>a</sup>Response is based on investigator tumor assessments per RECIST v1.1 or modified PERCIST for patients with only PET-evaluable lesions.

<sup>b</sup>Overall objective response (ORR) is defined as either a complete or partial response that is confirmed no less than 4-weeks after the criteria for response are initially met.

<sup>c</sup>Kaplan-Meier analysis

<sup>d</sup>Clinical benefit rate (CBR) is defined as confirmed CR or PR or stable disease (SD) for at least 24 weeks (within +/- 7 day visit window).

\*Patient still on treatment at time of data cut; DOR, duration of response; PFS, progression free survival; NA, not available

The safety profile observed in neratinib and fulvestrant-treated breast cancer patients in the SUMMIT basket trial was consistent with that observed previously in metastatic patients with HER2 amplified tumors. With anti-diarrheal prophylaxis and management, diarrhea was not a treatment-limiting side effect in the SUMMIT basket trial. The interim safety results of the study showed that the most frequently observed adverse event was diarrhea. For the 47 patients enrolled in the trial, 11 patients (23%) reported grade 3 diarrhea. The median duration of grade 3 diarrhea for those patients was 1.5 days. No patients permanently discontinued neratinib due to diarrhea.

#### PB272 (neratinib, intravenous)

We also plan to develop neratinib as an intravenously administered agent. The intravenous version of neratinib resulted in higher exposure levels of neratinib in pre-clinical models. We believe this may result in higher blood levels of neratinib in patients, and may translate into enhanced efficacy. We are evaluating the intravenous formulation of neratinib and considering options relative to its development.

#### PB357

PB357 is an orally administered agent that is an irreversible TKI that blocks signal transduction through the epidermal growth factor receptors, HER1, HER2 and HER4. PB357 is structurally similar to PB272. Pfizer completed single-dose Phase I trials of PB357. We are evaluating PB357 and considering options relative to its development.

#### Clinical Testing of Our Products in Development



Each of our products in development, and likely all future drug candidates we in-license, will require extensive pre-clinical and clinical testing to determine the safety and efficacy of the product applications prior to seeking and obtaining regulatory approval. This process is expensive and time consuming. In completing these trials, we are dependent upon third-party consultants, consisting mainly of investigators and collaborators, who will conduct such trials.

We and our third-party consultants conduct pre-clinical testing in accordance with Good Laboratory Practices, or GLP, and clinical testing in accordance with Good Clinical Practice standards, or GCP, which are international ethical and scientific quality standards utilized for pre-clinical and clinical testing, respectively. GCP is the standard for the design, conduct, performance, monitoring, auditing, recording, analysis and reporting of clinical trials and the FDA requires compliance with GCP regulations in the conduct of clinical trials. Additionally, our pre-clinical and clinical testing completed in the EU is conducted in accordance with applicable EU standards, such as the EU Clinical Trials Directive (Directive 2001/20/EC of April 4, 2001), or the EU Clinical Trials Directive, and the national laws of the 28 member states of the EU, or Member States, implementing its provisions.

We have entered into, and may enter into in the future, master service agreements with clinical research organizations, or CROs, with respect to initiating, managing and conducting the clinical trials of our products. These contracts contain standard terms for the type of services provided that contain cancellation clauses requiring between 30 and 45 days written notice and that obligate us to pay for any services previously rendered with prepaid, unused funds being returned to us.

## Competition

The development and commercialization of new products to treat cancer is highly competitive, and we face considerable competition from major pharmaceutical, biotechnology and specialty cancer companies. As a result, there are and will likely continue to be extensive research and substantial financial resources invested in the discovery and development of new cancer products. Our competitors include, but are not limited to, Genentech, Novartis, Roche, Boehringer Ingelheim, Takeda, Daiichi Sankyo and Seattle Genetics. None of these companies are developing their drugs for the extended adjuvant treatment of early stage HER2-positive breast cancer that has been previously treated with a trastuzumab-containing regimen. All of these competitors are developing their drugs for the treatment of early stage and/or metastatic HER2-positive breast cancer. We are an early stage company with a limited history of operations, sales, marketing and commercial manufacturing. Many of our competitors have substantially more financial and technical resources than we do. In addition, many of our competitors have more experience than we have in pre-clinical and clinical development, manufacturing, regulatory and global commercialization. We are also competing with academic institutions, governmental agencies and private organizations that are conducting research in the field of cancer.

We anticipate that we will face intense competition if we are able to commercialize additional product candidates. We expect that our products under development and in clinical trials will address major markets within the cancer sector. Our competition will be determined in part by the potential indications for which drugs are developed and ultimately approved by regulatory authorities. Additionally, the timing of market introduction of some of our potential products or of competitors' products may be an important competitive factor. Accordingly, the speed with which we can develop products, complete pre-clinical testing, clinical trials and approval processes, and supply commercial quantities to market are expected to be important competitive factors. We expect that competition among products approved for sale will be based on various factors, including product efficacy, safety, reliability, availability, price, reimbursement and patent position.

## Sales and Marketing

During 2017, in connection with FDA approval of NERLYNX, we hired a U.S. specialty sales force of approximately 85 sales specialists who are focused on promoting NERLYNX to oncologists. This sales force is supported by an experienced sales leadership team comprised of regional sales managers, and our experienced commercial team comprised of experienced professionals in marketing, access and reimbursement, managed markets, marketing research, commercial operations, and sales force planning and management. In addition, our commercial infrastructure includes capabilities in manufacturing, medical affairs, quality control, and compliance.

We launched NERLYNX in the United States in July 2017, and our focus is to establish NERLYNX as the first choice for extended adjuvant treatment of adult patients with early stage HER2-overexpressed/amplified breast cancer following adjuvant trastuzumab-based therapy.

In other markets outside of the United States in which NERLYNX may be approved, if any, we may choose to commercialize NERLYNX independently or by establishing one or more strategic alliances such as the ones we have established for commercializing NERLYNX in the territories for each of our respective licensees.

In November 2018, our board of directors formed a commercialization committee, consisting of Michael Miller, Jay Moyes and Frank Zavrl (and on which Alan H. Auerbach, our Chief Executive Officer and President, participates), to

assist management in further accelerating our commercialization efforts in the United States. In particular, the committee is assessing our current commercial infrastructure and sales organization, assisting management in designing and implementing additional strategies focused on optimizing our commercial results and working with management to provide additional oversight into the commercial department.

#### Intellectual Property and License Agreements

We hold a worldwide exclusive license under our license agreement with Pfizer to eighteen granted U.S. patents and five pending U.S. patent applications, as well as foreign counterparts thereof, and other patent applications and patents claiming priority therefrom.

In the United States, we have a license to an issued patent, which currently will expire in 2025, for the composition of matter of neratinib, our lead compound. We have a license to an issued U.S. patent covering a family of compounds including neratinib, as well as equivalent patents in the EU and Japan, that currently expire in 2019. We also have a license to an issued U.S. patent for the use of neratinib in the treatment of breast cancer, which currently expires in 2025, an issued patent for the use of neratinib in the extended adjuvant treatment of early stage HER2 positive breast cancer that has previously been treated with a trastuzumab containing regimen that expires in 2030, and two issued patents for the formulation of NERLYNX that expire in 2030. In jurisdictions which permit such, we will seek patent term extensions where possible for certain of our patents. We plan to pursue additional patents in and outside the United States covering additional therapeutic uses of neratinib from these existing applications. In addition, we will pursue patent protection for any new discoveries or inventions made in the course of our development of neratinib.

If we obtain marketing approval for neratinib or other drug candidates in the United States or in certain jurisdictions outside the United States, we may be eligible for regulatory protection, such as five years of new chemical entity exclusivity and, as mentioned below, up to five years of patent term extension potentially available in the United States under the Hatch-Waxman Act. In addition, eight to eleven years of data and marketing exclusivity potentially are available for new drugs in the European Union; up to five years of patent extension are potentially available in Europe (Supplemental Protection Certificate), and eight years of data exclusivity are potentially available in Japan. There can be no assurance that we will qualify for any such regulatory exclusivity, or that any such exclusivity will prevent competitors from seeking approval solely on the basis of their own studies. See “Government Regulation” below.

The intellectual property portfolio that was licensed from Pfizer in 2011 when we licensed neratinib included issued patents in a number of countries, including in Europe (EP1848414), as well as pending patent applications in several countries, including the United States, relating to methods of treating gefitinib-and/or erlotinib-resistant cancer by administering an irreversible epidermal growth factor receptor inhibitor. More specifically, the patent that was issued in Europe in April 2011 included specific claims that included a pharmaceutical composition for use in treating cancer in a subject with a cancer having a mutation in epidermal growth factor receptor with a T790M mutation. On November 28, 2011, Boehringer Ingelheim International GmbH filed an opposition to this patent asking for this patent to be revoked. Oral proceedings were held before the Opposition Division of the European Patent Office in Munich, Germany on February 4, 2014. The decision of the Opposition Division was to uphold the granted claims of the European patent that relate to the T790M mutation without any modification. This included specific claims that include claims for the pharmaceutical composition comprising an irreversible epidermal growth factor receptor inhibitor for use in treating cancer in a subject having a T790M mutation, and claims for the pharmaceutical composition for use in the treatment of numerous cancers, including lung cancer and non-small cell lung cancer. Both parties have appealed this decision. The appeal is pending.

An Opposition was filed by Hexal AG, or Hexel, on August 3, 2016 against European Patent No. EP2416774 which was licensed from Pfizer in 2011, and which claims neratinib for use in a method for treating HER-2/neu overexpressed/amplified cancer and improving IDFS, wherein the method comprises delivering neratinib therapy to HER-2/neu overexpressed/amplified cancer patients following the completion of at least one year of trastuzumab adjuvant therapy, and wherein the neratinib therapy comprises treating the cancer patients with neratinib for at least twelve months. An oral hearing was held December 8, 2017, wherein the patent was maintained as granted. Hexal then appealed, which appeal is pending.

On October 4, 2017, Hexal AG also filed an Opposition to European Patent No. EP2326329 which was licensed from Pfizer in 2011, and which claims a combination of neratinib and pharmaceutically acceptable salts thereof with capecitabine for use in a method of treating an Erb-2 positive metastatic breast cancer. An oral hearing was held on February 13, 2019, wherein the patent was maintained as granted. Hexal could appeal this ruling.

An Opposition was filed by Generics (UK) Ltd., or Generics, on September 3, 2015 against European Patent No. EP2656844, which was licensed from Pfizer in 2011, and which claims, inter alia, a pharmaceutical pack containing 50 to 300 mg of neratinib and pharmaceutically acceptable salts thereof and vinorelbine for use in a method of treating

a neoplasm. An oral hearing was held July 3, 2017, wherein the patent was maintained as granted. Generics then appealed, which appeal is pending.

Unipharm Ltd. filed a pre-grant opposition to Israeli Patent Application No. IL215166 on December 7, 2016. This application was licensed from Pfizer in 2011. The opposition was abandoned after Unipharm missed a deadline for filing evidence. The patent subsequently granted on August 14, 2017 and claims use of neratinib in the manufacture of a medicament for treatment of HER2/neu overexpressed/amplified cancer.

Unipharm also filed a pre-grant opposition to Israeli Patent Application No. IL210616 on January 31, 2016. This application was licensed from Pfizer in 2011. An oral hearing was held in Jerusalem before the Israeli Patent Office on January 22, 2018. The matter is pending before the Israeli Patent Office. The application is directed to use of a combination of neratinib and capecitabine in the manufacture of a medicament for treating a neoplasm.

Our goal is to obtain, maintain and enforce patent protection for our products, formulations, processes, methods and other proprietary technologies, preserve our trade secrets, and operate without infringing on the proprietary rights of other parties, both in the United States and in other countries. Our policy is to actively seek to obtain, where appropriate, the broadest intellectual property protection possible for our current product candidates and any future product candidates, proprietary information and proprietary technology through a combination of contractual arrangements and patents, both in the United States and abroad. However, even patent protection may not always provide us with complete protection against competitors who seek to circumvent our patents. See “Risk Factors—Risks Related to Our Intellectual Property—Our proprietary rights may not adequately protect our intellectual property and potential products, and if we cannot obtain adequate protection of our intellectual property and potential products, we may not be able to successfully market our potential products.”

We depend upon the skills, knowledge and experience of our scientific and technical personnel, as well as that of our advisors, consultants and other contractors, none of which is patentable. To help protect our proprietary know-how, which is not patentable, and inventions for which patents may be difficult to obtain or enforce, we rely on trade secret protection and confidentiality agreements to protect our interests. To this end, we require all of our employees, consultants, advisors and other contractors to enter into confidentiality agreements that prohibit the disclosure of confidential information and, where applicable, require disclosure and assignment to us of the ideas, developments, discoveries and inventions important to our business.

#### In-License Agreement

In August 2011, Former Puma entered into an agreement pursuant to which Pfizer agreed to grant to Former Puma a worldwide license for the development, manufacture and commercialization of neratinib (oral), neratinib (intravenous), PB357, and certain related compounds. Pursuant to the terms of the agreement, the license would not become effective until Former Puma closed a capital raising transaction in which it raised at least \$25 million in aggregate net proceeds and had a net worth of at least \$22.5 million. Upon the closing of the financing that preceded the Merger, this condition was satisfied.

We assumed the license agreement, in accordance with its terms, in the Merger. The license is exclusive with respect to certain patent rights owned or licensed by Pfizer. Under the license agreement, Pfizer is obligated to transfer to us certain information, records, regulatory filings, materials and inventory controlled by Pfizer and relating to or useful for developing these compounds and to continue to conduct certain ongoing clinical studies until a certain time. After that time, we are obligated to continue such studies pursuant to an approved development plan, including after the license agreement terminates for reasons unrelated to Pfizer's breach of the license agreement, subject to certain specified exceptions. We are also obligated to commence a new clinical trial for a product containing one of these compounds within a specified period of time and use commercially reasonable efforts to complete such trial and achieve certain milestones as provided in a development plan. If certain of our out-of-pocket costs in completing such studies exceed a mutually agreed amount, Pfizer will pay for certain additional out-of-pocket costs to complete such studies. We must use commercially reasonable efforts to develop and commercialize products containing these compounds in specified major-market countries and other countries in which we believe it is commercially reasonable to develop and commercialize such products.

As consideration for the license, we are required to make payments totaling \$187.5 million upon the achievement of certain milestones if all such milestones are achieved. In connection with the FDA approval of NERLYNX in July 2017, we triggered a one-time milestone payment.

The license agreement originally stipulated that should we commercialize any of the compounds licensed from Pfizer or any products containing any of these compounds, we will be obligated to pay to Pfizer incremental annual royalties between approximately 10% and 20% of net sales of all such products, subject, in some circumstances, to certain reductions.

In July 2014, we signed an amendment to the license agreement with Pfizer. The amendment to the license agreement provides that we would be solely responsible for the expenses incurred or accrued in conducting the ongoing legacy clinical trials after December 31, 2013. These costs were previously the responsibility of Pfizer.

In addition, under the amended agreement, annual royalties to be paid on net sales of licensed products were reduced from a tiered royalty rate structure ranging between 10% to 20% to a fixed rate in the low to mid-teens.

Our royalty obligation continues, on a product-by-product and country-by-country basis, until the later of (i) the last to expire valid claim of a licensed patent covering the applicable licensed product in such country, or (ii) the earlier of

generic competition for such licensed product reaching a certain level of sales in such country or expiration of a certain time period after first commercial sale of such licensed product in such country. We can terminate the license agreement at will at any time after April 4, 2013, or for safety concerns, in each case upon specified advance notice. Each party may terminate the license agreement if the other party fails to cure any breach of a material obligation by such other party within a specified time period. Pfizer may terminate the license agreement in the event of our bankruptcy, receivership, insolvency or similar proceeding. The license agreement contains other customary clauses and terms as are common in similar agreements in the industry.

## Out-License Agreements

### Specialised Therapeutics Agreement

On November 20, 2017, we entered into a license agreement, or the Specialised Therapeutics Agreement, with STA. Pursuant to the Specialised Therapeutics Agreement, we granted to STA, under certain of our intellectual property rights relating to neratinib, an exclusive, sublicensable (under certain circumstances) license to commercialize any pharmaceutical product containing neratinib in finished form for the extended adjuvant treatment of women with early stage HER2-positive breast cancer and HER2-positive metastatic breast cancer in Australia, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, New Zealand, Papua New Guinea, Philippines, Singapore, Thailand, Timor-Leste and Vietnam, or the STA Territory.

The Specialised Therapeutics Agreement sets forth the parties' respective obligations with respect to the development, commercialization and supply of the licensed product. Within the STA Territory, STA will be generally responsible for regulatory and commercialization activities, and we will be solely responsible for the manufacturing and supply of the licensed product under a supply agreement entered into between the parties.

Pursuant to the Specialised Therapeutics Agreement, we are entitled to upfront and other milestone payments of up to \$4.5 million, payable upon achievement of the milestone events specified in the Specialised Therapeutics Agreement. Furthermore, we are entitled to receive significant double digit royalties calculated as a percentage of net sales of licensed products in the STA Territory.

The term of the Specialised Therapeutics Agreement continues, on a country-by-country basis, until the later of (i) the expiration or abandonment of the last patent covering the licensed product or (ii) the earlier of (a) the date upon which sales of generic versions of licensed product reach a specified level in such country, or (b) the tenth anniversary of the first commercial sale of the licensed product in such country. The Specialised Therapeutics Agreement may be terminated by either party if the other party commits a material breach, subject to a customary cure period, or if the other party is insolvent. The Specialised Therapeutics Agreement will also terminate upon the termination of the supply agreement for licensed products between the parties.

### CANbridge Agreement

On January 30, 2018, we entered into a license agreement, or the CANbridge Agreement, with CANbridge. Pursuant to the CANbridge Agreement, we granted to CANbridge, under certain of our intellectual property rights relating to neratinib, an exclusive, sublicensable (under certain circumstances) license to develop and commercialize any pharmaceutical product containing neratinib for the treatment of human disease, or for purposes of this description, the Field, in the People's Republic of China, or the CANbridge Territory, including mainland China, Hong Kong, Macao, and Taiwan, or, each, a CANbridge Region.

The CANbridge Agreement sets forth the parties' respective obligations with respect to the development, commercialization and supply of the licensed product. CANbridge will, at its expense, develop the licensed product for the purpose of obtaining regulatory approval in the Field and in the CANbridge Territory, subject to our approval of certain aspects of clinical studies conducted by CANbridge. Within the CANbridge Territory, CANbridge will be solely responsible, at its expense, for regulatory and commercialization activities. We will be solely responsible, subject to certain exceptions, for the manufacturing and supply of the licensed product under a supply agreement that will be entered into between the parties.

Pursuant to the CANbridge Agreement, we received an upfront payment of \$30 million and a regulatory milestone payment of \$10 million and will potentially receive regulatory milestone payments totaling up to \$30 million and



sales-based milestone payments totaling up to \$185 million. In addition, we are entitled to receive significant double-digit royalties calculated as a percentage of net sales of the licensed products in the CANbridge Territory.

The term of the CANbridge Agreement continues, on a CANbridge Region-by-CANbridge Region basis, until (i) the later of the expiration or abandonment of the last licensed patent covering the licensed product in such CANbridge Region or (ii) the earlier of (x) the date upon which sales of generic versions of the licensed product reach a specified level in such CANbridge Region, or (y) the tenth anniversary of the first commercial sale of the licensed product in such CANbridge Region. The CANbridge Agreement may be terminated by either party if the other party commits a material breach, subject to a customary cure period, or if the other party is insolvent; provided that if CANbridge materially breaches its development or commercialization obligations in a particular CANbridge Region, we may terminate the CANbridge Agreement solely with respect to such CANbridge Region. CANbridge may terminate the agreement at its convenience.

## Pint Agreement

On March 30, 2018, we entered into a license agreement, or the Pint Agreement, with Pint. Pursuant to the Pint Agreement, we granted to Pint, under certain of our intellectual property rights relating to neratinib, an exclusive, sublicensable (under certain circumstances) license to develop and commercialize any product containing neratinib and certain related compounds in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, and Venezuela, French Guiana, the Falkland Islands, and Mexico, or Pint Territory.

The Pint Agreement sets forth the parties' respective obligations with respect to the development, commercialization and supply of the licensed product. Pint will, at its expense, develop the licensed product for the purpose of obtaining regulatory approval in the Pint Territory, subject to our consent to conduct such development activities and approval of certain aspects of clinical studies conducted by Pint. Within the Pint Territory, Pint will also be responsible for regulatory and commercialization activities. We will be solely responsible for the manufacturing and supply of the licensed product under a supply agreement that will be entered into between the parties, subject to certain exceptions therein.

Pursuant to the Pint Agreement, we received an upfront payment of \$10 million and are eligible to receive regulatory and sales-based milestone payments totaling up to \$24.5 million. In addition, we are entitled to receive double-digit royalties calculated as a percentage of net sales of the licensed products in the Pint Territory.

The term of the Pint Agreement continues, on a country-by-country basis, until the later of (i) the expiration or abandonment of the last licensed patent covering the licensed product in such country, or (ii) the earlier of (x) the date upon which sales of generic versions of licensed product reach a specified level in such country, or (y) the tenth anniversary of the first commercial sale of the licensed product in such country. The Pint Agreement may be terminated by either party if the other party commits a material breach, subject to a customary cure period, or if the other party is insolvent. Pint may also terminate the Pint Agreement at will, for certain safety concerns.

## Knight Agreement

On January 9, 2019, we entered into a license agreement, or the Knight Agreement, with Knight. Pursuant to the Knight Agreement, we granted to Knight, under certain of our intellectual property rights relating to neratinib, an exclusive, sublicensable (under certain circumstances) license (i) to commercialize any product containing neratinib and certain related compounds in Canada, or the Knight Territory, (ii) to seek and maintain regulatory approvals for the licensed products in the Knight Territory and (iii) to manufacture the licensed products anywhere in the world solely for the development and commercialization of the licensed products in the Knight Territory for human use, subject to the terms of the Knight Agreement and a supply agreement to be negotiated and executed by the parties.

Under the terms of the Knight Agreement, we will be solely responsible for the manufacturing and supply of the licensed products to Knight, but under limited circumstances Knight may obtain the right to manufacture the licensed products under the supply agreement.

The Knight Agreement sets forth the parties' respective obligations with respect to the commercialization of the licensed products. Within the Knight Territory, we will be solely responsible for obtaining the regulatory approval for the indication of extended adjuvant treatment of HER2-positive early stage breast cancer, or the Initial Indication, and Knight will use commercially reasonable efforts to prepare, file and manage regulatory filings for any other indications in the field of human use. Promptly after obtaining the regulatory approval for the Initial Indication in the Knight Territory, we will transfer such regulatory approval to Knight, and Knight will own and hold any regulatory approvals for the licensed products in the Knight Territory in its name.

Pursuant to the Knight Agreement, we will receive upfront and milestone payments up to \$7.2 million, each milestone payment payable upon the achievement of the milestone event specified in the Knight Agreement. In addition, we are entitled to receive double digit royalties calculated as a percentage of net sales of the licensed products in the Knight Territory.

The term of the Knight Agreement continues, on a licensed product-by-licensed product basis, until the later of (i) the expiration or abandonment of the last valid claim of the licensed patents that covers such licensed product in the Territory, or (ii) the earlier of (x) the time when generic competitors to such licensed product have achieved a specified level in such country, or (y) ten (10) years following the date of first commercial sale of such licensed product in the Territory. The Knight Agreement may be terminated by either party if the other party commits a material breach, subject to a customary cure period, or if the other party is insolvent

## Government Regulation

### United States—FDA Process

The research, development, testing, manufacture, labeling, promotion, advertising, distribution and marketing, among other things, of drug products are extensively regulated by governmental authorities in the United States and other countries. In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or the FDCA, and its implementing regulations. Failure to comply with the applicable U.S. requirements may subject us to administrative or judicial sanctions, such as FDA refusal to approve pending NDAs, warning letters, fines, civil penalties, product recalls, product seizures, total or partial suspension of production or distribution, injunctions and/or criminal prosecution.

**Drug Approval Process.** None of our drug product candidates may be marketed in the United States until the drug has received FDA approval. The steps required before a drug may be marketed in the United States generally include the following:

- completion of extensive pre-clinical laboratory tests, animal studies, and formulation studies in accordance with the FDA's GLP regulations;
  - submission to the FDA of an Investigational New Drug, or IND, application for human clinical testing, which must become effective before human clinical trials may begin;
  - performance of adequate and well-controlled human clinical trials in accordance with GCP requirements to establish the safety and efficacy of the drug for each proposed indication;
  - submission to the FDA of an NDA after completion of all pivotal clinical trials;
  - satisfactory completion of an FDA pre-approval inspection of the manufacturing facility or facilities at which the active pharmaceutical ingredient, or API, and finished drug product are produced and tested to assess compliance with current Good Manufacturing Practices, or cGMPs; and
  - FDA review and approval of the NDA prior to any commercial marketing or sale of the drug in the United States.
- The development and approval process requires substantial time, effort and financial resources, and we cannot be certain that any approvals for our product candidates will be granted on a timely basis, if at all.

Pre-clinical tests include laboratory evaluation of product chemistry, toxicity and formulation, as well as animal studies. The conduct of the pre-clinical tests and formulation of the compounds for testing must comply with federal regulations and requirements. The results of the pre-clinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND, which must become effective before human clinical trials may begin. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions about the conduct of the trial, such as whether human research subjects will be exposed to an unreasonable health risk. In such a case, the IND sponsor and the FDA must resolve any outstanding FDA concerns or questions before clinical trials can proceed. We cannot be sure that submission of an IND will result in the FDA allowing clinical trials to begin.

Clinical trials involve administration of the investigational drug to human subjects under the supervision of qualified investigators. Clinical trials are conducted under protocols detailing the objectives of the study, the parameters to be used in monitoring safety and the effectiveness criteria to be evaluated. Each protocol must be provided to the FDA as part of a separate submission to the IND. Further, an Institutional Review Board, or IRB, for each medical center proposing to conduct the clinical trial must review and approve the study protocol and informed consent information for study subjects for any clinical trial before it commences at that center, and the IRB must monitor the study until it is completed. There are also requirements governing reporting of ongoing clinical trials and clinical trial results to public registries. Study subjects must sign an informed consent form before participating in a clinical trial. Clinical trials necessary for product approval typically are conducted in three sequential phases, but the phases may overlap. Phase I usually involves the initial introduction of the investigational drug into a limited population, typically healthy humans, to evaluate its short-term safety, dosage tolerance, metabolism, pharmacokinetics and pharmacologic actions,

and, if possible, to gain an early indication of its effectiveness. Phase II usually involves trials in a limited patient population to (i) evaluate dosage tolerance and appropriate dosage; (ii) identify possible adverse effects and safety risks; and (iii) evaluate preliminarily the efficacy of the drug for specific targeted indications. Multiple Phase II clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive Phase III clinical trials. Phase III trials, commonly referred to as pivotal studies, are undertaken in an expanded patient population at multiple, geographically dispersed clinical trial centers to further evaluate clinical efficacy and test further for safety by using the drug in its final form. There can be no assurance that Phase I, Phase II or Phase III testing will be completed successfully within any specified period of time, if at all. Furthermore, we, the FDA or an IRB may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Moreover, the FDA may approve an NDA for a product candidate, but require that the sponsor conduct additional clinical trials to further assess the drug after NDA approval under a post-approval commitment. Post-approval trials are typically referred to as Phase IV clinical trials.

During the development of a new drug, sponsors are given an opportunity to meet with the FDA at certain points. These points may be prior to submission of an IND, at the end of Phase II, and before an NDA 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, for the FDA to provide advice, and for the sponsor and the FDA to reach an agreement on the next phase of development. Sponsors typically use the end of Phase II meeting to discuss their Phase II clinical results and present their plans for the pivotal Phase III clinical trial that they believe will support approval of the new drug. A sponsor may request a special protocol assessment, or SPA to reach an agreement with the FDA that the protocol design, clinical endpoints, and statistical analyses are acceptable to support regulatory approval of the product candidate with respect to effectiveness in the indication studied. If such an agreement is reached, it will be documented and made part of the administrative record, and it will be binding on the FDA except in limited circumstances, such as if the FDA identifies a substantial scientific issue essential to determining the safety or effectiveness of the product after clinical studies begin, or if the sponsor fails to follow the protocol that was agreed upon with the FDA. There is no guarantee that a study will ultimately be adequate to support an approval, even if the study is subject to an SPA.

Concurrent with clinical trials, companies usually complete additional animal safety studies and must also develop additional information about the chemistry and physical characteristics of the drug and finalize a process for manufacturing the product in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the drug candidate and the manufacturer must develop methods for testing the quality, purity and potency of the final drugs. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the drug candidate does not undergo unacceptable deterioration over its shelf life.

Assuming successful completion of the required clinical testing, the results of pre-clinical studies and of clinical trials, together with other detailed information, including information on the manufacture and composition of the drug, are submitted to the FDA in the form of an NDA requesting approval to market the product for one or more indications. An NDA must be accompanied by a significant user fee, which is waived for the first NDA submitted by a qualifying small business.

The testing and approval process requires substantial time, effort and financial resources. The FDA will review the NDA and may deem it to be inadequate to support approval, and we cannot be sure that any approval will be granted on a timely basis, if at all. The FDA may also refer the application to the appropriate advisory committee, typically a panel of clinicians, for review, evaluation and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendations of the advisory committee, but it typically follows such recommendations.

Before approving an NDA, the FDA inspects the facility or the facilities at which the drug and/or its active pharmaceutical ingredient is manufactured and will not approve the product unless the manufacturing is in compliance with cGMPs. If the FDA evaluates the NDA and the manufacturing facilities are deemed acceptable, the FDA may issue an approval letter, or in some cases a Complete Response Letter. The approval letter authorizes commercial marketing of the drug for specific indications. As a condition of NDA approval, the FDA may require post-marketing testing and surveillance to monitor the drug's safety or efficacy, or impose other conditions. A Complete Response Letter indicates that the review cycle of the application is complete and the application is not ready for approval. A Complete Response Letter may require additional clinical data and/or additional pivotal Phase III clinical trial(s), and/or other significant, expensive and time-consuming requirements related to clinical trials, pre-clinical studies or manufacturing. Even if such additional information is submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Data from clinical trials is not always conclusive and the FDA may interpret data differently than we or our collaborators interpret data. Alternatively, the FDA could also approve the NDA with a Risk Evaluation and Mitigation Strategy to mitigate risks of the drug, which could include medication guides, physician communication plans, or elements to assure safe use, such as restricted distribution methods, patient registries or other risk minimization tools. Once the FDA approves a drug, the FDA may withdraw product approval if

ongoing regulatory requirements are not met or if safety problems occur after the product reaches the market. In addition, the FDA may require testing, including Phase IV clinical trials, and surveillance programs to monitor the safety effects of approved products that have been commercialized. The FDA has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs or other information.

**Expedited Review and Approval.** The FDA has various programs, including fast track designation, priority review, accelerated approval, and breakthrough therapy designation, which are intended to expedite or simplify the process for reviewing drugs and/or provide for approval on the basis of surrogate endpoints. Even if a drug qualifies for one or more of these programs, the FDA may later decide that the drug no longer meets the conditions for qualification or that the time period for FDA review or approval will not be shortened. Generally, drugs that may be eligible for these programs are those for serious or life-threatening diseases or conditions, those with the potential to address unmet medical needs, and those that offer meaningful benefits over existing treatments. For example, fast track designation is designed to facilitate the development and expedite the review of drugs to treat serious or life-threatening diseases or conditions and which demonstrate the potential to address an unmet medical need. Priority review is designed to give drugs for serious conditions that offer significant improvement in safety or effectiveness an initial review within six months of the 60-day filing date, if the drug is a new molecular entity, as compared to a standard review time of 10 months. Although fast track designation 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 drug and expedite review of the application for a drug designated for priority review. The FDA may also initiate review of sections of an NDA before the application is complete for drugs with fast track designation. This “rolling review” is available if the applicant provides and the FDA approves a schedule for submission of portions of the application. Drugs for serious conditions are also eligible for accelerated approval, which provides an earlier approval of drugs, including fast track products, upon a determination that the product has an effect on a surrogate endpoint, which is a laboratory measurement or physical sign used as an indirect or substitute measurement representing a clinically meaningful outcome, or an effect on a clinical endpoint that can be measured earlier than irreversible morbidity or mortality and that is reasonably likely to predict an effect on irreversible morbidity or mortality or other clinical benefit, taking into account the severity, rarity or prevalence of the condition and the availability or lack of alternative treatments. As a condition of approval, the FDA may require that a sponsor of a drug receiving accelerated approval perform post-marketing clinical trials. Finally, breakthrough therapy designation, which was established by the Food and Drug Administration Safety and Innovation Act, is for drugs intended, alone or in combination with one or more other drugs, to treat a serious or life-threatening disease or condition and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. Drugs designated as breakthrough therapies receive all the benefits of a fast track designation, as well as intensive guidance on efficient drug development and organizational commitment involving senior managers in the FDA. We may seek to utilize one or more of these expedited programs for our product candidates in the future, but even if we were to obtain fast track designation, priority review, accelerated approval and/or breakthrough therapy designation, there is no guarantee that it would result in a quicker review or approval of our products, if any.

**Post-Approval Requirements.** After a drug has been approved by the FDA for sale, the FDA may require that certain post-approval requirements be satisfied, including the conduct of additional clinical studies. In addition, certain changes to an approved product, such as adding new indications, making certain manufacturing changes, or making certain additional labeling claims, are subject to further FDA review and approval. Before a company can market products for additional indications, it must obtain additional approvals from the FDA. Obtaining approval for a new indication generally requires that additional clinical studies be conducted. A company cannot be sure that any additional approval for new indications for any product candidate will be approved on a timely basis, or at all.

If post-approval conditions are not satisfied, the FDA may withdraw its approval of the drug. In addition, holders of an approved NDA are required to (i) report certain adverse reactions to the FDA and maintain pharmacovigilance programs to proactively look for these adverse events; (ii) comply with certain requirements concerning advertising and promotional labeling for their products; and (iii) continue to have quality control and manufacturing procedures conform to cGMPs after approval. The FDA periodically inspects the sponsor’s records related to safety reporting and/or manufacturing facilities; this latter effort includes assessment of ongoing compliance with cGMPs. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain cGMP compliance. We use third-party manufacturers to produce our products in clinical and commercial quantities, and future FDA inspections may identify compliance issues at the facilities of our contract manufacturers that may disrupt production or distribution, or require substantial resources to correct. In addition, discovery of problems with a product after approval may result in restrictions on a product, manufacturer or holder of an approved NDA, including, among other things:

- restrictions on the marketing or manufacturing of the product, complete withdrawal of the product from the market or product recalls;
- fines, warning letters or holds on post-approval clinical trials;
- refusal of the FDA to approve pending applications or supplements to approved applications, or suspension or revocation of existing product approvals;
  - product seizure or detention, or refusal to permit the import or export of products; or
- injunctions or the imposition of civil or criminal penalties.



Patent Term Restoration and Marketing Exclusivity. Depending upon the timing, duration and specifics of FDA approval of the use of our drugs, some of our U.S. patents may be eligible for limited patent term extension under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Amendments. The Hatch-Waxman Amendments permit a patent restoration term of up to five years as compensation for patent term lost during product development and the FDA regulatory review process. However, patent term restoration cannot extend the remaining term of a patent beyond a total of 14 years from the product's approval date. The patent term restoration period is generally one-half the time between the effective date of an IND and the submission date of an NDA, plus the time between the submission date of an NDA and the approval of that application. Only one patent applicable to an approved drug is eligible for the extension and the extension must be requested prior to expiration of the patent. The U.S. Patent and Trademark Office, or USPTO, in consultation with the FDA, reviews and approves the application for any patent term extension or restoration. In the future, we intend to apply for restorations of patent term for some of our currently owned or licensed patents to add patent life beyond their current expiration date, depending on the expected length of clinical trials and other factors involved in the submission of the relevant NDA.

Data and 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 data exclusivity within the United States to the first applicant to gain approval of an NDA for a new chemical entity. A drug is a new chemical entity if the FDA has not previously approved any other new drug containing the same active moiety, which is the molecule or ion responsible for the action of the drug substance. During the exclusivity period, the FDA may not accept for review an abbreviated new drug application, or ANDA, or an NDA submitted under section 505(b)(2) of the FDCA by another company for another version of such drug 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 existing NDA if new clinical investigations, other than bioavailability studies, 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 drug. This three-year exclusivity covers only the conditions associated with the new clinical investigations and does not prohibit the FDA from approving ANDAs or 505(b)(2) NDAs for drugs 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 pre-clinical studies, adequate and well-controlled clinical trials necessary to demonstrate safety and effectiveness.

### Foreign Regulation

In addition to regulations in the United States, we will be subject to a variety of foreign regulations governing clinical trials and commercial sales and distribution of our products. Whether or not we obtain FDA approval for a product, we must obtain approval by the comparable regulatory authorities of foreign countries before we can commence clinical trials and approval of foreign countries or economic areas, such as the EU, before we may market products in those countries or areas. The approval process and requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from place to place, and the time may be longer or shorter than that required for FDA approval.

In the European Economic Area, or EEA, which is comprised of the Member States of the EU plus Norway, Iceland and Liechtenstein, medicinal products can only be commercialized after obtaining a Marketing Authorization, or MA. There are two types of MAs:

• **Community MAs** – These are issued by the European Commission through the Centralized Procedure, based on the opinion of the Committee for Medicinal Products for Human Use, or CHMP, of the EMA, and are valid throughout the entire territory of the EEA. The Centralized Procedure is mandatory for certain types of products, such as biotechnology medicinal products, orphan medicinal products, and medicinal products indicated for the treatment of AIDS, cancer, neurodegenerative disorders, diabetes, auto-immune and viral diseases. The Centralized Procedure is optional for products containing a new active substance not yet authorized in the EEA; for products that constitute a significant therapeutic, scientific or technical innovation; or for products that are in the interest of public health in the EU.

• **National MAs** – These are issued by the competent authorities of the Member States of the EEA and only cover their respective territory, and are available for products not falling within the mandatory scope of the Centralized Procedure. Where a product has already been authorized for marketing in a Member State of the EEA, this National MA can be recognized in another Member State through the Mutual Recognition Procedure. If the product has not received a National MA in any Member State at the time of application, it can be approved simultaneously in various Member States through the Decentralized Procedure. Under the Decentralized Procedure, an identical dossier is submitted to the competent authorities of each of the Member States in which the MA is sought, one of which is selected by the applicant as the Reference Member State. The competent authority of the Reference Member State prepares a draft assessment report, a draft summary of the product characteristics, or SmPC, and a draft of the labeling and package leaflet, which are sent to the other Member States (referred to as the Member States Concerned) for their approval. If the Member States Concerned raise no objections, based on a potential serious risk to public

health, to the assessment, SmPC, labeling or packaging proposed by the Reference Member State, the product is subsequently granted a National MA in all the Member States, i.e., in the Reference Member State and the Member States Concerned.

Under the above described procedures, before granting the MA, the EMA or the competent authorities of the Member States of the EEA assess the risk-benefit balance of the product on the basis of scientific criteria concerning its quality, safety and efficacy.

As in the United States, it may be possible in foreign countries to obtain a period of market and/or data exclusivity that would have the effect of postponing the entry into the marketplace of a competitor's generic product. For example, if any of our products receive marketing approval in the EEA, we expect they will benefit from eight years of data exclusivity and 10 years of marketing exclusivity. An additional non-cumulative one-year period of marketing exclusivity is possible if during the data exclusivity period (the first eight years of the 10-year marketing exclusivity period), we obtain an authorization for one or more new therapeutic indications that are deemed to bring a significant clinical benefit compared to existing therapies. The data exclusivity period begins on the date of the product's first marketing authorization in the EEA and prevents generics from relying on the marketing authorization holder's pharmacological, toxicological and clinical data for a period of eight years. After eight years, a generic product application may be submitted and generic companies may rely on the marketing authorization holder's data. However, a generic cannot launch until two years later (or a total of 10 years after the first marketing authorization in the EU of the innovator product), or three years

later (or a total of 11 years after the first marketing authorization in the EU of the innovator product) if the marketing authorization holder obtains marketing authorization for a new indication with significant clinical benefit within the eight-year data exclusivity period. In Japan, our products may be eligible for eight years of data exclusivity. There can be no assurance that we will qualify for such regulatory exclusivity, or that such exclusivity will prevent competitors from seeking approval solely on the basis of their own studies.

When conducting clinical trials in the EU, we must adhere to the provisions of the European Union Clinical Trials Directive (Directive 2001/20/EC) and the laws and regulations of the EU Member States implementing them. These provisions require, among other things, that the prior authorization of an Ethics Committee and the competent Member State authority is obtained before commencing the clinical trial. In April 2014, the EU passed the Clinical Trials Regulation (Regulation 536/2014), which will replace the current Clinical Trials Directive. To ensure that the rules for clinical trials are identical throughout the European Union, the EU Clinical Trials Regulation was passed as a regulation that is directly applicable in all EU member states. All clinical trials performed in the European Union are required to be conducted in accordance with the Clinical Trials Directive until the Clinical Trials Regulation becomes applicable. According to the current plans of the EMA, the Clinical Trials Regulation is expected to become applicable in 2019.

#### Coverage and Reimbursement

In the United States and internationally, sales of NERLYNX and any other products that we market in the future, and our ability to generate revenues on such sales, are dependent, in significant part, on the availability of adequate coverage and reimbursement from third-party payors, such as state and federal governments, managed care providers and private insurance plans. Private insurers, such as health maintenance organizations and managed care providers, have implemented cost-cutting and reimbursement initiatives and likely will continue to do so in the future. These include establishing formularies that govern the drugs and biologics that will be offered and the out-of-pocket obligations of member patients for such products. We may need to conduct pharmacoeconomic studies to demonstrate the cost-effectiveness of our products for formulary coverage and reimbursement. Even with such studies, our products may be considered less safe, less effective or less cost-effective than existing products, and third-party payors may not provide coverage and reimbursement for our product candidates, in whole or in part.

In addition, particularly in the United States and increasingly in other countries, we are required to provide discounts and pay rebates to state and federal governments and agencies in connection with purchases of our products that are reimbursed by such entities. It is possible that future legislation in the United States and other jurisdictions could be enacted to potentially impact reimbursement rates for the products we are developing and may develop in the future and could further impact the levels of discounts and rebates paid to federal and state government entities. Any legislation that impacts these areas could impact, in a significant way, our ability to generate revenues from sales of products that, if successfully developed, we bring to market.

Political, economic and regulatory influences are subjecting the healthcare industry in the United States to fundamental changes. There have been, and we expect there will continue to be, legislative and regulatory proposals to change the healthcare system in ways that could significantly affect our future business. For example, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the ACA, enacted in March 2010, substantially changes the way healthcare is financed by both governmental and private insurers. Among other cost containment measures, ACA establishes:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents;
- a new Medicare Part D coverage gap discount program, in which pharmaceutical manufacturers who wish to have their drugs covered under Part D must offer discounts to eligible beneficiaries during their coverage gap period, or the donut hole; and
- a new formula that increases the rebates a manufacturer must pay under the Medicaid Drug Rebate Program.

We expect that the current presidential administration and U.S. Congress will likely continue to seek to modify, repeal, or otherwise invalidate all, or certain provisions of, the ACA. Most recently, the Tax Cuts and Jobs Act was enacted, which, among other things, removes penalties for not complying with the Affordable Care Act's individual mandate to carry health insurance. On December 14, 2018, a U.S. District Court Judge in the Northern District of Texas, ruled that the individual mandate is a critical and inseverable feature of the ACA, and therefore, because it was repealed as part of the Tax Act, the remaining provisions of the ACA are invalid as well. While the Trump Administration and the Centers for Medicare & Medicaid Services have both stated that the ruling will have no immediate effect, it is unclear how this decision, subsequent appeals, if any, and other efforts to repeal and replace the ACA will impact the ACA. There may be additional challenges and amendments to the ACA in the future.

In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted. For example, the Budget Control Act of 2011, among other things, included aggregate reductions to Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013 and, due to subsequent legislative amendments to the statute, will remain in effect through 2025 unless additional Congressional action is taken. The American Taxpayer Relief Act of 2012, among other things, reduced Medicare payments to several types of providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. Individual states in the United States have also become increasingly active in passing legislation and implementing regulations designed to control pharmaceutical product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. Recently, there has also been heightened governmental scrutiny over the manner in which drug manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed bills 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. For example, the 21st Century Cures Act changes the reimbursement methodology for infusion drugs and biologics furnished through durable medical equipment in an attempt to remedy over- and underpayment of certain drugs.

Similar political, economic and regulatory developments are occurring in the EU and may affect the ability of pharmaceutical companies to profitably commercialize their products. In addition to continuing pressure on prices and cost containment measures, legislative developments at the EU or member state level may result in significant additional requirements or obstacles. The delivery of healthcare in the EU, including the establishment and operation of health services and the pricing and reimbursement of medicines, is almost exclusively a matter for national, rather than EU, law and policy. National governments and health service providers have different priorities and approaches to the delivery of health care and the pricing and reimbursement of products in that context. In general, however, the healthcare budgetary constraints in most EU member states have resulted in restrictions on the pricing and reimbursement of medicines by relevant health service providers. Coupled with ever-increasing EU and national regulatory burdens on those wishing to develop and market products, this could restrict or regulate post-approval activities and affect the ability of pharmaceutical companies to commercialize their products. In international markets, reimbursement and healthcare payment systems vary significantly by country, and many countries have instituted price ceilings on specific products and therapies.

In the future, there may continue to be additional proposals relating to the reform of the U.S. healthcare system and international healthcare systems. Future legislation, or regulatory actions implementing recent or future legislation may have a significant effect on our business. Our ability to successfully commercialize products depends in part on the extent to which reimbursement for the costs of our products and related treatments will be available in the United States and worldwide from government health administration authorities, private health insurers and other organizations. The adoption of certain proposals could limit the prices we are able to charge for our products, the amounts of reimbursement available for our products, and limit the acceptance and availability of our products. Therefore, substantial uncertainty exists as to the reimbursement status of newly approved health care products by third-party payors.

#### Sales and Marketing

The FDA regulates all advertising and promotion activities for products under its jurisdiction prior to and after approval, including standards and regulations for direct-to-consumer advertising, dissemination of off-label information, industry-sponsored scientific and educational activities and promotional activities involving the Internet. Drugs may be marketed only for the approved indications and in accordance with the provisions of the approved label. Further, if there are any modifications to the drug, including changes in indications, labeling, or manufacturing processes or facilities, we may be required to submit and obtain FDA approval of a new or supplemental NDA, which may require us to collect additional data or conduct additional pre-clinical studies and clinical trials. Failure to comply

with applicable FDA requirements may subject a company to adverse publicity, enforcement action by the FDA, corrective advertising, consent decrees and the full range of civil and criminal penalties available to the FDA.

Physicians may prescribe legally available drugs for uses that are not described in the drug's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties, and often reflect a physician's belief that the off-label use is the best treatment for the patient. The FDA does not regulate the behavior of physicians in their choice of treatments, but FDA regulations do impose stringent restrictions on manufacturers' communications regarding off-label uses. Failure to comply with applicable FDA requirements may subject a company to adverse publicity, enforcement action by the FDA, corrective advertising, consent decrees and the full range of civil and criminal penalties available to the FDA.

Outside the United States, our ability to market a product is contingent upon obtaining marketing authorization from the appropriate regulatory authorities. The requirements governing marketing authorization, pricing and reimbursement vary widely from country to country.

## Manufacturing

We do not currently have our own manufacturing facilities. We intend to continue to use our financial resources to accelerate commercialization of NERLYNX and development of our drug candidates rather than diverting resources to establish our own manufacturing facilities. We intend to meet our pre-clinical and clinical trial manufacturing requirements by establishing relationships with third-party manufacturers and other service providers to perform these services for us. While our drug candidates were being developed by Pfizer, both the drug substance and drug product were manufactured by third-party contractors. We are currently using the same third-party contractors to manufacture, supply, store and distribute our products in clinical trials and commercial quantities. We believe that we have manufactured sufficient quantities of the drug to support at least the first year of launch in the extended adjuvant breast cancer indication and plan to continue to manufacture the drug in 2019 to further support the commercial launch of the drug.

Should any of our other drug candidates obtain marketing approval, we anticipate establishing relationships with third-party manufacturers and other service providers in connection with commercial production of our products. We have some flexibility in securing other manufacturers to produce our drug candidates; however, our alternatives may be limited due to proprietary technologies or methods used in the manufacture of some of our drug candidates.

## Other Healthcare Laws

We may also be subject to various federal and state laws pertaining to health care “fraud and abuse,” including anti-kickback laws and false claims laws, data privacy and security laws and transparency laws. Anti-kickback laws make it illegal for a prescription drug manufacturer to solicit, offer, receive, or pay any remuneration in exchange for, or to induce, the referral of business, including the purchase or prescription of a particular drug. Due to the breadth of the statutory provisions and the absence of guidance in the form of regulations and very few court decisions addressing industry practices, it is possible that our practices might be challenged under anti-kickback or similar laws. False claims laws prohibit anyone from knowingly and willingly presenting, or causing to be presented, for payment to third-party payors (including Medicare and Medicaid) claims for reimbursed drugs or services that are false or fraudulent, claims for items or services not provided as claimed, or claims for medically unnecessary items or services. In addition, some state prohibitions apply to the referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs. Our activities relating to the sale and marketing of our products may be subject to scrutiny under any of these laws.

The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, created new federal criminal statutes that prohibit 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 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.

Violations of fraud and abuse laws may be punishable by criminal and/or civil sanctions, including fines and civil monetary penalties, the possibility of exclusion from federal health care programs (including Medicare and Medicaid) and corporate integrity agreements, which impose, among other things, rigorous operational and monitoring requirements on companies. Similar sanctions and penalties also may be imposed upon executive officers and employees, including criminal sanctions against executive officers under the so-called “responsible corporate officer” doctrine, even in situations where the executive officer did not intend to violate the law and was unaware of any wrongdoing. Given the penalties that may be imposed on companies and individuals if convicted, allegations of such violations often result in settlements even if the company or individual being investigated admits no wrongdoing. Settlements often include significant civil sanctions, including fines and civil monetary penalties, and corporate integrity agreements. If the government were to allege or determine that we or our executive officers had violated



these laws, our business could be harmed. In addition, private individuals have the ability to bring similar actions.

Privacy and data security have become significant issues in the United States, Europe and in many other jurisdictions where we may in the future conduct our operations. As we receive, collect, process, use and store personal and confidential data, we are subject to diverse laws and regulations relating to data privacy and security, including, in the United States, HIPAA, and, in the European Union, GDPR. Compliance with these privacy and data security requirements is rigorous and time-intensive and may increase the cost of doing business, and despite those efforts, there is a risk that we may be subject to fines and penalties, litigation and reputational harm, which could materially and adversely affect our business, financial condition and results of operations.

We may be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA, as amended by the Health Information Technology and Clinical Health Act, or HITECH, and their respective implementing regulations, including the final omnibus rule published on January 25, 2013, imposes specified 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," defined as independent contractors or agents of covered entities that create, receive, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways, thus complicating compliance efforts.

In addition, the regulatory framework for the receipt, collection, processing, use, safeguarding, sharing and transfer of personal and confidential data is rapidly evolving and is likely to remain uncertain for the foreseeable future as new global privacy rules are being enacted and existing ones are being updated and strengthened. For example, on May 25, 2018, the GDPR took effect in Europe. The GDPR is directly applicable in each EU member state and applies to companies established in the EU as well as companies that collect and use personal data to offer goods or services to, or monitor the behavior of, individuals in the EU. GDPR introduces more stringent data protection obligations for processors and controllers of personal data, and penalties and fines for failure to comply with GDPR are significant, including fines of up to €20 million or 4% of total worldwide annual turnover, whichever is higher. Further, there are federal transparency requirements and an increasing number of state laws that require manufacturers to disclose and make reports to the government of pricing and marketing information as well as any "transfer of value" made or distributed to physicians, teaching hospitals and other healthcare providers. Many of these laws contain ambiguities as to what is required to comply with the laws. Given the lack of clarity in laws and their implementation, our future reporting actions could be subject to the penalty provisions of the applicable state and/or federal authorities.

Our activities could be subject to challenge for the reasons discussed above due to the breadth of these laws and the increasing attention being given to them by law enforcement authorities. The costs of defending such claims, as well as any sanctions imposed or negative public perceptions resulting therefrom, could require us to restructure our operations and have a material adverse effect on our financial performance.

Similar rigid restrictions are imposed on the promotion and marketing of medicinal products in the EU and other countries. Laws (including those governing promotion, marketing and anti-kickback provisions), industry regulations and professional codes of conduct often are strictly enforced. Even in those countries where we may not be directly responsible for the promotion and marketing of our drug candidates, if approved, any inappropriate activity by international distribution partners could have adverse implications for us.

#### Other Laws and Regulatory Processes

We are subject to a variety of financial disclosure and securities trading regulations as a public company in the United States with securities traded on the NASDAQ Global Select Market, including laws relating to the oversight activities of the Securities and Exchange Commission, or the SEC, and the rules and regulations of The NASDAQ Stock Market LLC. In addition, the Financial Accounting Standards Board, or FASB, the SEC, and other bodies that have jurisdiction over the form and content of our accounts, our financial statements and other public disclosure are constantly discussing and interpreting proposals and existing pronouncements designed to ensure that companies best display relevant and transparent information relating to their respective businesses.

Our present and future business has been and will continue to be subject to various other laws and regulations. Various laws, regulations and recommendations relating to safe working conditions, laboratory practices, experimental use of animals, and the purchase, storage, movement, import and export, and use and disposal of

hazardous or potentially hazardous substances used in connection with our research work are or may be applicable to our activities. Certain agreements entered into by us involving exclusive license rights or acquisitions may be subject to national or supranational antitrust regulatory control, the effect of which cannot be predicted. The extent of government regulation that might result from future legislation or administrative action cannot accurately be predicted.

#### Research and Development Expenses

Research and development activities, which include personnel costs, research supplies, clinical and pre-clinical study costs, are the primary source of our overall expenses. Such expenses related to the research and development of our product candidates totaled \$164.9 million for the year ended December 31, 2018, \$207.8 million for the year ended December 31, 2017 and \$222.8 million for the year ended December 31, 2016.

## Employees

As of December 31, 2018, we had 272 employees, all of whom are full-time employees. During 2017, in preparation for the commercial launch of NERLYNX, we hired 125 full-time employees for sales, marketing and commercial related activities. We believe our relations with our employees are good. Over the course of the next year, we anticipate hiring approximately 44 additional full-time employees, most of whom will be devoted to commercial activities.

In addition, we intend to continue to use CROs and third parties to perform our clinical studies and manufacturing.

## Corporate Information and History

Our principal executive offices are located at 10880 Wilshire Boulevard, Suite 2150, Los Angeles, California 90024 and our telephone number is (424) 248-6500. Our internet address is [www.pumabiotechnology.com](http://www.pumabiotechnology.com). Our annual, quarterly and current reports, and any amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 may be accessed free of charge through our website after we have electronically filed or furnished such material with the SEC. We also make available free of charge on or through our website our Code of Business Conduct and Ethics, Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter and Nominating and Corporate Governance Committee Charter. We will disclose on a current report on Form 8-K or on our website information any amendment or waiver of the Code of Business Conduct and Ethics for our executive officers and directors. Any amendment or waiver disclosed on our website will remain available on our website for at least 12 months after the initial disclosure.

The reference to [www.pumabiotechnology.com](http://www.pumabiotechnology.com) (including any other reference to such address in this Annual Report) is an inactive textual reference only, meaning that the information contained on or accessible from the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

We were originally incorporated in the State of Delaware in April 2007 under the name Innovative Acquisitions Corp. We were a “shell” company registered under the Exchange Act with no specific business plan or purpose until we acquired Former Puma in the Merger. As a result of this transaction, Former Puma became our wholly-owned subsidiary and subsequently merged with and into us, at which time we adopted Former Puma’s business plan and changed our name to “Puma Biotechnology, Inc.”

The Merger was accounted for as a reverse acquisition whereby Former Puma was deemed to be the acquirer for accounting and financial reporting purposes and we were deemed to be the acquired party. Consequently, our financial statements prior to the Merger reflect the assets and liabilities and the historical operations of Former Puma from its inception on September 15, 2010, through the closing of the Merger on October 4, 2011. Our financial statements after completion of the Merger include the assets and liabilities of us and Former Puma, the historical operations of Former Puma, and the operations of us following the closing date of the Merger.

The merger of a private operating company into a non-operating public shell corporation with nominal net assets is considered to be a capital transaction, in substance, rather than a business combination, for accounting purposes. Accordingly, we treated this transaction as a capital transaction without recording goodwill or adjusting any of our other assets or liabilities.

In November 2012, we established and incorporated Puma Biotechnology Ltd, a wholly owned subsidiary, for the sole purpose of serving as our legal representative in the United Kingdom and the European Union in connection with our clinical trial activity in those countries.



## ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report, the following risk factors should be considered carefully in evaluating our company. Our business, financial condition, liquidity or results of operations could be materially adversely affected by any of these risks. Our business, financial condition, liquidity or results of operations could be materially adversely affected by any of these risks. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us.

### Risks Related to our Business

We have a limited operating history and are not profitable and may never become profitable.

We have a limited operating history and have a history of operating losses, with net losses of \$113.6 million, \$292.0 million and \$276.0 million for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, we had an accumulated deficit of approximately \$1,202.0 million.

Although we received FDA approval and commenced commercialization of NERLYNX in the United States in July 2017 and the EC granted marketing authorization for NERLYNX in the European Union in September 2018, we expect to incur substantial losses for the foreseeable future and may never become profitable. Moreover, even if we succeed in developing and commercializing one or more of other drug candidates, we may never become profitable. The successful development and commercialization of any drug candidate will require us to perform a variety of functions, including:

- undertaking pre-clinical development and clinical trials;
- hiring additional personnel;
  - participating in regulatory approval processes;
- formulating and manufacturing products;
- initiating and conducting sales and marketing activities; and
- implementing additional internal systems and infrastructure.

We will likely need to raise additional capital in order to fund our business and generate significant revenue in order to achieve and maintain profitability. We may not be able to generate this revenue, raise additional capital or achieve profitability in the future. As a result, we expect our losses to continue for the foreseeable future. Accordingly, we cannot assure you that we will achieve profitability in the future or that, if we do become profitable, we will sustain profitability. Our failure to achieve or maintain profitability could negatively impact the value of our common stock.

Our success depends on our ability to commercialize NERLYNX successfully. We are currently a single product company with limited commercial sales experience, which makes it difficult to evaluate our current business, predict our future prospects and forecast our financial performance and growth.

We have invested a significant portion of our efforts and financial resources in the development and commercialization of our lead product, NERLYNX, and we expect NERLYNX to constitute the vast majority of our product revenue for the foreseeable future. Our success depends on our ability to commercialize NERLYNX successfully. Successful commercialization of NERLYNX is subject to many risks. We have never, as an organization, launched or commercialized a product, and there is no guarantee that we will be able to do so successfully with NERLYNX. There are numerous examples of unsuccessful product launches and failures to meet high expectations of market potential, including by pharmaceutical companies with more experience and resources than we have. The commercial success of NERLYNX depends on the extent to which patients and physicians accept and adopt NERLYNX. For example, if the expected patient population is smaller than we estimate or if physicians are unwilling to prescribe or patients are unwilling to take or continue to take NERLYNX, due to the related side effects, including diarrhea, or otherwise, the commercial potential of NERLYNX will be limited. Thus, significant uncertainty

remains regarding the commercial potential of NERLYNX. Moreover, our ability to effectively generate product revenue from NERLYNX will depend on our ability to, among other things:

- achieve and maintain compliance with regulatory requirements;
- create market demand for and achieve market acceptance of NERLYNX through our marketing and sales activities and other arrangements established for the promotion of NERLYNX;
- compete with other breast cancer drugs (either in the present or in the future);
- train, deploy and support a qualified sales force;

31

---

- secure formulary approvals for NERLYNX at a substantial number of targeted hospitals;
- ensure that our third-party manufacturers manufacture NERLYNX in sufficient quantities, in compliance with requirements of the FDA and similar foreign regulatory agencies where NERLYNX is approved, and at acceptable quality and pricing levels in order to meet commercial demand;
- ensure that our third-party manufacturers develop, validate and maintain commercially viable manufacturing processes that are compliant with current Good Manufacturing Practice, or cGMP, regulations;
- implement and maintain agreements with wholesalers, distributors and group purchasing organizations on commercially reasonable terms;
- ensure that our entire supply chain efficiently and consistently delivers NERLYNX to our customers;
- receive adequate levels of coverage and reimbursement for NERLYNX from commercial health plans and governmental health programs;
- provide co-pay assistance to help qualified patients with out-of-pocket costs associated with their NERLYNX prescription and/or other programs to ensure patient access to our products;
- educate physicians and patients about the benefits, administration and use of NERLYNX;
- obtain acceptance of NERLYNX as safe and effective by patients and the medical community;
- influence the nature of publicity related to our product relative to the publicity related to our competitors' products;
- obtain regulatory approvals for additional indications for the use of NERLYNX; and
- maintain and defend our patent protection and regulatory exclusivity for NERLYNX and to comply with our obligations under, and otherwise maintain, our intellectual property license with Pfizer and our license agreements with third parties.

Any disruption in our ability to generate product revenue from the sale of NERLYNX will have a material and adverse impact on our results of operations.

We have limited experience as a company in marketing or distributing pharmaceutical products. If we are unable to expand our marketing capabilities and successfully commercialize NERLYNX, our business, results of operations and financial condition may be materially adversely affected.

Our strategy is to build our sales, marketing and distribution capabilities to commercialize NERLYNX successfully in the United States. While we are continuing to establish our commercial team and hire our U.S. sales force, we have limited experience commercializing pharmaceutical products as an organization. In order to market NERLYNX successfully, we must continue to build our sales, marketing, managerial, compliance, and related capabilities or make arrangements with third parties to perform these services. If we are unable to establish adequate sales, marketing, and distribution capabilities, whether independently or with third parties, we may not be able to commercialize NERLYNX appropriately and may not become profitable.

Part of our strategy to commercialize NERLYNX in the United States is to develop a direct sales force. These efforts will continue to be expensive and time-consuming, and we cannot be certain that we will be able to successfully develop this capability. NERLYNX is a newly-marketed drug and, therefore, none of the members of our sales force had ever promoted NERLYNX prior to its commercial launch. In addition, we must train our sales force to ensure that a consistent and appropriate message about NERLYNX is being delivered to our potential customers. If we are unable to effectively train our sales force and equip them with effective materials, including medical and sales literature to help them inform and educate potential customers about the benefits of NERLYNX and its proper administration, our efforts to commercialize NERLYNX successfully could be harmed, which would negatively impact our ability to generate product revenue.

Additionally, we will need to maintain and further develop our sales force to achieve commercial success, and we will be competing with other pharmaceutical and biotechnology companies to recruit, hire, train and retain marketing and sales personnel. In the event we are unable to continue to develop and effectively maintain our commercial team, including our U.S. sales force, our ability to successfully commercialize NERLYNX would be limited, and we would not be able to generate product revenue successfully.





There are risks involved both with establishing our own sales and marketing capabilities, and with entering into arrangements with third parties to perform these services. For example, any efforts to develop a direct sales and marketing organization are subject to numerous risks, including:

- the expense and time required to recruit and train a sales force;
- our inability to recruit, retain or motivate adequate numbers of effective and qualified sales and marketing personnel;
- the inability to provide adequate training to sales and marketing personnel;
- the inability of sales personnel to obtain access to physicians or convince adequate numbers of physicians to prescribe any product;
- unforeseen costs and expenses associated with creating an independent sales and marketing organization; and
- the premature or unnecessary incurrence of significant commercialization expenses if the commercial launch of a product is delayed or does not occur for any reason.

Similarly, if we enter into arrangements with third parties to perform sales, marketing and distribution services, our product revenue or the profitability associated with any product revenue may be lower than if we were to market and sell any products that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell and market our products or may be unable to do so on terms that are favorable to us. We may have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. Moreover, we may be negatively impacted by other factors outside of our control relating to such third parties, including, but not limited to, their inability to comply with regulatory requirements. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our products.

We depend on a limited number of customers for a significant amount of our total revenue, and if we lose any of our significant customers, our business could be harmed.

The majority of our revenue comes from a limited number of customers. In 2018, three customers, CVS/Caremark, Accredo/Acaria and Diplomat, individually comprised approximately 39%, 25%, and 13%, respectively, of our total revenue. We expect that revenue from a limited number of customers will continue to account for a large portion of our revenue in the future. The loss by us of any of these customers, or a material reduction in their purchases or their market pricing, could harm our business, results of operations, financial condition and prospects. In addition, if any of these customers were to fail to pay us in a timely manner, it could harm our cash flow.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs and our failure to obtain additional financing when needed on acceptable terms, or at all, could force us to delay, limit, reduce or terminate our product development or commercialization efforts or other operations.

Our operations have consumed substantial amounts of cash since inception. We expect our costs and expenses to increase in the future as we continue to commercialize NERLYNX, on account of, among other things, the cost of a direct sales force and the cost of manufacturing. We will also continue to expend substantial amounts on research and development of our other product candidates, including conducting clinical trials. Our future capital requirements will depend on many factors, including:

- the costs and expenses of our U.S. sales and marketing infrastructure, and of manufacturing;
- the degree of success we experience in commercializing NERLYNX;
- the revenue generated by the sale of NERLYNX and any other products that may be approved;
- the costs, timing and outcomes of clinical trials and regulatory reviews associated with our other product candidates;
- the emergence of competing products;
- the extent to which NERLYNX is adopted by the physician community and patients;
- the number and types of future products we develop and commercialize;
- the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending intellectual property-related claims;

- the costs of operating as a public company and compliance with existing and future regulations; and
- the extent and scope of our general and administrative expenses.

33

---

While our consolidated financial statements have been prepared on a going concern basis, we expect to continue incurring significant losses for the foreseeable future and will continue to remain dependent on our ability to obtain sufficient funding to sustain operations and successfully commercialize NERLYNX. We are party to a credit facility with Silicon Valley Bank, or SVB, and Oxford Finance LLC, or Oxford, providing for two term loans equaling a total of \$155 million, which mature on May 1, 2023. As of December 31, 2018, we had \$155 million in principal amounts outstanding. While we have been successful in raising financing in the past, there can be no assurance that we will be able to do so in the future. Additional financing may not be available on a timely basis on terms acceptable to us, or at all. We may raise funds in equity or debt financings to access funds for our capital needs. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. Any debt financing obtained by us in the future would cause us to incur debt service expenses and could include restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and pursue business opportunities. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, we may terminate or delay the development of one or more of our product candidates, delay clinical trials necessary to market our products, or delay establishment of sales and marketing capabilities or other activities necessary to commercialize our products. If this were to occur, our ability to continue to grow and support our business and to respond to business challenges could be significantly limited. Furthermore, our ability to obtain funding may be adversely impacted by uncertain market conditions, unfavorable decisions of regulatory authorities or adverse clinical trial results. The outcome of these matters cannot be predicted at this time. Additionally, even though we have commenced the commercialization of NERLYNX, we will need to maintain and further develop our sales force to achieve commercial success, and we will be competing with other pharmaceutical and biotechnology companies to recruit, hire, train and retain marketing and sales personnel. In the event we are unable to continue to develop and effectively maintain our commercial team, including our U.S. sales force, our ability to commercialize NERLYNX successfully would be limited, and we would not be able to generate product revenue successfully. There are risks involved both with establishing our own sales and marketing capabilities and with entering into arrangements with third parties to perform these services. For example, any efforts to develop a direct sales and marketing organization would be subject to numerous risks, including:

- recruiting and training a sales force is expensive and time consuming and could delay any product launch;
- our inability to recruit, retain or motivate adequate numbers of effective and qualified sales and marketing personnel;
- the inability to provide adequate training to sales and marketing personnel;
- the inability of sales personnel to obtain access to physicians or convince adequate numbers of physicians to prescribe any future products;
- unforeseen costs and expenses associated with creating an independent sales and marketing organization; and
- the premature or unnecessary incurrence of significant commercialization expenses if the commercial launch of a product is delayed or does not occur for any reason.

Similarly, if we enter into arrangements with third parties to perform sales, marketing and distribution services, our product revenue or the profitability associated with any product revenue may be lower than if we were to market and sell any products that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell and market our proposed products or may be unable to do so on terms that are favorable to us. We may have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. Moreover, we may be negatively impacted by other factors outside of our control relating to such third parties, including, but not limited to, their inability to comply with regulatory requirements. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our proposed products.

The terms of our credit facility place restrictions on our ability to operate our business and on our financial flexibility, and we may be unable to achieve the revenue necessary for us to incur additional borrowings under the credit facility or to satisfy the minimum revenue covenants.

The terms of our credit facility place restrictions on our ability to operate our business and our financial flexibility. As of December 31, 2018, we had \$155 million in principal amounts outstanding under the credit facility. The credit facility is secured by substantially all of our personal property, other than our intellectual property.

The credit facility includes affirmative and negative covenants applicable to us, our current subsidiary and any subsidiaries we create in the future. The affirmative covenants include, among others, covenants requiring us to maintain our legal existence and governmental approvals, deliver certain financial reports, maintain insurance coverage and satisfy certain requirements regarding deposit accounts. We must also achieve product revenue, measured as of the last day of each fiscal quarter on a trailing 3-month basis, that is greater than or equal to 50% of the revenue target set forth in our board-approved projections for the 2019 fiscal year. New minimum revenue levels will be established for each subsequent fiscal year by mutual agreement of us, SVB as administrative agent, and the lenders. The negative covenants include, among others, restrictions on us transferring collateral, incurring additional indebtedness, engaging in mergers or acquisitions, paying dividends or making other distributions, making investments, creating liens, selling assets and suffering a change in control, in each case subject to certain exceptions. These covenants may make it difficult for us to operate our business. In addition, we are in the early stages of commercializing NERLYNX and we cannot assure you that we will be able to achieve the minimum revenue requirements provided for in the credit facility. Our failure to satisfy the revenue, or any other, covenant could result in an event of default under the loan.

The credit facility also includes events of default, the occurrence and continuation of which could cause interest to be charged at the rate that is otherwise applicable plus 5% and would provide SVB, as collateral agent, with the right to exercise remedies against us and the collateral securing the credit facility, including foreclosure against the property securing the credit facilities, including our cash. These events of default include, among other things, our failure to pay principal or interest due under the credit facility, a breach of certain covenants under the credit facility, our insolvency, a material adverse change, the occurrence of any default under certain other indebtedness in an amount greater than \$500,000 and one or more judgments against us in an amount greater than \$500,000 individually or in the aggregate.

NERLYNX or our other drug candidates may cause undesirable side effects or have other properties that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following marketing approval, if any, as applicable.

Undesirable side effects caused by NERLYNX or our other drug candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or other comparable foreign authorities. To date, subjects treated with NERLYNX have experienced drug-related side effects including diarrhea. Results of our trials could reveal a high and unacceptable severity and prevalence of these or other side effects. In such an event, our trials could be suspended or terminated and the FDA or comparable foreign regulatory authorities could order us to cease further development of or deny approval of our product candidates for any or all targeted indications. The drug-related side effects could affect patient recruitment or the ability of enrolled patients to complete clinical trials or result in potential product liability claims. Any of these occurrences may harm our business, financial condition and prospects significantly.

Additionally, if we or others later identify undesirable side effects caused by any approved product, 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 NERLYNX or the particular product candidate, if approved, and could significantly harm our business, results of operations and prospects.

Even though the FDA and EC have granted approval of NERLYNX for the extended adjuvant treatment of early stage, HER2-positive breast cancer, the terms of the approvals may limit its commercial potential.

Even though the FDA and EC have granted approval of NERLYNX, the scope and terms of the approvals may limit our ability to commercialize NERLYNX and, therefore, our ability to generate substantial sales revenue. The FDA and EC have approved NERLYNX only for the extended adjuvant treatment of early stage, HER2-positive breast cancer. In connection with the FDA and EC approvals, we have committed to conduct certain post-marketing studies. We have completed most of these post-marketing commitments. If we fail to comply with all of our post-marketing commitments, or if the results of the post-marketing studies, or any other ongoing clinical studies of NERLYNX, are negative, the FDA or the EC could decide to withdraw its respective approval, add warnings or narrow the approved indication in the product label.

We are heavily dependent on the success of NERLYNX, which is still under clinical development for various additional indications, and we cannot be certain that NERLYNX will receive regulatory approval for any other indication for which we may seek approval.

The FDA and the EC have approved NERLYNX only for the extended adjuvant treatment of adult patients with early stage hormone receptor positive HER2-overexpressed/amplified breast cancer and who are less than one year from the completion of prior adjuvant trastuzumab-based therapy. We expect that a substantial portion of our efforts and expenditures over the next few years will be devoted to the development of NERLYNX in various additional indications. Accordingly, our business currently depends heavily on the successful development and regulatory approval of NERLYNX for additional indications. The research, testing, manufacturing, labeling, approval, sale, marketing and distribution of drug products are and will remain subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries that each have differing regulations. We are not permitted to market NERLYNX for other indications or any of our other drug candidates in the United States until we receive approval of an NDA from the FDA or in the EU until we receive approval from the EC, as applicable, for such indications, or, in any foreign countries, until requisite approval from such countries.

Approval of NERLYNX by the FDA or the EC for the extended adjuvant treatment of adult patients with early stage hormone receptor positive HER2-overexpressed/amplified breast cancer and who are less than one year from the completion of prior adjuvant trastuzumab-based therapy does not ensure that a foreign jurisdiction will also approve NERLYNX for that indication, nor does it ensure that NERLYNX will be approved by the FDA for any other indications. Obtaining approval of an NDA or foreign marketing application is an extensive, lengthy, expensive and inherently uncertain process, and the FDA or a foreign regulator may delay, limit or deny approval of a drug candidate for many reasons, including:

- we may not be able to demonstrate that NERLYNX or any other drug candidate is safe and effective as a treatment for our targeted indications to the satisfaction of the FDA or other regulator;
- the results of our clinical trials may not meet the level of statistical or clinical significance required by the FDA or other regulator for marketing approval;
- the FDA or other regulator may disagree with the number, design, size, conduct or implementation of our clinical trials;
- the clinical research organization, or CRO, that we retain to conduct clinical trials or any other third parties involved in the conduct of trials may take actions outside of our control that materially adversely impact our clinical trials;
- the FDA or other regulator may not find the data from pre-clinical studies and clinical trials sufficient to demonstrate that the clinical and other benefits of NERLYNX or any other drug candidate outweigh the safety risks;
- the FDA or other regulator may disagree with our interpretation of data from our pre-clinical studies and clinical trials or may require that we conduct additional studies or trials;
- the FDA or other regulator may not accept data generated at our clinical trial sites;
- if our NDA is reviewed by an advisory committee, the FDA may have difficulties scheduling an advisory committee meeting in a timely manner or the advisory committee may recommend against approval of our application or may recommend that the FDA require, as a condition of approval, additional pre-clinical studies or clinical trials, limitations on approved labeling or distribution and use restrictions;
- the advisory committee may recommend that the FDA require, as a condition of approval, additional pre-clinical studies or clinical trials, limitations on approved labeling or distribution and use restrictions;
- the FDA may require development of a Risk Evaluation and Mitigation Strategy as a condition of approval;
- the FDA or other regulator may identify deficiencies in the manufacturing processes or facilities of our third-party manufacturers; or
- the FDA or other regulator may change its approval policies or adopt new regulations.

If we do not obtain regulatory approval of NERLYNX for other indications in the United States or European Union, or for any indication in any foreign jurisdictions, we will not be able to market NERLYNX for other indications or in other jurisdictions, which will limit our commercial revenue.





We have no experience in drug formulation or manufacturing and plan to rely exclusively on third parties to formulate and manufacture NERLYNX and our drug candidates, and any disruption or loss of these relationships could delay our development and commercialization efforts.

We have no experience in drug formulation or manufacturing and do not intend to establish our own manufacturing facilities. We lack the resources and expertise to formulate or manufacture NERLYNX and our drug candidates. While our drug candidates were being developed by Pfizer, both the drug substance and drug product were manufactured by third-party contractors. We are using the same third-party contractors to manufacture, supply, store and distribute drug supplies for our clinical trials and the commercialization of NERLYNX. If we are unable to continue our relationships with one or more of these third-party contractors, we could experience delays in our development or commercialization efforts as we locate and qualify new manufacturers. We intend to rely on one or more third-party contractors to manufacture the commercial supply of our drugs. Our anticipated future reliance on a limited number of third-party manufacturers exposes us to the following risks:

• We may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the FDA must approve any replacement manufacturer. This approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our products after receipt of FDA approval.

• Our third-party manufacturers might be unable to formulate and manufacture our drugs in the volume and of the quality required to meet our clinical and/or commercial needs.

• Our future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to supply our clinical trials or to successfully produce, store and distribute our products for commercialization, as applicable.

• The facilities used by our contract manufacturers to manufacture NERLYNX and our other drug candidates must be approved by the FDA pursuant to inspections that are conducted following submission of an NDA to the FDA. We do not control the manufacturing process of, and are completely dependent on, our contract manufacturing partners for compliance with cGMP regulations for manufacture of both active drug substances and finished drug products. If our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA or others, they will not be able to secure and/or maintain regulatory approval for their manufacturing facilities. In addition, drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Administration for controlled substances, similar non-U.S. regulatory agencies and corresponding state agencies to ensure strict compliance with cGMP regulations and other government regulations and corresponding foreign standards. If the FDA or a comparable foreign regulatory authority does not approve these facilities for the manufacture of our drug candidates or if it withdraws any such approval in the future, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain regulatory approval for our other drug candidates, if approved, or market NERLYNX.

• If any third-party manufacturer makes improvements in the manufacturing process for our products, we may not own, or may have to share, the intellectual property rights to the innovation.

Each of these risks could delay our clinical trials, the approval, if any, of our drug candidates by the FDA or the commercialization of NERLYNX or our other drug candidates, or result in higher costs or deprive us of potential product revenue.

If our third-party manufacturers fail to manufacture NERLYNX in sufficient quantities and at acceptable quality and pricing levels, or fail to fully comply with cGMP regulations, we may face delays in commercialization or be unable to meet market demand, and may lose potential revenues.

The manufacture of NERLYNX requires significant expertise and capital investment, including the development of advanced manufacturing techniques, process controls and the use of specialized processing equipment. Our third-party manufacturers must comply with federal, state and foreign regulations, including the FDA's regulations governing cGMP, enforced by the FDA through its facilities inspection program and by similar regulatory authorities in other

jurisdictions where we do business. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. The FDA or similar foreign regulatory authorities at any time may implement new standards, or change their interpretation and enforcement of existing standards for manufacture, packaging or testing of our products. Any failure by us or our third-party manufacturers to comply with applicable regulations may result in fines and civil penalties, suspension of production, product seizure or recall, operating restrictions, imposition of a consent decree, modification or withdrawal of product approval or criminal prosecution and would limit the availability of our product. Any manufacturing defect or error discovered after products have been produced and distributed also could result in significant consequences, including costly recall procedures, re-stocking costs, damage to our reputation and potential for product liability claims.

If our third-party manufacturers are unable to produce the required commercial quantities of NERLYNX to meet market demand for NERLYNX on a timely basis or at all, or if they fail to comply with applicable laws for the manufacturing of NERLYNX, we will suffer damage to our reputation and commercial prospects and we will lose potential revenue.

We are substantially dependent on international third-party licensees for the development and commercialization of NERLYNX in several countries outside the United States. The failure of these licensees to meet their contractual, regulatory, and other obligations could adversely affect our business.

We have entered into exclusive license agreements with several third parties that provide these licensees exclusive rights to the development and commercialization of NERLYNX in various specified regions outside of the United States. As a result, we are entirely dependent on these parties to achieve regulatory approval of NERLYNX for marketing in these countries and for the commercialization of NERLYNX, if approved. The timing and amount of any milestone and royalty payments we may receive under these agreements, as well as the commercial success of NERLYNX, will depend on, among other things, the efforts, allocation of resources and successful commercialization of NERLYNX by the licensees. We also depend on these third parties to comply with all applicable laws relative the development and commercialization of our products in those countries. We do not control the individual efforts of these licensees and have limited ability to terminate these agreements if the licensees do not perform as anticipated. The failure of these licensees to devote sufficient time and effort to the development and commercialization of NERLYNX, or the failure of these licensees to meet their obligations to us, including for future royalty and milestone payments; to adequately deploy business continuity plans in the event of a crisis; and/or satisfactorily resolve significant disagreements with us or address other factors, could have an adverse impact on our financial results and operations. In addition, if these third parties violate, or are alleged to have violated, any laws or regulations during the performance of their obligations for us, it is possible that we could suffer financial and reputational harm or other negative outcomes, including possible legal consequences.

Clinical trials are very expensive, time-consuming and difficult to design and implement.

Although NERLYNX has been approved by the FDA for the extended adjuvant treatment of early stage, HER2-positive breast cancer, NERLYNX is still under development for various indications in the United States, and our other drug candidates are in development, as well, all of which will require extensive clinical testing before we can submit any NDA for regulatory approval. We cannot predict with any certainty that any NDA or supplemental NDA seeking to expand the indication for NERLYNX will be approved by the FDA. Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process is also time consuming. We estimate that clinical trials of our other drug candidates will take at least several years to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The results of pre-clinical studies and early clinical trials of our drug candidates may not be predictive of the results of later-stage clinical trials. Drug candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through pre-clinical studies and initial clinical trials. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier trials. Our future clinical trial results may not be successful.

The commencement and completion of clinical trials may be delayed by several factors, including:

- imposition of a clinical hold or failure to obtain regulatory authorization or approval to commence a trial;
- unforeseen safety issues;
- determination of dosing issues;
- lack of effectiveness during clinical trials;
- inability to reach agreement on acceptable terms with prospective CROs and clinical trial sites;
- slower-than-expected rates of patient recruitment;

• failure to manufacture sufficient quantities of a drug candidate for use in clinical trials;  
• inability to monitor patients adequately during or after treatment; and  
• inability or unwillingness of medical investigators to follow our clinical protocols.

38

---

Further, we, the FDA, foreign regulatory authorities, or an Institutional Review Board, or IRB, may suspend our clinical trials at any time if it appears that we or our collaborators are failing to conduct a trial in accordance with regulatory requirements, that we are exposing participants to unacceptable health risks, or if the FDA or such other regulator finds deficiencies in our IND or comparable submissions or the conduct of these trials. Therefore, we cannot predict with any certainty the schedule for commencement and completion of future clinical trials. If we experience delays in the commencement or completion of our clinical trials, or if we terminate a clinical trial prior to completion, the commercial prospects of our drug candidates could be harmed, and our ability to generate revenue from the drug candidates may be delayed. In addition, any delays in our clinical trials could increase our costs, slow down the approval process and jeopardize our ability to commence product sales and generate revenue. Any of these occurrences may harm our business, financial condition and results of operations. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our drug candidates.

Enrollment and retention of patients in clinical trials is an expensive and time-consuming process and could be made more difficult or rendered impossible by multiple factors outside our control.

We may encounter delays in enrolling, or be unable to enroll, a sufficient number of patients to complete any of our clinical trials, and even once enrolled we may be unable to retain a sufficient number of patients to complete any of our trials. Patient enrollment and retention in clinical trials depends on many factors, including the size of the patient population, the nature of the trial protocol, the existing body of safety and efficacy data with respect to the study drug, the number and nature of competing treatments and ongoing clinical trials of competing drugs for the same indication, the proximity of patients to clinical sites and the eligibility criteria for the study. Furthermore, any negative results we may report in clinical trials of any of our drug candidates may make it difficult or impossible to recruit and retain patients in other clinical studies of that same drug candidate. Delays or failures in planned patient enrollment and/or retention may result in increased costs, program delays or both, which could have a harmful effect on our ability to develop our drug candidates, or could render further development impossible. In addition, we expect to rely on CROs and clinical trial sites to ensure proper and timely conduct of our future clinical trials and, while we intend to enter into agreements governing their services, we will be limited in our ability to compel their actual performance.

The results of our clinical trials may not support our drug candidate claims.

Even if our clinical trials are completed as planned, we cannot be certain that their results will support the safety and effectiveness of our drug candidates for our targeted indications. Success in pre-clinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and pre-clinical testing. A failure of a clinical trial to meet its predetermined endpoints would likely cause us to abandon a drug candidate and may delay development of other drug candidates. Any delay in, or termination of, our clinical trials will delay the filing of our NDAs with the FDA and, ultimately, our ability to commercialize our drug candidates and generate product revenue.

While we have negotiated a Special Protocol Assessment agreement with the FDA relating to our Phase III clinical study of PB272, this agreement does not guarantee approval of PB272 or any other particular outcome from regulatory review of the clinical trial or the drug candidate.

Although we have received FDA approval for neratinib in the extended adjuvant treatment of adult patients with early stage HER2-overexpressed/amplified breast cancer following adjuvant trastuzumab-based therapy, we are also pursuing an indication for the use of neratinib in patients with HER2-positive metastatic breast cancer who have failed two or more prior treatments. In February 2013, we announced that we reached agreement with the FDA under an SPA for our Phase III clinical trial of neratinib in this potential additional indication. We commenced the Phase III clinical trial in June 2013 and announced results of the study in December 2018. The FDA's SPA process is designed to facilitate the FDA's review and approval of drugs by allowing the FDA to evaluate the proposed design and size of Phase III clinical trials that are intended to form the primary basis for determining a drug product's efficacy. Upon

specific request by a clinical trial sponsor, the FDA will evaluate the protocol and respond to a sponsor's questions regarding, among other things, primary efficacy endpoints, trial conduct and data analysis, within 45 days of receipt of the request. The FDA ultimately assesses whether the protocol design and planned analysis of the trial are acceptable to support regulatory approval of the product candidate with respect to the effectiveness of the identified indication. All agreements between the FDA and the sponsor regarding an SPA must be clearly documented in writing, either in the form of an SPA letter or minutes of a meeting between the sponsor and the FDA at which the SPA agreement was reached. However, an SPA agreement does not guarantee approval of a product candidate, and even if the FDA agrees to the design, execution, and analysis proposed in protocols reviewed under the SPA process, the FDA may revoke or alter its agreement in certain circumstances. In particular, an SPA agreement is not binding on the FDA if public health concerns emerge that were unrecognized at the time of the SPA agreement, other new scientific concerns regarding product safety or efficacy arise, the sponsor company fails to comply with the agreed upon trial protocols, or the relevant data, assumptions or information provided by the sponsor in a request for the SPA change or are found to be false or omit relevant facts. In addition, even after an SPA agreement is finalized, the SPA agreement may be modified, and such modification will be deemed binding on the FDA review division, except under the circumstances described above, if the FDA and the sponsor agree in writing to modify the protocol and such modification is intended to improve the study. The FDA retains significant latitude and discretion in interpreting the terms of the SPA agreement and the data and results from any study that is the subject of the SPA agreement.

We cannot assure you that the SPA will ultimately be binding on the FDA or will result in any FDA approval for neratinib. We expect that the FDA will review our compliance with the SPA, evaluate the results of the clinical trials and conduct inspections of some of the approximately 250 sites in North America, Europe and Asia-Pacific where the clinical trials will be conducted. We cannot assure you that each of the clinical trial sites will pass such FDA inspections, and negative inspection results could significantly delay or prevent any potential approval for neratinib. If the FDA revokes or alters its agreement under the SPA, or interprets the data collected from the clinical trial differently than we do, the FDA may deem the data insufficient to support regulatory approval, which could materially adversely affect our business, financial condition and results of operations.

Planned expansion into new markets outside of the United States will subject us to additional business and regulatory risks, and there can be no assurance that our products will be accepted in those markets.

We have entered into exclusive license agreements providing for third parties to pursue regulatory approval and commercialize NERLYNX, if approved, in various specified regions outside of the United States. We plan to continue to pursue commercialization of NERLYNX in additional countries outside the United States where it has been approved. Engaging in international business inherently involves a number of difficulties and risks, including:

- competition from established companies, many of which are well-positioned within their local markets with longer operating histories, more recognizable names and better established distribution networks;
- the availability and level of coverage and reimbursement within prevailing foreign healthcare payment systems and the ability of patients to elect to privately pay for NERLYNX and our other products, if approved;
- difficulties in enforcing intellectual property rights;
- pricing pressure;
- required compliance with existing and changing foreign regulatory requirements and laws;
- laws and business practices favoring local companies;
- longer sales and payment cycles;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- political and economic instability;
- foreign currency risks that could adversely affect our financial results;
- potentially adverse tax consequences, tariffs and other trade barriers;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act, or FCPA, and similar laws and regulations in other jurisdictions;
- international terrorism and anti-American sentiment;
- difficulties and costs associated with staffing and managing foreign operations; and
- export restrictions and controls relating to technology.

If we or our third party manufacturers are unable to address these international risks, we may fail to establish and maintain an international presence, and our business, financial condition and results of operations would suffer.

The failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws, including the FCPA and similar laws associated with our activities outside of the United States, could subject us to penalties and other adverse consequences.

We are subject to the FCPA, regulations of the U.S. Office of Foreign Assets Control, the United Kingdom Bribery Act of 2010 and other anti-corruption, anti-bribery and anti-money laundering laws around the world where we conduct activities, including, if approved in such countries, the sale of NERLYNX. We face significant risks and liability if we fail to comply with the FCPA and other anti-corruption and anti-bribery laws that prohibit companies and their employees and third-party business partners, such as distributors or resellers, from authorizing, offering or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties or candidates, employees of public international organizations including healthcare professionals, or private-sector recipients for the corrupt purpose of obtaining or retaining business, directing business to any person, or securing any advantage. We currently rely on various third parties for certain services outside the United States, including



continued development of NERLYNX and, if approved, its subsequent commercialization. We may be held liable for the corrupt or other illegal activities of these third parties and intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities.

Any violation of the FCPA, other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, which could have a material and adverse effect on our reputation, business, operating results and prospects. In addition, responding to any enforcement action or related investigation may result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

If we fail to comply with United States export control and economic sanctions or fail to expand and maintain an effective sales force or successfully develop our international distribution network, our business, financial condition and operating results may be adversely affected.

When selling any products outside of the United States, including NERLYNX, we are subject to United States export control and economic sanctions laws, the violation of which could result in substantial penalties being imposed against us. More broadly, if we fail to comply with export control laws, any sales could fail to grow or could decline, and our ability to grow our business could be adversely affected.

Regulatory approval for any approved product is limited by the FDA to those specific indications and conditions for which clinical safety and efficacy have been demonstrated as set forth on the product label. If we market NERLYNX for uses beyond such approved indications, we could be subject to enforcement action, which could have a material adverse effect on our business.

The FDA strictly regulates marketing, labeling, advertising and promotion of prescription drugs. These regulations include standards and restrictions for direct-to-consumer advertising, industry-sponsored scientific and educational activities, promotional activities involving the internet and off-label promotion. Any regulatory approval that the FDA grants is limited to those specific diseases and indications for which a product is deemed to be safe and effective by the FDA. For example, the FDA-approved label for NERLYNX is limited to the extended adjuvant treatment of adult patients with early stage, HER2-positive breast cancer following adjuvant trastuzumab-based therapy. In addition to the FDA approval required for new formulations, any new indication for an approved product also requires FDA approval. If we are not able to obtain FDA approval for any desired future indications for our drugs and drug candidates, our ability to effectively market and sell our products may be reduced and our business may be adversely affected.

While physicians in the United States may choose, and are generally permitted, to prescribe drugs for uses that are not described in the product's labeling and for uses that differ from those tested in clinical trials and approved by the regulatory authorities, our ability to promote the products is narrowly limited to those indications that are specifically approved by the FDA. These "off-label" uses are common across medical specialties and may constitute an appropriate treatment for some patients in varied circumstances. For example, in April 2018 we announced that NERLYNX (neratinib) has been included as a recommended treatment option in the latest NCCN Clinical Practice Guidelines in Oncology Central Nervous System Cancers for Breast Cancer patients with brain metastases. The NCCN designated NERLYNX in combination with capecitabine as a category 2A treatment option and NERLYNX in combination with paclitaxel as a category 2B treatment option. Use, as designated for breast cancer patients with brain metastases, is outside the FDA approved indication for NERLYNX and considered investigational, and we do not market or promote NERLYNX for these uses. Regulatory authorities in the United States generally do not regulate the behavior of physicians in their choice of treatments. Regulatory authorities do, however, restrict communications by pharmaceutical companies on the subject of off-label use. Although recent court decisions suggest that certain off-label promotional activities may be protected under the First Amendment, the scope of any such protection is unclear. If our promotional activities fail to comply with the FDA's regulations or guidelines, we may be subject to warnings from, or enforcement action by, these authorities. In addition, our failure to follow FDA rules and guidelines relating to promotion and advertising may cause the FDA to issue warning letters or untitled letters, bring an enforcement action against us, suspend or withdraw an approved product from the market, require a recall or institute fines or civil fines, or could result in disgorgement of money, operating restrictions, injunctions or criminal

prosecution, any of which could harm our reputation and our business.

41

---

Even though the FDA has approved NERLYNX for the extended adjuvant treatment of early stage, HER2-positive breast cancer in adult patients following adjuvant trastuzumab-based therapy, we will be subject to ongoing obligations and continued regulatory review with regard to NERLYNX and any other drug candidates that receive FDA approval, which may result in significant additional expense. Additionally, NERLYNX and our drug candidates, if approved, could be subject to labeling and other restrictions and market withdrawal and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products.

The FDA's approval of the NDA for NERLYNX and any regulatory approvals that we receive for our other drug candidates may also be subject to limitations on the approved indicated uses for which the product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase IV clinical trials, and surveillance to monitor the safety and efficacy of the drug candidate. In addition, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMPs and GCPs for any clinical trials that we conduct post-approval. Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary or mandatory product recalls;
- fines, warning letters or holds on clinical trials;
- refusal by the FDA to approve pending applications or supplements to approved applications filed by us, or suspension or revocation of product license approvals;
- product seizure or detention, or refusal to permit the import or export of products; and
- injunctions or the imposition of civil or criminal penalties.

The FDA's policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our drug candidates. For example, in December 2016, the 21st Century Cures Act, or Cures Act, was signed into law. The Cures Act, among other things, is intended to modernize the regulation of drugs and spur innovation. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained, which would adversely affect our business, prospects and ability to achieve or sustain profitability.

We also cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative or executive action, either in the United States or abroad. For example, certain policies of the Trump administration may impact our business and industry. Namely, the Trump administration has taken several executive actions, including the issuance of a number of Executive Orders, that could impose significant burdens on, or otherwise materially delay, FDA's ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance, and review and approval of marketing applications. It is difficult to predict how these Executive Orders will be implemented, and the extent to which they will impact the FDA's ability to exercise its regulatory authority. If these executive actions impose constraints on FDA's ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

Changes in funding for the FDA and other government agencies could hinder their ability to hire and retain key leadership and other personnel, or otherwise prevent new products and services from being developed or commercialized in a timely manner, which could negatively impact our business.

The ability of the FDA to review and approve new products can be affected by a variety of factors, including government budget and funding levels, ability to hire and retain key personnel and accept the payment of user fees, and statutory, regulatory, and policy changes. Average review times at the agency have fluctuated in recent years as a

result. In addition, government funding of other government agencies that fund research and development activities is subject to the political process, which is inherently fluid and unpredictable.

Disruptions at the FDA and other agencies may also slow the time necessary for new drugs to be reviewed and/or approved by necessary government agencies, which would adversely affect our business. For example, over the last several years, including for 35 days beginning on December 22, 2018, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA, have had to furlough critical FDA employees and stop critical activities. If a prolonged government shutdown occurs, it could significantly impact the ability of the FDA to timely review and process our regulatory submissions, which could have a material adverse effect on our business.

We rely on third parties to conduct our pre-clinical studies and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for our drug candidates.

We depend upon independent investigators and collaborators, such as CROs, universities and medical institutions, to conduct our pre-clinical studies and clinical trials under agreements with us. These collaborators are not our employees and we cannot control the amount or timing of resources that they devote to our programs. Nevertheless, we are responsible for ensuring that each of our clinical trials is conducted in accordance with regulatory requirements, including good clinical practice, or GCP, requirements, and the applicable protocol. If we, or any of our CROs or third party contractors, fail to comply with applicable GCPs, the clinical 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. We cannot assure you that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials comply with GCP regulations. In addition, our clinical trials must be conducted with product produced under current cGMP regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process. Moreover, third party contractors and investigators may not assign as great a priority to our programs or pursue them as diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug-development programs, or if their performance is substandard or otherwise fails to satisfy applicable regulatory requirements, the approval of our FDA applications, if any, and our introduction of new drugs, if any, will be delayed. These collaborators may also have relationships with other commercial entities, some of whom may compete with us. If our collaborators assist our competitors to our detriment, our competitive position would be harmed. If any of our relationships with these third-party collaborators terminate, we may not be able to enter into arrangements with alternative third parties on commercially reasonable terms, or at all. Switching or adding additional third parties to our clinical trial programs can involve substantial costs and require extensive management time and focus.

We rely significantly on information technology and any failure, inadequacy, interruption or security lapse of that technology, including any cybersecurity incidents, could harm us.

Our internal computer systems and those of third parties with which we contract may be vulnerable to damage from cyber-attacks, computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures despite the implementation of security measures. System failures, accidents or security breaches could cause interruptions in our operations, and could result in a material disruption of our clinical activities and business operations, in addition to possibly requiring substantial expenditures of resources to remedy. The loss of clinical trial data could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. 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 our research and development programs and the development of our drug candidates could be delayed.

Compliance with governmental regulation and other legal obligations related to privacy, data protection and information security could result in additional costs and liabilities to us or inhibit our ability to collect and process data, and the failure to comply with such requirements could have a material adverse effect on our business, financial condition or results of operations.

Privacy and data security have become significant issues in the United States, Europe and in many other jurisdictions where we may in the future conduct our operations. As we receive, collect, process, use and store personal and confidential data, we are subject to diverse laws and regulations relating to data privacy and security, including, in the United States, HIPAA, and, in the EU, GDPR. Compliance with these privacy and data security requirements is rigorous and time-intensive and may increase our cost of doing business, and despite those efforts, there is a risk that we may be subject to fines and penalties, litigation and reputational harm, which could materially and adversely affect

our business, financial condition and results of operations.

In addition, the regulatory framework for the receipt, collection, processing, use, safeguarding, sharing and transfer of personal and confidential data is rapidly evolving and is likely to remain uncertain for the foreseeable future as new global privacy rules are being enacted and existing ones are being updated and strengthened. For example, on May 25, 2018, GDPR took effect in Europe. GDPR is directly applicable in each European Union member state and applies to companies established in the European Union as well as companies that collect and use personal data to offer goods or services to, or monitor the behavior of, individuals in the European Union. GDPR introduces more stringent data protection obligations for processors and controllers of personal data, and penalties and fines for failure to comply with GDPR are significant, including fines of up to €20 million or 4% of total worldwide annual turnover, whichever is higher.

43

---

Health care reform measures may hinder or prevent our products' and product candidates' commercial success.

The United States and some foreign jurisdictions have enacted or are considering enacting a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to profitably sell our product and product candidates, if and when they are approved. 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.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the ACA, became law in the United States. The ACA substantially changed and will continue to change the way healthcare is financed by both governmental and private insurers and significantly affects the pharmaceutical industry. Among the provisions of the ACA, of greatest importance to the pharmaceutical industry are the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents, apportioned among these entities according to their market share in certain government healthcare programs;
- an increase in the rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13% of the average manufacturer price for branded and generic drugs, respectively;
- 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;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 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, which began in April 2010, and by adding new eligibility categories for certain individuals with income at or below 133% of the Federal Poverty Level beginning in 2014, thereby potentially increasing manufacturers' Medicaid rebate liability;
- increase in the number of entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians;
- a licensure framework for follow-on biologic products; and
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

Since its enactment, there have been judicial and Congressional challenges to certain aspects of the ACA. As a result, there have been delays in the implementation of, and action taken to repeal or replace, certain aspects of the ACA. Most recently, the Tax Cuts and Job Act was enacted, which, among other things, removes the penalties for not complying with the ACA's individual mandate to carry health insurance. On December 14, 2018, a U.S. District Court Judge in the Northern District of Texas, ruled that the individual mandate is a critical and inseparable feature of the ACA, and therefore, because it was repealed as part of the Tax Act, the remaining provisions of the ACA are invalid as well. While the Trump administration and the Centers for Medicare & Medicaid Services have both stated that the ruling will have no immediate effect, it is unclear how this decision, subsequent appeals, if any, and other efforts to repeal and replace the ACA will impact the ACA and our business. There may be additional challenges and amendments to the ACA in the future. We cannot predict the ultimate content, timing or effect of any healthcare reform legislation or the impact of potential legislation on us.



In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted. For example, the Budget Control Act of 2011 resulted in aggregate reductions to Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013 and, due to subsequent legislative amendments, will remain in effect through 2027 unless additional Congressional action is taken. On January 2, 2013, the American Taxpayer Relief Act of 2012, among other things, also reduced Medicare payments to several providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. Recently, there has been heightened governmental scrutiny over the manner in which drug manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed bills 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. For example, the 21st Century Cures Act changes the reimbursement methodology for infusion drugs and biologics furnished through durable medical equipment in an attempt to remedy over- and underpayment of certain drugs. We cannot predict all of the ways in which future federal or state legislative or administrative changes relating to healthcare reform will affect our business.

Individual states in the United States have also become increasingly active 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, and, in some cases, designed to encourage importation from other countries and bulk purchasing. In addition, regional healthcare authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other healthcare programs.

We anticipate that the ACA, as well as other healthcare reform measures that may be adopted in the future, may result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, new payment methodologies and additional downward pressure on the price that we receive for any approved product, and could seriously harm our business. Any reduction in reimbursement from Medicare or 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 product and product candidates, if approved.

In the EU, similar political, economic and regulatory developments may affect our ability to profitably commercialize NERLYNX and our other product candidates, if approved. In addition to continuing pressure on prices and cost containment measures, legislative developments at the EU or member state level may result in significant additional requirements or obstacles that may increase our operating costs. The delivery of healthcare in the EU, including the establishment and operation of health services and the pricing and reimbursement of medicines, is almost exclusively a matter for national, rather than EU, law and policy. National governments and health service providers have different priorities and approaches to the delivery of health care and the pricing and reimbursement of products in that context. In general, however, the healthcare budgetary constraints in most EU member states have resulted in restrictions on the pricing and reimbursement of medicines by relevant health service providers. Coupled with ever-increasing EU and national regulatory burdens on those wishing to develop and market products, this could restrict or regulate post-approval activities and affect our ability to commercialize NERLYNX and our other product candidates, if approved. In international markets, reimbursement and healthcare payment systems vary significantly by country, and many countries have instituted price ceilings on specific products and therapies.

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 abroad. If we or our collaborators are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we or our collaborators are not able to maintain regulatory compliance, NERLYNX may lose any regulatory approval that may have been obtained and we may not achieve or sustain profitability.



Failure to obtain or maintain adequate coverage and reimbursement for our products or product candidates, if approved, could limit our ability to market those products and decrease our ability to generate revenue.

Successful commercial sales of any approved products will depend on the availability of adequate coverage and reimbursement from government health administration authorities, private health insurers and other third-party payors. Each third-party payor separately decides which products it will cover and establishes the reimbursement level, and there is no guarantee that any of our approved products or product candidates that may be approved for marketing by regulatory authorities will receive adequate coverage or reimbursement levels. Obtaining and maintaining coverage approval for a product is time-consuming, costly and may be difficult. We may be required to conduct expensive pharmacoeconomic studies to justify coverage and reimbursement or the level of coverage and reimbursement relative to other therapies. If coverage and adequate reimbursement are not available or limited, we may not be able to successfully commercialize any product or product candidate for which we obtain marketing approval. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for drugs and biologics. Even if we obtain coverage for a given product, the resulting reimbursement rates may be inadequate and may affect the demand for, or the price of, any product candidate for which we obtain marketing approval.

We expect to experience pricing pressures in connection with the sale of our current or future commercial products, due to the trend toward managed healthcare, the increasing influence of health maintenance organizations and additional legislative proposals. There may be additional pressure by payors and healthcare providers to use generic drugs that contain the active ingredients found in neratinib (oral), neratinib (intravenous), PB357 or any other drug candidates that we may develop. If we fail to successfully secure and maintain adequate coverage and reimbursement for our products or are significantly delayed in doing so, we will have difficulty achieving market acceptance of our products and expected revenue and profitability which would have a material adverse effect on our business, results of operations and financial condition.

We are subject, directly and indirectly, to federal and state healthcare fraud and abuse laws, false claims laws, physician payment transparency laws and health information privacy and security laws. Failure to comply with these laws may subject us to substantial penalties.

We do not and will not control referrals of healthcare services or bill directly to Medicare, Medicaid or other third-party payors. However, federal and state healthcare laws and regulations pertaining to fraud and abuse, physician payment transparency, privacy and security laws and regulations may apply to us depending on programs we operate and have been asserted by the government and others to apply to companies like us, and our arrangements with healthcare providers, customers and other entities, including our marketing practices, educational programs and pricing policies. These laws include:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons or entities from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programs, such as the Medicare and Medicaid programs. A person or entity does not need to have actual knowledge of the federal Anti-Kickback Statute or specific intent to violate it to have committed a violation. In addition, the government may assert 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 False Claims Act;

- federal false claims laws, including, without limitation, the False Claims Act, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid or other federal third-party payors that are false or fraudulent, such as engaging in improper promotion of products or submitting inaccurate price reports to the Medicaid Drug Rebate program;

-

the federal Civil Monetary Penalties law, which prohibits, among other things, offering or transferring remuneration to a federal healthcare beneficiary that a person knows or should know is likely to influence the beneficiary's decision to order or receive items or services reimbursable by the government from a particular provider or supplier;

• federal criminal laws that prohibit executing a scheme to defraud any federal healthcare benefit program or making false statements relating to healthcare matters; similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;

• HIPAA, which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information held by certain covered entities and their business associates, and imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;

46

---

the federal Physician Payment Sunshine Act, which requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to Centers for Medicare & Medicaid Services, or CMS, information related to payments or other "transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and requires applicable manufacturers and group purchasing organizations to report annually to CMS ownership and investment interests held by the physicians described above and their immediate family members and payments or other "transfers of value" to such physician owners (manufacturers are required to submit reports to CMS by the 90th day of each calendar year);

analogous state equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by any third-party payor, including commercial insurers; state laws that require pharmaceutical companies to comply with the industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures and pricing information; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts; and European and other foreign law equivalents of each of these laws, including reporting requirements detailing interactions with and payments to healthcare providers and laws governing the privacy and security of certain protected information, such as GDPR, which imposes obligations and restrictions on the collection and use of personal data relating to individuals located in the EU (including health data).

Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available under such laws, it is possible that some of our business activities, including our relationships with physicians and other healthcare providers, some of whom recommend, purchase and/or prescribe our products, and the manner in which we promote our products, could be subject to challenge under one or more of such laws.

We are also exposed to the risk that our employees, independent contractors, principal investigators, consultants, vendors, distributors and agents may engage in fraudulent or other illegal activity. While we have policies and procedures in place prohibiting such activity, misconduct by these parties could include, among other infractions or violations, intentional, reckless and/or negligent conduct or unauthorized activity that violates FDA requirements, including those laws that require the reporting of true, complete and accurate information to the FDA, manufacturing standards, federal and state healthcare fraud and abuse laws and regulations, laws that require the true, complete and accurate reporting of financial information or data or other commercial or regulatory laws or requirements. It is not always possible to identify and deter misconduct by our employees and other third parties, 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 be in compliance with such laws or regulations.

If our operations are found to violate any of the laws described above or any other laws and regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, disgorgement, the curtailment or restructuring of our operations, the exclusion from participation in federal and state healthcare programs and imprisonment of officers involved, any of which could adversely affect our ability to market our current and any future products, once approved, and materially adversely affect our business, results of operations and financial condition. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

If we fail to comply with our reporting and payment obligations under the Medicaid Drug Rebate Program or other governmental pricing programs in the United States, we could be subject to additional reimbursement requirements, penalties, sanctions and fines, which could have a material adverse effect on our business, results of operations and financial condition.

We participate in the Medicaid Drug Rebate Program, as administered by CMS, and other federal and state government pricing programs in the United States, and we may participate in additional government pricing programs in the future. These programs generally require us to pay rebates or otherwise provide discounts to government payors in connection with drugs, including NERLYNX, that are dispensed to beneficiaries of these programs. In some cases, such as with the Medicaid Drug Rebate Program, the rebates are based on pricing and rebate calculations that we report on a monthly and quarterly basis to the government agencies that administer the programs. Pricing and rebate calculations are complex, vary among products and programs, and are often subject to interpretation by governmental or regulatory agencies and the courts. The terms, scope and complexity of these government pricing programs change frequently. Responding to current and future changes may increase our costs and the complexity of compliance will be time consuming.

In addition, there is increased focus by the Office of Inspector General on the methodologies used by manufacturers to calculate average manufacturer price, or AMP, and best price, or BP, to assess manufacturer compliance with reporting requirements under the Medicaid Drug Rebate Program. We are liable for errors associated with our submission of pricing data and for any overcharging of government payors. For example, failure to submit monthly/quarterly AMP and BP data on a timely basis could result in a civil monetary penalty per day for each day the submission is late beyond the due date. Failure to make necessary disclosures and/or to identify overpayments could result in allegations against us under the Federal False Claims Act and other laws and regulations.

Any required refunds to the U.S. government or responding to a government investigation or enforcement action would be expensive and time consuming and could have a material adverse effect on our business, results of operations and financial condition. In the event that CMS were to terminate our rebate agreement, no federal payments would be available under Medicaid or Medicare for our covered outpatient drugs.

If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenue and our business will suffer.

The market for our drugs and drug candidates is characterized by intense competition and rapid technological advances. NERLYNX competes, and any of our other drug candidates that receives FDA approval will compete, with a number of existing and future drugs and therapies developed, manufactured and marketed by others. Existing or future competing products may provide greater therapeutic convenience or clinical or other benefits for a specific indication than our products, or may offer comparable performance at a lower cost. In addition, a large number of companies are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. If our products fail to capture and maintain market share, we may not achieve sufficient product revenue and our business will suffer.

We compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors have oncology compounds that have already been approved or are in development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs or have substantially greater financial resources than we do, as well as significantly greater experience in the following:

- developing drugs;
- undertaking pre-clinical testing and clinical trials;
- obtaining FDA and other regulatory approvals of drugs;
- formulating and manufacturing drugs; and
- launching, marketing and selling drugs.

We may be exposed to liability claims associated with the use of hazardous materials and chemicals.

Our research and development activities may involve the controlled use of hazardous materials and chemicals. Although we believe that our safety procedures for using, storing, handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot completely eliminate the risk of accidental injury or contamination from these materials. In the event of such an accident, we could be held liable for any resulting damages and any liability could materially adversely affect our business, financial condition and results of operations. In addition, the federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous or radioactive materials and waste products may require us to incur substantial compliance costs that could materially adversely affect our business, financial condition and results of operations.

The loss of one or more key members of our management team could adversely affect our business.

Our success and future growth depends to a significant degree on the skills and continued services of our management team, in particular Alan H. Auerbach, our Chief Executive Officer and President. If Mr. Auerbach resigns or becomes unable to continue in his present role and is not adequately replaced, our business operations could be materially adversely affected. We do not maintain “key man” life insurance for Mr. Auerbach.

If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.

As of December 31, 2018, we had 272 employees, including our Chief Executive Officer and President. Our future success depends on our ability to identify, attract, hire, train, retain and motivate other highly skilled scientific, technical, marketing, managerial and financial personnel. Although we will seek to hire and retain qualified personnel with experience and abilities commensurate with our needs, there is no assurance that we will succeed despite their collective efforts. Competition for personnel is intense, and any failure to attract and retain the necessary technical, marketing, managerial and financial personnel would have a material adverse effect on our business, prospects, financial condition and results of operations.



We may not successfully manage our growth.

Our success will depend upon the expansion of our operations and our ability to successfully manage our growth. Our future growth, if any, may place a significant strain on our management and on our administrative, operational and financial resources. Our ability to manage our growth effectively will require us to implement and improve our operational, financial and management systems and to expand, train, manage and motivate our employees. These demands may require the hiring of additional management personnel and the development of additional expertise by management. Any increase in resources devoted to research and product development without a corresponding increase in our operational, financial and management systems could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by the current economic environment.

Our ability to attract and retain collaborators or customers, invest in and grow our business and meet our financial obligations depends on our operating and financial performance, which, in turn, is subject to numerous factors, including the prevailing economic conditions and financial, business and other factors beyond our control, such as the rate of unemployment, the number of uninsured persons in the United States and inflationary pressures. We cannot anticipate all the ways in which the current economic climate and financial market conditions could adversely impact our business.

We are exposed to risks associated with reduced profitability and the potential financial instability of our collaborators or customers, many of which may be adversely affected by volatile conditions in the financial markets. For example, unemployment and underemployment, and the resultant loss of insurance, may decrease the demand for healthcare services and pharmaceuticals. If fewer patients are seeking medical care because they do not have insurance coverage, our collaboration partners or customers may experience reductions in revenues, profitability and/or cash flow that could lead them to modify, delay or cancel orders for our products once commercialized. If collaboration partners or customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. This, in turn, could adversely affect our financial condition and liquidity. In addition, if economic challenges in the United States result in widespread and prolonged unemployment, either regionally or on a national basis, a substantial number of people may become uninsured or underinsured. To the extent economic challenges result in fewer individuals pursuing or being able to afford our products once commercialized, our business, results of operations, financial condition and cash flows could be adversely affected.

We may incur substantial liabilities and may be required to limit commercialization of our products in response to product liability lawsuits.

The testing and marketing of medical products entail an inherent risk of product liability. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. If we are unable to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims, the commercialization of pharmaceutical products we develop, alone or with collaborators, could be prevented or inhibited.

Our cash and cash equivalents could be adversely affected if the financial institutions in which we hold our cash and cash equivalents fail.

We regularly maintain cash balances at third-party financial institutions in excess of the Federal Deposit Insurance Corporation, or FDIC, insurance limit. While we monitor daily the cash balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted, and there could be a material adverse effect on our business, if one or more of the financial institutions with which we deposit fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss or lack of access to our invested

cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial and credit markets.

Our investments in marketable securities are subject to market, interest and credit risk that may reduce their value.

The value of our investments in marketable securities may be adversely affected by changes in interest rates, downgrades in the creditworthiness of bonds we hold, turmoil in the credit markets and financial services industry and by other factors which may result in other than temporary declines in the value of our investments. Decreases in the market value of our marketable securities could have an adverse impact on our consolidated financial statements, results of operations and cash flow.

## Risks Related to Our Intellectual Property

We depend significantly on intellectual property licensed from Pfizer and the termination of this license would significantly harm our business and future prospects.

We depend significantly on our license agreement with Pfizer. Our license agreement with Pfizer may be terminated by Pfizer if we materially breach the agreement and fail to cure our breach during an applicable cure period. Our failure to use commercially reasonable efforts to develop and commercialize licensed products in certain specified major market countries would constitute a material breach of the license agreement. Pfizer may also terminate the license agreement if we become involved in bankruptcy, receivership, insolvency or similar proceedings. In the event our license agreement with Pfizer is terminated, we will lose all of our rights to develop and commercialize the drug candidates covered by such license, which would significantly harm our business and future prospects.

Our proprietary rights may not adequately protect our intellectual property and potential products, and if we cannot obtain adequate protection of our intellectual property and potential products, we may not be able to successfully market our potential products.

Our commercial success will depend in part on obtaining and maintaining intellectual property protection for our products, formulations, processes, methods and other technologies. We will only be able to protect these technologies and products from unauthorized use by third parties to the extent that valid and enforceable intellectual property rights, including patents, cover them, or other market exclusionary rights apply. The patent positions of pharmaceutical companies, like ours, can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in such companies' patents has emerged to date in the United States. The general environment for pharmaceutical patents outside the United States also involves significant uncertainty. Accordingly, we cannot predict the breadth of claims that may be allowed (if any are allowed at all) or enforced, or that the scope of these patent rights could provide a sufficient degree of future protection that could permit us to gain or keep our competitive advantage with respect to these products and technology. For example, we cannot predict:

- the degree and range of protection any patents will afford us against competitors, including whether third parties will find ways to make, use, sell, offer to sell or import competitive products without infringing our patents;
- if and when patents will issue;
- whether or not others will obtain patents claiming inventions similar to those covered by our patents and patent applications; or
- whether we will need to initiate litigation or administrative proceedings in connection with patent rights, which may be costly whether we win or lose, and the outcome of which is unpredictable.

The patents we have licensed may be challenged and could be invalidated or rendered unenforceable by third parties. Changes in either the patent laws or in the interpretations of patent laws in the United States or other countries may diminish the value of our intellectual property.

In addition, others may independently develop similar or alternative products and technologies that may be outside the scope of our intellectual property. Furthermore, others may have invented technology claimed by our patents before we or our licensors did so, and they may have filed patents claiming such technology before we did so, weakening our ability to obtain and maintain patent protection for such technology. Should third parties obtain patent rights to similar products or technology, this may have an adverse effect on our business.

We may also rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. Trade secrets, however, are difficult to protect. While we believe that we will use reasonable efforts to protect our trade secrets, our own or our strategic partners' employees, consultants, contractors or advisors may unintentionally or willfully disclose our information to competitors. Such disclosure could adversely affect our ability to prevent further disclosures of our trade secrets. We seek to protect this information, in part,

through the use of non-disclosure and confidentiality agreements with employees, consultants, advisors and others. These agreements may be breached, and we may not have adequate remedies for a breach. In addition, we cannot ensure that those agreements will be enforceable, provide adequate protection for our trade secrets, know-how or other proprietary information, or prevent their unauthorized use or disclosure.

50

---

To the extent that consultants or key employees apply technological information independently developed by them or by others to our potential products, disputes may arise as to the proprietary rights in such information, which may not be resolved in our favor. Consultants and key employees who work with our confidential and proprietary technologies are required to assign all intellectual property rights in their discoveries to us. However, these consultants or key employees may terminate their relationship with us, and we cannot preclude them indefinitely from dealing with our competitors. If our trade secrets become known to competitors with greater experience and financial resources, the competitors may copy or use our trade secrets and other proprietary information in the advancement of their products, methods or technologies. If we were to prosecute a claim that a third party had illegally obtained and was using our trade secrets, it could be expensive and time consuming and the outcome could be unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets than courts in the United States. Moreover, if our competitors independently develop equivalent knowledge, we would lack any legal or contractual claim to prevent them from using such information, and our business could be harmed.

Our ability to commercialize our potential products will depend on our ability to sell such products without infringing the patent or proprietary rights of third parties. If we are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation would have a material adverse effect on our business.

Our ability to commercialize our potential products will depend on our ability to sell such products without infringing the patents or other proprietary rights of third parties. Third-party intellectual property rights in our field are complicated and continuously evolving. The coverage of patents is subject to interpretation by the courts, and this interpretation is not always consistent.

Other companies may have or may acquire intellectual property rights that could be enforced against us. If they do so, we may be required to alter our products, formulations, processes, methods or other technologies, obtain a license, assuming one can be obtained, or cease our product-related activities. Holders of such intellectual property rights are not required to give us a license if one were required. If our products or technologies infringe the intellectual property rights of others, such parties could bring legal action against us or our licensors or collaborators claiming damages and seeking to enjoin any activities that they believe infringe their intellectual property rights. If we are sued for patent infringement, we would need to demonstrate that our products or methods of use 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 the invalidity of a patent is particularly difficult in the United States, since it requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. If we are found to infringe a third-party patent, we may need to cease the commercial sale of our products.

Because patent applications can take many years to issue, there may be currently pending applications unknown to us or reissue applications that may later result in issued patents upon which our products or technologies may infringe. There could also be existing patents of which we are unaware that our products or technologies may infringe. In addition, if third parties file patent applications or obtain patents claiming products or technologies also claimed by us in pending applications or issued patents, we may have to participate in interference proceedings in the U.S. Patent and Trademark Office, or USPTO, to determine priority of invention. If third parties file inter partes review or post-grant review petitions in the USPTO to invalidate our issued U.S. patents, we may have to participate in such proceedings to defend such patents. If third parties file oppositions in foreign countries, we may also have to participate in opposition proceedings in foreign tribunals to defend the patentability of our filed foreign patent applications. The outcome of such proceedings in the United States and foreign countries is predictable. Some of our competitors may be able to sustain the costs of such proceedings and of complex patent litigation more effectively than we can because they have substantially greater resources. Additionally, any uncertainties resulting from the initiation and continuation of any such proceedings or litigation may have a material adverse effect on our ability to raise the funds necessary to continue our operations.

If a third party claims that we infringe its intellectual property rights, it could cause our business to suffer in a number of ways, including:

- we may become involved in time-consuming and expensive litigation, even if the claim is without merit, the third party's patent is ultimately invalid or unenforceable, or we are ultimately found to have not infringed;
- we may become liable for substantial damages for past infringement if a court decides that our technologies infringe upon a third party's patent;
- we may be ordered by a court to stop making, using, selling, offering for sale, importing or licensing our products or technologies without a license from a patent holder, and such license may not be available on commercially acceptable terms, if at all, or may require us to pay substantial royalties or grant cross-licenses to our patents; and
- we may have to redesign our products so that they do not infringe upon others' patent rights, which may not be possible or could require substantial investment and/or time.

If any of these events occur, our business could suffer and the market price of our common stock may decline.

As is common in the biotechnology and pharmaceutical industries, we employ individuals who were previously employed at other companies in these industries, including our competitors or potential competitors. We may become subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers, although no such claims are pending. Litigation may be necessary to defend against these claims. Even if we successfully defend any such claims, we may incur substantial costs in such defense, and our management may be distracted by these claims.

#### Risks Related to Owning our Common Stock

Our stock price may fluctuate significantly and you may have difficulty selling your shares based on current trading volumes of our stock. In addition, numerous other factors could result in substantial volatility in the trading price of our stock.

We cannot predict the extent to which investor interest in our company will be sufficient to maintain an active trading market on the NASDAQ Global Select Market or any other exchange in the future. We have several stockholders, including affiliated stockholders, who hold substantial blocks of our stock. As of December 31, 2018, we estimate that our officers, directors and their affiliated entities, and our 5% or greater stockholders, collectively beneficially owned approximately 46.9 % of our outstanding shares of common stock. Sales of large numbers of shares by any of our large stockholders could adversely affect our trading price. If stockholders holding shares of our common stock sell, indicate an intention to sell, or if it is perceived that they will sell, substantial amounts of their common stock in the public market, the trading price of our common stock could decline. Moreover, if there is a less active trading market, holders of our common stock may have difficulty selling their shares.

The price of our common stock could be subject to volatility related or unrelated to our operations.

The trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- our ability to commercialize NERLYNX successfully in and beyond the United States for the extended adjuvant treatment of early stage, HER2-positive breast cancer;
- the status and cost of our marketing commitments for NERLYNX;
- the status and cost of development and commercialization of neratinib for indications other than in the treatment of HER2-positive breast cancer and in jurisdictions other than the United States and European Union, if approved;
- actual or anticipated quarterly variation in our results of operations or the results of our competitors;
- announcements regarding results of any clinical trials relating to our drug candidates;
- announcements of medical innovations or new products by our competitors;
- issuance of new or changed securities analyst reports or recommendations for our stock;
- developments or disputes concerning our intellectual property or other proprietary rights;
- commencement of, or involvement in, litigation;
- market conditions in the biopharmaceutical industry;
- timing and announcement of regulatory approvals;
- any future sales of our common stock or other securities in connection with raising additional capital or otherwise;
- any major change to the composition of our board of directors or management; and
- general economic conditions and slow or negative growth of our markets.

The stock market in general, and market prices for the securities of biotechnology companies like ours in particular, have from time to time experienced volatility that often has been unrelated to the operating performance of the underlying companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

We have been subject to securities litigation in the past, and volatility in the price of our common stock may subject us to securities litigation in the future.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. This risk is especially relevant for us because pharmaceutical companies have experienced significant stock price volatility in recent years. These types of lawsuits are subject to inherent uncertainties, and are expensive and time-consuming to investigate, defend and resolve. For instance, in *Hsu v. Puma Biotechnology, Inc., et al.*, the plaintiff alleged that we and certain of our executive officers made false or misleading statements and failed to disclose material adverse facts about our business, operations, prospects and performance in violation of the Exchange Act. In February 2019, a jury found that we had liability on one of four alleged misstatements, and awarded \$4.50 per share in damages, representing approximately 5% percent of total claimed damages. Trading models suggest that approximately ten million shares traded during the class period may be eligible to claim damages. Based on prior lawsuits, we believe that the number of stockholders who submit proof of claims sufficient to recover damages is typically in the range of 20% to 40% of the total eligible shares, and based on these assumptions, total damages after claims could range from \$9 million to \$18 million. However, the total amount of aggregate class-wide damages remains uncertain and will be ascertained only after an extensive claims process and the exhaustion of any appeals, and it is possible that the total damages will be higher than this estimate. It is also possible, as a result of the verdict, that our insurance carriers may assert a right to be paid back litigation cost reimbursements previously received by us, due to certain provisions in our insurance coverage policy.

Any other litigation to which we are a party may similarly divert our management's attention and financial and other resources, or result in an onerous or unfavorable judgment that may not be reversed upon appeal or in payments of substantial monetary damages or fines. Additionally, we may decide to settle such lawsuits on similarly unfavorable terms, which could adversely affect our business, financial condition, results of operations or stock price.

Issuance of stock to fund our operations may dilute your investment and reduce your equity interest.

We may need to raise capital in the future to fund the development of our drug candidates or for other purposes. Any equity financing may have a significant dilutive effect to stockholders and a material decrease in our existing stockholders' equity interest in us. Equity financing, if obtained, could result in substantial dilution to our existing stockholders. At its sole discretion, our board of directors may issue additional securities without seeking stockholder approval, and we do not know when we will need additional capital or, if we do, whether it will be available to us.

Upon the exercise of our outstanding warrant, holders of our common stock may experience immediate dilution and the market price of our common stock may be adversely affected.

Our founder, Chief Executive Officer and President, Alan H. Auerbach, holds a warrant for 2,116,250 shares with an exercise price of \$16.00 per share. If any portion of the outstanding warrant is exercised for shares of our common stock prior to its expiration in October 2021, our stockholders may experience immediate dilution and the market price of our common stock may be adversely affected.

We incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies.

As a public company, we incur significant legal, accounting and other expenses, including costs associated with public company reporting requirements. We also incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, as well as rules implemented by the SEC, or NASDAQ or any stock exchange or inter-dealer quotations system on which our common stock may be listed in the future. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically in recent years. These rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and



costly.

These rules and regulations may also make it difficult and expensive for us to maintain the appropriate level of director and officer insurance for a company with our market capitalization. If we are unable to maintain an appropriate level of such insurance, we may be required to accept reduced policy limits and coverage or larger deductible limits. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

53

---

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.

We are subject to the rules and regulations of the SEC, including those rules and regulations mandated by the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires public companies to include in their annual report a statement of management's responsibilities for establishing and maintaining adequate internal control over financial reporting, together with an assessment of the effectiveness of those internal controls. Section 404 also requires the independent auditors of certain public companies to attest to, and report on, this management assessment. Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that will need to be evaluated frequently. Our failure to maintain the effectiveness of our internal controls in accordance with the requirements of the Sarbanes-Oxley Act could have a material adverse effect on our business. We could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the price of our common stock. In addition, if our efforts to comply with new or changed laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Sales of a substantial number of shares of our common stock in the public market could cause the market price of our common stock to drop significantly, even if our business is doing well, which result would in turn negatively affect our ability to raise additional equity capital.

Sales of a substantial number of shares of our common stock in the public market, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. A substantial majority of the outstanding shares of our common stock are freely tradable without restriction or further registration under the Securities Act of 1933, as amended. We have also registered all shares of common stock that we may issue under our equity compensation plan, which can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates. We are unable to predict the effect that sales may have on the prevailing market price of our common stock. However, an adverse effect on the market price of our common stock could have a material adverse effect on our ability to raise additional equity capital.

If securities or industry analysts do not publish, or cease publishing, research reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock is and will be influenced by whether industry or securities analysts publish research and reports about us, our business, our market or our competitors and, if any analysts do publish such reports, what they publish in those reports. We may not obtain analyst coverage in the future. Any analysts who do cover us may make adverse recommendations regarding our stock, adversely change their recommendations from time to time, and/or provide more favorable relative recommendations about our competitors. If any analyst who may cover us in the future were to cease coverage of our company or fail to regularly publish reports on us, or if analysts fail to cover us or publish reports about us at all, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We do not foresee paying cash dividends in the foreseeable future.

We currently intend to retain any future earnings for funding growth. We do not anticipate paying any dividends in the foreseeable future, and the payment of dividends is also restricted under our credit facility. As a result, you should not rely on an investment in our securities if you require dividend income. Capital appreciation, if any, of our shares may be your sole source of gain for the foreseeable future. Moreover, you may not be able to re-sell your shares in us at or above the price you paid for them.

Our ability to use our net operating losses and research and development credit carryforwards to offset future taxable income may be subject to certain limitations.

In general, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change,” generally defined as a greater than 50% change (by value) in its equity ownership over a three year period, is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, and its research and development credit carryforwards to offset future taxable income. Our existing NOLs and research and development credit carryforwards may be subject to limitations arising from previous ownership changes, and if we undergo an ownership change, our ability to utilize NOLs and research and development credit carryforwards could be further limited by Sections 382 and 383 of the Code. Future changes in our stock ownership, some of which might be beyond our control, could result in an ownership change under Sections 382 and 383 of the Code. Furthermore, our ability to utilize NOLs and research and development credit carryforwards of any companies we may acquire in the future may be subject to limitations, in accordance with Sections 382 and 383 of the Code. For these reasons, in the event we experience a change of control, we may not be able to utilize a material portion of the NOLs and research and development credit carryforwards, even if we attain profitability.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

#### ITEM 2. PROPERTIES

We lease approximately 65,656 square feet of office space in the building located at 10880 Wilshire Boulevard, Los Angeles, California for use as our corporate headquarters. This lease commenced in December 2011 and over time has been amended to add rentable square footage. The lease terminates in March 2026. We also lease approximately 29,470 square feet of office space in the building located at 701 Gateway Blvd, South San Francisco, California. The lease for the South San Francisco facility commenced in October 2012. The lease will terminate around March 2026, with an option to extend for an additional five-year term. We believe that our existing office space, along with the additional office space in South San Francisco, is adequate to meet current and anticipated future requirements and that additional or substitute space will be available as needed to accommodate any expansions that our operations require.

#### ITEM 3. LEGAL PROCEEDINGS

Hsu vs. Puma Biotechnology, Inc., et. al.

On June 3, 2015, Hsingching Hsu or the “plaintiff,” individually and on behalf of all others similarly situated, filed a class action lawsuit against us or “the defendants” and certain of our executive officers in the United States District Court for the Central District of California (Case No. 8:15-cv-00865-AG-JCG). On October 16, 2015, lead plaintiff Norfolk Pension Fund filed a consolidated complaint on behalf of all persons who purchased our securities between July 22, 2014 and May 29, 2015. The consolidated complaint alleges that we and certain of our executive officers made false or misleading statements and failed to disclose material adverse facts about our business, operations, prospects and performance in violation of Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiff seeks damages, interest, costs, attorneys' fees, and other unspecified equitable relief. On September 30, 2016, the court denied the defendants' motion to dismiss the consolidated complaint. On June 6, 2017, the lead plaintiff filed a first amended complaint that included new claims about additional statements that plaintiff alleges are false or misleading. On June 19, 2017, the defendants moved to dismiss the new claims in the amended complaint. On July 25, 2017, the court denied the motion to dismiss. On December 8, 2017, the court granted the plaintiff's motion for class certification. On July 10, 2018, defendants filed a motion for summary judgment. The Court granted defendants' motion in part, granting judgment on all claims against Charles Eyler and as to certain of the alleged misstatements. A jury trial was held on the remaining claims from January 15, 2019 to January 29, 2019. At trial, the jury found in favor of defendants on three of the four statements at issue. The jury found liability on one of the statements, and as to that statement, awarded damages of \$4.50 per share, which represents approximately 5% of the total claimed damages of \$87.20 per share. The total amount of aggregate class-wide damages is uncertain and will be ascertained only after an extensive claims process and the exhaustion of any appeals. Trading models suggest that approximately ten million shares traded during the class period may be eligible to claim damages. Based on prior lawsuits, we believe that the number of stockholders who submit proof of claims sufficient to recover damages is typically in the range of 20% to 40% of the total eligible shares. Based on these assumptions, total damages after claims could range from \$9 million to \$18 million. It is also reasonably possible that the total damages will be higher than this estimate, however, at this time, the amount is not estimable. A final judgment has not been entered.

Eshelman vs. Puma Biotechnology, Inc., et. al.

In February 2016, Fredric N. Eshelman filed a lawsuit against our Chief Executive Officer and President, Alan H. Auerbach, and us in the United States District Court for the Eastern District of North Carolina (Case No. 7:16-cv-00018-D). The complaint generally alleges that we and Mr. Auerbach made defamatory statements regarding Dr. Eshelman in connection with a proxy contest. Dr. Eshelman seeks compensatory and punitive damages and expenses and costs, including attorneys' fees. In April 2016, we filed a motion to dismiss the complaint, and in May

2016, Dr. Eshelman filed a notice of voluntary dismissal of the claims against Mr. Auerbach. In May 2017, the court denied our motion to dismiss. Discovery ended in September 2017. In September 2018, the court denied our motion for summary judgment and granted in part and denied in part Dr. Eshelman's motion for partial summary judgment. This matter is set for trial beginning March 11, 2019. We intend to vigorously defend against Dr. Eshelman's claims.

55

---

## Derivative Actions

On April 12 and April 14, 2016, alleged shareholders filed two derivative lawsuits purportedly on behalf of us against certain of our officers and directors in the Superior Court of the State of California, Los Angeles, captioned Xie vs. Auerbach, No. BC616617, and McKenney vs. Auerbach, No. BC617059. The complaints assert claims for breach of fiduciary duty, unjust enrichment, abuse of control, mismanagement and waste of corporate assets. The complaints seek an unspecified sum of damages and equitable relief.

Separately, on February 9, 2018, another alleged shareholder filed a derivative lawsuit purportedly on behalf of us against certain of our officers and directors in the United States District Court, Central District of California, captioned Van Der Gracht De Rommerswael vs. Auerbach, No. 8:18-cv-00236. The complaint asserts claims for violation of securities law, breach of fiduciary duty, waste of corporate assets, and unjust enrichment arising from substantially similar allegations as those contained in the securities class action described above. The complaint seeks an unspecified sum of damages, corporate reforms, equitable relief, and restitution. We intend to vigorously defend against this matter.

On May 30, 2018, another stockholder filed a derivative lawsuit purportedly on behalf of us against certain of our officers and directors in the United States District Court, Central District of California, captioned Duran v. Auerbach, No. 2:18-cv-04802. The complaint asserts claims for violations of securities laws, breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The complaint seeks an unspecified sum of damages, declaratory judgment, corporate reforms, restitution, and costs and disbursements associated with the lawsuit.

On July 30, 2018, the parties reached a settlement in principle of the Xie, Rommerswael, and Duran lawsuits. On January 7, 2019, the Court approved the settlement and entered final judgment in the Rommerswael case. The parties are expected to seek dismissal of the Xie and Duran lawsuits.

The pending proceedings described in this section involve complex questions of fact and law and will require the expenditure of significant funds and the diversion of other resources to defend. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible.

## ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Market for Common Stock

Our common stock has been quoted on the NASDAQ Global Select Market, or NASDAQ, under the symbol "PBYF" since January 3, 2017. Prior to January 3, 2017, shares of our common stock had been listed on the New York Stock Exchange since October 19, 2012.

### Record Holders

On February 15, 2019, we had 7 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders

whose shares may be held in trust by other entities. We believe approximately 18,855 additional owners held our common stock in “Street Name” as of February 15, 2019.

#### Dividends

We have never declared or paid any cash dividends on our capital stock. Currently, we anticipate that we will retain all available funds for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on our future earnings, capital requirements, financial condition, prospects, applicable Delaware law, which provides that dividends are only payable out of surplus or current net profits, and other factors that our board of directors deems relevant. Additionally, we are restricted from paying cash dividends under our credit facility with SVB.

#### Securities Authorized for Issuance Under Equity Compensation Plans

The information included under Item 12 of Part III of this Annual Report, “Securities Authorized for Issuance Under Equity Compensation Plans,” is hereby incorporated by reference into this Item 5 of Part II of this Annual Report.

#### Recent Sales of Unregistered Securities

We did not make any sales of unregistered securities during fiscal year 2018.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Neither we nor any “affiliated purchasers” within the definition of Rule 10b-18(a)(3) made any purchases of our equity securities during the fourth quarter of 2018.



### Performance Graph

The graph and table below compare the cumulative total return of our common stock from December 31, 2013, through December 31, 2018, with the cumulative total returns on (i) the Nasdaq Biotechnology Index and (ii) the Nasdaq Composite Index. The comparison assumes investment of \$100 on December 31, 2013, in our common stock and in each index and, for each index, assumes reinvestment of all dividends.

The historical price performance included below is not necessarily indicative of future stock price performance.

The material in this performance graph is not soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made on, before or after the date of this filing and irrespective of any general incorporation language in such filing.

## ITEM 6. SELECTED FINANCIAL DATA

The following financial data should be read in conjunction with our consolidated financial statements and the related notes thereto appearing elsewhere in this Annual Report and with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The Consolidated Statement of Operations Data and Other Financial Data for the years ended December 31, 2018, 2017 and 2016 and the Consolidated Balance Sheet Data as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The Consolidated Statement of Operations Data and Other Financial Data for the years ended December 31, 2015 and 2014 and the Consolidated Balance Sheet Data as of December 31, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements not included herein. Historical results are not necessarily indicative of the results to be expected in the future, and the results for the years presented should not be considered indicative of our future results of operations.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in millions, except share and per share data)				
<b>Statement of Operations Data:</b>					
Product revenue, net	\$200.5	\$26.2	\$—	\$—	\$—
License revenue	50.5	1.5	—	—	—
Expenses:					
Cost of sales	34.6	5.6	—	—	—
Selling, general and administrative	146.2	106.7	53.8	31.8	19.4
Research and development	164.9	207.8	222.8	208.5	122.9
Operating loss	(94.7 )	(292.4 )	(276.6 )	(240.3 )	(142.3 )
Interest income	1.8	1.2	1.0	1.0	0.3
Interest expense	(11.0 )	(0.7 )	—	—	—
Class action verdict expense	(9.0 )	—	—	—	—
Other expense	(0.7 )	(0.1 )	(0.4 )	—	—
Totals	(18.9 )	0.4	0.6	1.0	0.3
Net loss	(113.6 )	(292.0 )	(276.0 )	(239.3 )	(142.0 )
Net loss attributable to common stock	(113.6 )	(292.0 )	(276.0 )	(239.3 )	(142.0 )
Net loss per common share—basic					
and diluted	\$(2.99 )	\$(7.85 )	\$(8.29 )	\$(7.45 )	\$(4.73 )
<b>Weighted-average common shares</b>					
outstanding—basic and diluted	37,942,411	37,169,678	33,295,114	32,126,094	30,010,979
	As of December 31,				
	2018	2017	2016	2015	2014
	(in millions)				
<b>Balance Sheet Data:</b>					
Total assets	\$259.1	\$165.5	\$252.8	\$239.8	\$162.8
Total liabilities	224.8	112.2	43.0	33.8	45.7
Total stockholders' equity	34.3	53.3	209.8	206.0	117.0

Edgar Filing: PUMA BIOTECHNOLOGY, INC. - Form 10-K

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in millions)				
<b>Other Financial Data:</b>					
Net cash used in operating activities	\$(24.1 )	\$(172.5 )	\$(141.7 )	\$(154.5 )	\$(77.2 )
Net cash (used in) provided by					
investing activities	(57.6 )	(15.4 )	142.2	(85.9 )	(63.3 )
Net cash provided by financing activities	108.5	75.1	162.4	233.4	136.0

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K contains forward-looking statements within the meanings of the federal securities laws. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially from those expressed or implied by such forward-looking statements. For a detailed discussion of these risks and uncertainties, see the "Risk Factors" section in Item 1A of Part I of this Form 10-K. We caution the reader not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Form 10-K. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-K.

### Overview

We are a biopharmaceutical company with a focus on the development and commercialization of innovative products to enhance cancer care. We in-license from Pfizer, Inc., or Pfizer, the global development and commercialization rights to three drug candidates—PB272 (neratinib (oral)), PB272 (neratinib (intravenous)) and PB357. Neratinib is a potent irreversible tyrosine kinase inhibitor, or TKI, that blocks signal transduction through the epidermal growth factor receptors, HER1, HER2 and HER4. Currently, we are primarily focused on the development and commercialization of the oral version of neratinib, and our most advanced drug candidates are directed at the treatment of HER2-positive breast cancer. We believe neratinib has clinical application in the treatment of several other cancers as well, including non-small cell lung cancer and other tumor types that over-express or have a mutation in HER2.

Prior to 2017, our efforts and resources were focused primarily on acquiring and developing our pharmaceutical technologies, raising capital and recruiting personnel. During 2017, the United States Food and Drug Administration, or FDA, approved NERLYNX, formally known as PB272 (neratinib(oral)), for the extended adjuvant treatment of adult patients with early stage HER2-overexpressed/amplified breast cancer following trastuzumab-based therapy. In September 2018, the European Commission, or EC, granted marketing authorisation for extended adjuvant treatment of adult patients with early state hormone receptor positive HER-2-overexpressed/amplified breast cancer and who are less than one year from the completion of prior adjuvant trastuzumab-based therapy. We have entered into exclusive license agreements with Specialised Therapeutics Asia Pte Ltd., or STA, Medison Pharma Ltd., or Medison, CANbridgepharma Limited, or CANbridge and, Pint Pharma International SA, or Pint, to pursue regulatory approval and commercialize NERLYNX, if approved, in various specified regions outside of the United States. We plan to continue to pursue commercialization of NERLYNX in additional countries outside the United States, if approved, and will evaluate various commercialization options in those countries, including developing a direct salesforce, contracting with third parties to provide sales and marketing capabilities, or some combination of these two options. We expect that our expenses will continue to increase as we continue commercialization efforts. We expect that our expenses will continue to increase as we continue to evaluate our options with regard to commercialization efforts.

Our expenses to date have been related to hiring staff, commencing company-sponsored clinical trials and the build out of our corporate infrastructure and, since 2017, the commercial launch of NERLYNX. Accordingly, our success depends not only on the safety and efficacy of our product candidates, but also on our ability to finance product development. To date, our major sources of working capital have been proceeds from product and license revenue, public offerings of our common stock, proceeds from our credit facility and sales of our common stock in private placements.

### Summary of Income and Expenses

Product revenue, net

Product revenue, net consists of revenue from sales of NERLYNX. We sell NERLYNX to a limited number of specialty pharmacies and specialty distributors in the United States. We record revenue at the net sales price, which includes an estimate for variable consideration for which reserves are established. Variable consideration consists of trade discounts and allowances, product returns, provider chargebacks and discounts, government rebates and other incentives.

#### License revenue

License revenue consists of consideration earned for performance obligations satisfied pursuant to our license agreements.

#### Cost of sales

Cost of sales consists of third-party manufacturing costs, freight, and indirect overhead costs associated with sales of NERLYNX. Cost of product sales may also include period costs related to royalty charges payable to Pfizer, the amortization of a milestone payment made to Pfizer after obtaining FDA approval of NERLYNX, certain inventory manufacturing services, inventory adjustment charges, unabsorbed manufacturing and overhead costs, and manufacturing variances.

### Selling, general and administration expenses

Selling, general and administrative, or SG&A, expenses consist primarily of salaries and related personnel costs, including stock-based compensation expense, professional fees, business insurance, rent, general legal activities, and other corporate expenses. Internal expenses primarily consist of payroll-related costs, but also include facilities and equipment costs, travel expenses and supplies. External expenses primarily consist of legal fees, insurance expenses and consulting for activities such as sales, marketing and software implementations to support corporate growth.

We expect SG&A expenses to increase in 2019 as we continue to increase sales and marketing activities both inside and outside of the United States as we expand to international markets. Our evaluation of the means by which to launch in Europe is ongoing and remains to be determined.

### Research and development expenses:

Research and development, or R&D, expenses include costs associated with services provided by consultants who conduct clinical services on our behalf, contract organizations for manufacturing of clinical materials and clinical trials. During the years ended December 31, 2018, 2017 and 2016, our R&D expenses consisted primarily of clinical research organization, or CRO, fees; fees paid to consultants; salaries and related personnel costs; and stock-based compensation. We expense our clinical R&D costs as they are incurred. Internal R&D expenses primarily consist of payroll-related costs, but also include equipment costs, travel expenses and supplies.

While we expect clinical R&D expenses to decline in 2019 as compared to 2018, some areas of R&D are expected to increase, such as medical affairs, pharmacovigilance and regulatory affairs as we prepare to apply for global regulatory approval of NERLYNX both in the current and future indications.

### Results of Operations

The following summarizes our results of operations for the periods indicated.

#### Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

##### Total revenue

Total revenue was approximately \$251.0 million for the year ended December 31, 2018, compared to \$27.7 million for the year ended December 31, 2017.

##### Product revenue, net

Product revenue, net was approximately \$200.5 million for the year ended December 31, 2018, compared to \$26.2 million for the year ended December 31, 2017. This increase in product revenue, net was entirely attributable to increased sales of NERLYNX, our initial product, following its commercial launch in July 2017.

##### License revenue

License revenue was approximately \$50.5 million for the year ended December 31, 2018, compared to \$1.5 million for the year ended December 31, 2017. This increase in license revenue was entirely attributable to upfront payments related to out-license agreements for which certain performance obligations were satisfied.

Cost of sales

Cost of sales was approximately \$34.6 million for the year ended December 31, 2018, compared to \$5.6 million for the year ended December 31, 2017. The increase in cost of sales was entirely attributable to twelve months of amortization of a milestone payment made to Pfizer, increased royalty expenses due to Pfizer directly related to our increase in product revenue and product costs related to our increased product revenue from sales of NERLYNX.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Total revenue

Total revenue was approximately \$27.7 million for the year ended December 31, 2017 compared to \$0 for the year ended December 31, 2016.

Product revenue, net

Product revenue, net was approximately \$26.2 million for the year ended December 31, 2017, compared to \$0 for the year ended December 31, 2016. This increase in product revenue, net was entirely attributable to sales of NERLYNX, our initial product, following its commercial launch in July 2017.

License revenue

License revenue was approximately \$1.5 million for the year ended December 31, 2017, compared to \$0 for the year ended December 31, 2016. This increase in license revenue was entirely attributable to an upfront payment in an out-license agreement.

Cost of sales

Cost of sales was approximately \$5.6 million for the year ended December 31, 2017, compared to \$0 for the year ended December 31, 2016. The increase in cost of sales was entirely attributable to the commercial launch of NERLYNX, our initial product, in July 2017.

Selling, general and administrative expenses:

Selling, general and administrative expenses in thousands	For the year Ended December 31,			Change		Change			
	2018	2017	2016	\$	%	\$	%		
	2018	2017	2016	2018/2017	2018/2017	2017/2016	2017/2016		
<b>Payroll and related costs</b>	\$42,730	\$23,839	\$7,004	\$18,891	79.2	\$16,835	240.4	%	%
<b>Professional fees and expenses</b>	46,366	40,383	13,671	5,983	14.8	26,712	195.4	%	%
<b>Facilities and equipment costs</b>	5,902	5,070	4,593	832	16.4	477	10.4	%	%
<b>Travel and meetings</b>	11,771	3,593	621	8,178	227.6	2,972	478.6	%	%
<b>Other</b>	4,506	2,614	1,286	1,892	72.4	1,328	103.3	%	%
<b>Stock-based compensation</b>	34,913	31,194	26,623	3,719	11.9	4,571	17.2	%	%
	\$146,188	\$106,693	\$53,798	\$39,495	37.0	\$52,895	98.3	%	%



Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total SG&A expenses increased approximately 37.0% to \$146.2 million for the year ended December 31, 2018 from \$106.7 million for the year ended December 31, 2017. The increase is primarily attributable to the following:

- an approximately \$18.9 million increase in payroll and related costs as the average headcount increased from 247 in 2017 to 301 in 2018, primarily from the addition of a sales force and support positions in mid-2017 related to the commercial launch of NERLYNX;
- an approximately \$8.2 million increase in travel and meeting expenses, primarily to support sales activities;
- an approximately \$6.0 million increase in professional fees and expenses, primarily from increased marketing, market access and analytics activities;
- an approximately \$3.7 million increase in stock-based compensation;
- an approximately \$1.9 million increase in other costs such as software, primarily related to commercial activities which began in 2017, and
- an approximately \$0.8 million increase in facilities and equipment costs, primarily from additional rent as we expanded our rented office space during 2018.

62

---

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Total SG&A expenses increased approximately 98.3% to \$106.7 million for the year ended December 31, 2017 from \$53.8 million for the year ended December 31, 2016. The increase was primarily attributable to:

- an approximately \$26.7 million increase in professional fees and expenses primarily comprised of:
    - o expenses related to the commercial launch of NERLYNX such as approximately \$14.0 million in consulting fees related to IT infrastructure and launch-related consultants, and approximately \$4.0 million in professional fees primarily related to the commercial launch such as patient experience and support hub, patient assistance program and education programs; and
    - o expenses unrelated to the commercial launch of NERLYNX such as \$7.4 million in legal expense and approximately \$1.3 million all other professional fees such as audit fees, IT support and temporary labor to support the growing company;
  - an approximately \$16.8 million increase in payroll and related expenses related to the hiring and training of a commercial sales force and field based support personnel upon obtaining FDA approval of NERLYNX;
  - an approximately \$4.6 million increase in stock-based compensation expense primarily attributable to the increase in headcount upon hiring a commercial sales force and support staff;
  - an approximately \$3.0 million increase in travel and meeting expenses primarily attributable to the hiring of a commercial sales forces and the commercial launch of NERLYNX;
  - an approximately \$1.3 million increase in other expenses such as software, supplies, education and training and telecommunications; and
  - an approximately \$0.5 million increase in facilities and equipment costs to support the overall corporate growth.
- Research and development expenses:

Research and development expenses in thousands	For the Year Ended December 31,			Change		Change			
	2018	2017	2016	\$	%	\$	%		
Clinical trial expense	\$55,736	\$72,527	\$79,933	\$(16,791)	(23.2 %)	\$(7,406 )	(9.3 %)		
Contractor and									
contractors	12,813	15,423	13,243	(2,610 )	(16.9 %)	2,180	16.5 %		
Internal R&D	44,279	42,319	38,981	1,960	4.6 %	3,338	8.6 %		
Stock-based compensation	52,026	77,541	90,641	(25,515)	(32.9 %)	(13,100)	(14.5 %)		
	\$164,854	\$207,810	\$222,798	\$(42,956)	(20.7 %)	\$(14,988)	(6.7 %)		

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total R&D expenses decreased approximately 20.7% to \$164.9 million for the year ended December 31, 2018 from \$207.8 million for the year ended December 31, 2017. The decrease is attributable to the following:

- an approximately \$25.5 million decrease in stock-based compensation expense;
  - an approximately \$16.8 million decrease in clinical trial expenses, primarily from a reduction in costs associated with the ExteNET trial which has been winding down since 2016; and
  - an approximately \$2.6 million decrease in consultant and contractor expense primarily from the 2017 support for the implementation of a data hub;
- partially offset by an approximately \$2.0 million increase in internal R&D expense, primarily from increased payroll in areas such as medical affairs, quality assurance, regulatory affairs and pharmacovigilance.

63

---

## Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Total R&D expenses decreased approximately 6.7% to \$207.8 million for the year ended December 31, 2017 from \$222.8 million for the year ended December 31, 2016. The decrease was primarily attributable to

- an approximately \$13.1 million decrease in stock-based compensation expense,
- an approximately \$7.4 million decrease in clinical trial expense primarily attributable to an approximately \$10.0 million decrease in manufacturing costs related to launch preparation partially offset by an increase of approximately \$2.6 million in clinical trial expenses;
- partially offset by an approximately \$3.3 million increase in internal R&D expenses primarily attributable to adding 19 new employees in clinical development and medical affairs; and
- an approximately \$2.2 million increase in consultant and contractor expenses primarily attributable to support of our clinical trials during 2017.

Other income and expenses:

Other (expenses) income: (in thousands)	For the Year Ended			Annual Percentage			
	December 31,			Change			
	2018	2017	2016	2018/2017		2017/2016	
Interest income	\$1,796	\$1,256	\$958	43.0	%	31.1	%
Interest expense	(10,985)	(720 )	—	1,425.7	%	0.0	%
Class action verdict expense	(9,000 )	—	—	NM		0.0	%
Other (expenses) income	(714 )	(101 )	(373)	606.9	%	(72.9	%)
Total other (expenses) income	\$(18,903)	\$435	\$585	(4,445.5)	%	(25.6	%)

\*NM - not meaningful

## Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Interest income:

For the year ended December 31, 2018, we recognized approximately \$1.8 million in interest income compared to approximately \$1.3 million of interest income for the year ended December 31, 2017. The increase in interest income reflects more cash invested in money market accounts and “high yield” savings accounts for 2018 compared to 2017 (see Note 2 in the accompanying notes to consolidated financial statements).

Interest expense:

For the year ended December 31, 2018, we recognized approximately \$11.0 million in interest expense compared to \$0.7 million of interest expense for the year ended December 31, 2017. This increase in interest expense is primarily a result of a full year’s interest expense, compared to three months of interest expense in 2017, for amounts borrowed under a loan and security agreement initially entered in October 2017. The increase in interest expense is also attributable to increased borrowings as well as a higher interest rate year over year.

Class action verdict expense:

For the year ended December 31, 2018, we recorded an accrued expense of \$9.0 million that represents an initial estimate of potential amounts that may be owed to class action participants as a result of the recent jury verdict in Hsu

v. Puma Biotechnology, Inc., et al. The total amount of aggregate class-wide damages is uncertain and will be ascertained only after an extensive claims process and the exhaustion of any appeals. It is also possible that the total damages will be higher than this estimate.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Interest income:

For the year ended December 31, 2017, we recognized approximately \$1.3 million in interest income compared to approximately \$1.0 million of interest income for the year ended December 31, 2016. The increase in interest income reflects more cash invested in money market accounts and “high yield” savings accounts for 2017 compared to 2016 (see Note 2 in the accompanying notes to consolidated financial statements).

64

---

## Interest expense:

For the year ended December 31, 2017, we recognized approximately \$0.7 million in interest expense compared to \$0 of interest expense for the year ended December 31, 2016. This increase in interest expense is as a result of amounts borrowed under a loan and security agreement in October 2017.

## Non-GAAP Financial Measures:

In addition to our operating results, as calculated in accordance with generally accepted accounting principles, or GAAP, we use certain non-GAAP financial measures when planning, monitoring, and evaluating our operational performance. The following table presents our net loss and net loss per share, as calculated in accordance with GAAP, as adjusted to remove the impact of stock-based compensation. For the twelve months ended December 31, 2018, stock-based compensation represented approximately 76.5% of our net loss, respectively. Our management believes that these non-GAAP financial measures are useful to enhance understanding of our financial performance, are more indicative of our operational performance and facilitate a better comparison among fiscal periods. These non-GAAP financial measures are not, and should not be viewed as, substitutes for GAAP reporting measures.

## Reconciliation of GAAP Net Loss to Non-GAAP Adjusted Net Loss and GAAP Net Loss Per Share to Non-GAAP Adjusted Net Loss Per Share

(in thousands except share and per share data)

	For the Year Ended December 31,		
	2018	2017	2016
GAAP net loss	\$(113,575)	\$(291,955)	\$(276,011)
Adjustments:			
Stock-based compensation -			
Selling, general and			
administrative	34,914	31,194	26,623
Research and development	52,025	77,541	90,641
Non-GAAP adjusted net loss	\$(26,636)	\$(183,220)	\$(158,747)
GAAP net loss per share—basic and diluted	\$(2.99)	\$(7.85)	\$(8.29)
Adjustment to net loss (as detailed			
above)	2.29	2.92	3.52
Non-GAAP adjusted basic net loss			
per share	\$(0.70)	\$(4.93)	\$(4.77)

(1) To reflect a non-cash charge to operating expense for selling, general and administrative stock-based compensation.

(2) To reflect a non-cash charge to operating expense for research and development stock-based compensation.

(3) Non-GAAP adjusted basic net loss per share was calculated based on 37,942,411, 37,169,678, and 33,295,114 weighted-average shares of common stock outstanding for the years ended December 31, 2018, 2017 and 2016, respectively.

## Liquidity and Capital Resources

### Operating Activities

We recorded net losses of approximately \$113.6 million, \$292.0 million and \$276.0 million for the years ended December 31, 2018, 2017 and 2016, respectively. We also reported negative cash flows from operating activities of approximately \$24.1 million, \$172.5 million and \$141.7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Net cash used in operating activities for the year ended December 31, 2018, included a net loss of \$113.6 million adjusted for non-cash items of approximately \$86.9 million for stock-based compensation expense and of approximately \$7.4 million for depreciation of property and equipment and license amortization. Further changes in cash flows from operations included decreases in accounts receivable of \$11.1 million, a decrease in accounts payable of \$7.0 million, a decrease in other current assets of \$1.8 million, a decrease in prepaid expenses and other of \$0.8 million, and a decrease in inventory of \$0.6 million. These decreases were offset by an increase in accrued expenses of approximately \$15.8 million and deferred rent of \$0.4 million.

Net cash used in operating activities for the year ended December 31, 2017, included a net loss of \$292.0 million adjusted for non-cash items of approximately \$108.7 million for stock-based compensation expense and of approximately \$2.8 million for depreciation of property and equipment and license amortization. Further changes in cash flows from operations included an increase in accounts payable and accrued expenses of approximately \$21.6 million, an increase in accounts receivable of approximately \$9.7 million, an increase in inventory of approximately \$2.0 million, an increase in prepaid expenses and other of approximately \$1.1 million and a decrease in the accrued liability for deferred rent of approximately \$0.1 million.

Net cash used in operating activities for the year ended December 31, 2016, included a net loss of \$276.0 million adjusted for non-cash items of approximately \$117.3 million for stock-based compensation expense, of approximately \$3.0 million for build-out allowance, of approximately \$1.1 million for depreciation and amortization of property and equipment, and of approximately \$0.4 million for disposal of leasehold improvements. Further changes in cash flows from operations included an increase in accounts payable and accrued expenses of approximately \$5.0 million, a decrease in prepaid expenses and other of approximately \$3.4 million and an increase in an accrued liability for deferred rent of approximately \$4.1 million.

#### Investing Activities

Net cash used in investing activities was approximately \$57.6 million for the year ended December 31, 2018. This included the purchase of available-for-sale securities of approximately \$107.5 million, offset by the maturity of available-for-sale securities of approximately \$50.5 million and cash used for the purchase of property and equipment of approximately \$0.6 million in connection with the expansion of our salesforce and the commercial launch of NERLYNX.

Net cash used in investing activities was approximately \$15.4 million for the year ended December 31, 2017. This included an increase in intangible assets of approximately \$50.0 million and the purchase of available-for-sale securities of approximately \$79.7 million, offset by the maturity of available-for-sale securities of approximately \$114.7 million and cash used for the purchase of property and equipment of approximately \$0.4 million in connection with the expansion of our salesforce and the commercial launch of NERLYNX.

Net cash provided by investing activities was approximately \$142.2 million for the year ended December 31, 2016. A significant portion represents cash provided by the sale and maturity of available-for-sale securities of approximately \$231.3 million, offset by cash used for the purchase of available-for-sale securities of approximately \$81.8 million. Additionally, cash used included approximately \$4.3 million used for the purchase of property and equipment and approximately \$3.0 million for expenditures for leasehold improvements.

#### Financing Activities

During the year ended December 31, 2018, cash provided by financing activities was approximately \$108.5 million, which consisted of \$105.0 million of incremental proceeds from our amended loan and security agreement with SVB, and \$7.7 million of net proceeds from the exercise of stock options, partially offset by \$4.2 million of cash used for the payment of debt issuances related to our amended loan and security agreement with SVB.

During the year ended December 31, 2017, cash provided by financing activities was approximately \$75.1 million, which consisted of \$50.0 million of gross proceeds from our loan and security agreement with SVB and \$26.7 million



from the exercise of stock options, partially offset by \$1.6 million of cash used for the payment of debt issuance costs related to our loan and security agreement with SVB.

During the year ended December 31, 2016, cash provided by financing activities was approximately \$162.4 million, which consisted of \$161.9 million of net proceeds from the public offering, issuance and sale by us of 3,750,000 shares of our common stock in October 2016, and \$0.6 million from the exercise of stock options.

#### Loan and Security Agreement

In October 2017, we entered into a loan and security agreement with SVB, as administrative agent, and the lenders party thereto from time to time, including SVB and Oxford. Pursuant to the terms of the credit facility provided for by the original loan and security agreement, we borrowed \$50 million in October 2017. In May 2018, we entered into an amendment to the loan and security agreement. Under the amended credit facility, the lenders agreed to make term loans available to us in an aggregate amount of \$155 million, consisting of (i) a term loan in an aggregate amount of \$125 million, the proceeds of which, in part, were used to repay the \$50 million we borrowed under the original credit facility, and (ii) a term loan in an aggregate amount of \$30 million that we drew in December 2018, which was available to us under the credit facility as a result of achieving a specified minimum revenue milestone. Proceeds from the term loans under the amended credit facility may be used for working capital and general business purposes. The amended credit facility is secured by substantially all of our personal property other than our intellectual property. We also pledged 65% of the issued and outstanding capital stock of our subsidiary, Puma Biotechnology Ltd.

The term loans under the amended credit facility bear interest at an annual rate equal to the greater of (i) 8.25% and (ii) the sum of (a) the “prime rate,” as reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 3.5%. We are required to make monthly interest-only payments on each term loan commencing on the first calendar day of the calendar month following the funding date of such term loan, and continuing on the first calendar day of each calendar month thereafter through July 1, 2020. Commencing on July 1, 2020, and continuing on the first calendar day of each calendar month thereafter, we will make consecutive equal monthly payments of principal, together with applicable interest, in arrears to each lender, calculated pursuant to the amended credit facility. All unpaid principal and accrued and unpaid interest with respect to each term loan is due and payable in full on May 1, 2023. Upon repayment of the term loans, we are also required to make a final payment to the lenders equal to 7.5% of the original principal amount of term loans funded.

At our option, we may prepay the outstanding principal balance of any term loan in whole but not in part, subject to a prepayment fee of 3.0% of any amount prepaid if the prepayment occurs through and including the first anniversary of the funding date of such term loan, 2.0% of any amount prepaid if the prepayment occurs after the first anniversary of the funding date of such term loan through and including the second anniversary of the funding date of such term loan, and 1.0% of the amount prepaid if the prepayment occurs after the second anniversary of the funding date of such term loan and prior to May 1, 2023.

The amended credit facility includes affirmative and negative covenants applicable to us, our current subsidiary and any subsidiaries we create in the future. The affirmative covenants include, among others, covenants requiring us to maintain our legal existence and governmental approvals, deliver certain financial reports, maintain insurance coverage and satisfy certain requirements regarding deposit accounts. We must also achieve product revenue, measured as of the last day of each fiscal quarter on a trailing three month basis, that is (i) greater than or equal to 70% of our revenue target set forth in our board-approved projections for the 2018 fiscal year and (ii) greater than or equal to 50% of our revenue target set forth in our board-approved projections for the 2019 fiscal year. New minimum revenue levels will be established for each subsequent fiscal year by mutual agreement of us, SVB, as administrative agent, and the lenders. The negative covenants include, among others, restrictions on us transferring collateral, incurring additional indebtedness, engaging in mergers or acquisitions, paying dividends or making other distributions, making investments, creating liens, selling assets and suffering a change in control, in each case subject to certain exceptions.

The amended credit facility also includes events of default, the occurrence and continuation of which could cause interest to be charged at the rate that is otherwise applicable plus 5.0% and would provide SVB, as collateral agent, with the right to exercise remedies against us and the collateral securing the amended credit facility, including foreclosure against the property securing the credit facilities, including our cash. These events of default include, among other things, a failure by us to pay principal or interest due under the amended credit facility, a breach of certain covenants under the amended credit facility, our insolvency, a material adverse change, the occurrence of any default under certain other indebtedness in an amount greater than \$500,000 and one or more judgments against us in an amount greater than \$500,000 individually or in the aggregate.

As of December 31, 2018, there was \$155.0 million in term loans outstanding under the amended credit facility, and we were in compliance with all applicable covenants under the amended credit facility.

#### Current and Future Financing Needs

We have incurred negative cash flows from operations since we started our business, and we did not receive or record any product revenues until the third quarter of 2017. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development efforts, our clinical trials, our R&D efforts and our commercialization efforts. Given the current and desired pace of clinical development of our product candidates, over the next 12 months we estimate that our R&D spending will be approximately \$120 million to \$130 million, excluding stock-based compensation.

Additionally, we expect SG&A expenses to increase as we continue commercialization efforts.

We are currently exploring methods by which to commercialize our other product candidates if approved by the FDA or international regulatory bodies. These methods may require funding in addition to the cash and cash equivalents totaling approximately \$108.4 million and \$57.0 million in marketable securities available at December 31, 2018. While our consolidated financial statements have been prepared on a going concern basis, we expect to continue incurring significant losses for the foreseeable future and will continue to remain dependent on our ability to obtain sufficient funding to sustain operations and successfully commercialize neratinib. While we have been successful in raising financing in the past, there can be no assurance that we will be able to do so in the future. Our ability to obtain funding may be adversely impacted by uncertain market conditions, unfavorable decisions of regulatory authorities or adverse clinical trial results. The outcome of these matters cannot be predicted at this time.

In addition, we have based our estimate of capital needs on assumptions that may prove to be wrong. Changes may occur that would consume our available capital faster than anticipated, including changes in and progress of our development activities, the impact of commercialization efforts, acquisitions of additional drug candidates and changes in regulation. Potential sources of financing include strategic relationships, public or private sales of equity or debt and other sources of funds. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements. If we raise funds by selling additional shares of common stock or other securities convertible into common stock, the ownership interests of our existing stockholders will be diluted. If we are not able to obtain financing when needed, we may be unable to carry out our business plan. As a result, we may have to significantly limit our operations, and our business, financial condition and results of operations would be materially harmed. In such an event, we will be required to undertake a thorough review of our programs, and the opportunities presented by such programs, and allocate our resources in the manner most prudent.

#### Off-Balance Sheet Arrangements

We do not have any “off-balance sheet arrangements,” as defined by the SEC regulations.

#### Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude contingent liabilities for which we cannot reasonably predict future payment. Our contractual obligations result from property leases for office space. Although we do have obligations for CRO services, the table below excludes potential payments we may be required to make under our agreements with CROs because timing of payments and actual amounts paid under those agreements may be different depending on the timing of receipt of goods or services or changes to agreed-upon terms or amounts for some obligations, and those agreements are cancelable upon written notice by the Company and therefore, not long-term liabilities. The contracts also contain variable costs and milestones that are hard to predict as they are based on such things as patients enrolled and clinical trial sites, which can vary and therefore, are also not included in the table below. We also have unrecognized tax benefits that, if recognized, would affect the effective tax rate at December 31, 2018. We do not have tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefit will significantly increase or decrease within 12 months of the reporting date. Additionally, the expected timing of payment of the obligations presented below is estimated based on current information.

The following table represents our contractual obligations as of December 31, 2018, aggregated by type (in thousands):

		Less		More	
		than	1 - 3	3 - 5	than
	Total	1 year	years	years	5 years
Contractual Obligations					
Operating Lease Obligations	39,756	4,924	10,442	11,094	13,296
Long Term Debt Obligations					
(principal and interest)	207,682	13,525	102,241	91,916	—
<b>Total</b>	<b>247,438</b>	<b>18,449</b>	<b>112,683</b>	<b>103,010</b>	<b>13,296</b>

In regard to our contractual obligations in relation to the Pfizer in-license agreement, as consideration for the license, we are required to make substantial payments upon the achievement of certain milestones totaling approximately \$187.5 million if all such milestones are achieved. These milestone amounts were not included in the table above as the timing of when or if these payments will be made is uncertain. In connection with the FDA approval of NERLYNX in July of 2017, we triggered a one-time milestone payment pursuant to the agreement. Should we commercialize any more of the compounds licensed from Pfizer or any products containing any of these compounds, we will be obligated to pay to Pfizer annual royalties at a fixed rate in the low-to-mid teens of net sales of all such products, subject to certain reductions and offsets in some circumstances. Our royalty obligation continues, on a product-by-product and country-by-country basis, until the later of (1) the last to expire licensed patent covering the applicable licensed product in such country, or (2) the earlier of generic competition for such licensed product reaching a certain level in such country or expiration of a certain time period after first commercial sale of such licensed product in such country. In the event that we sublicense the rights granted to us under the license agreement with Pfizer to a third party, the same milestone and royalty payments are required. We can terminate the license agreement at will, or for safety concerns, in each case upon specified advance notice.

See Note 11—Taxes and Note 12—Commitments and Contingencies in the accompanying notes to the financial statements for a summary of our uncertain tax positions and contracts held by us as of December 31, 2018. As of December 31, 2018, the amount of unrecognized tax benefit was \$8.8M, and also not included in the table above as the timing of when or if these payments will be made is uncertain.

## Critical Accounting Policies

The discussion and analysis of our consolidated financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, and expenses, and related disclosure of contingent assets and liabilities reported in our consolidated financial statements. The estimation process requires assumptions to be made about future events and conditions and, as a result, is inherently subjective and uncertain. Actual results could differ materially from our estimates.

The SEC defines critical accounting policies as those that are, in management's view, most important to the portrayal of our financial condition and results of operations and most demanding of our judgment. We consider the following policies to be critical to an understanding of our consolidated financial statements and the uncertainties associated with the complex judgments made by us that could impact our results of operations, financial position, and cash flows.

### Revenue Recognition:

We adopted Accounting Standards Codification, or ASC, Topic 606 - Revenue from Contracts with Customers, or Topic 606, on January 1, 2017. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements, and financial instruments. Under Topic 606, an entity recognizes revenue when its customer obtains control of the promised goods or services, in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. We had no contracts with customers until the FDA approved NERLYNX on July 17, 2017. Subsequent to receiving FDA approval, we entered into a limited number of arrangements with specialty pharmacies and specialty distributors in the United States, to distribute NERLYNX. These arrangements are our initial contracts with customers. We have determined that these sales channels with customers are similar.

### License Revenue:

We recognize license revenue under certain of our license agreements that are within the scope of ASC Topic 606. The terms of these agreements may contain multiple performance obligations, which may include licenses and research and development activities. We evaluate these agreements under ASC Topic 606 to determine the distinct performance obligations. Non-refundable, up-front fees that are not contingent on any future performance and require no consequential continuing involvement by us, are recognized as revenue when the license term commences and the licensed data, technology or product is delivered. We defer recognition of non-refundable upfront license fees if the performance obligations are not satisfied.

Prior to recognizing revenue, we make estimates of the transaction price, including variable consideration that is subject to a constraint. Amounts of variable consideration are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. If there are multiple distinct performance obligations, we allocate the transaction price to each distinct performance obligation based on its relative standalone selling price. The standalone selling price is generally determined based on the prices charged to customers or using expected cost plus margin. Revenue is recognized by measuring the progress toward complete satisfaction of the performance obligations.

During the first quarter of 2018, we entered into a sub-license agreement with CANbridge, to pursue regulatory approval and commercialize NERLYNX, if approved, in the People's Republic of China (including mainland China, Hong Kong, Macao, and Taiwan). The license agreement granted intellectual property rights and set forth the parties' respective obligations with respect to development, commercialization and supply of the licensed product. For the

license agreement, a non-refundable, upfront license fee was received and recognized as license revenue in accordance with ASC Topic 606. The license agreement met the contract existence criteria and contained distinct, identifiable performance obligations for which the stand-alone selling prices were readily determinable and allocable. We are obligated to supply CANbridge with the licensed product in accordance with the supply agreement entered into in connection with the license agreement. This supply arrangement has been identified as a separate performance obligation. We also identified the Joint Steering Committee as a separate, distinct performance obligation. To determine the stand-alone selling price, we estimated the transaction prices, including any variable consideration, at contract inception and determined the fair value of such obligations based on similar arrangements. When determining the transaction prices, we assumed that the goods or services will be transferred to the customer based on the terms of the existing contract, and did not take into consideration the possibility of a contract being canceled, renewed, or modified. We noted there was no additional variable consideration, significant financing components, noncash consideration, or consideration payable to the customer in this agreement. This license agreement also includes potential future milestone and royalty payments due to us upon successful completion of certain separate, distinct performance obligations. Pursuant to the CANbridge Agreement, we will potentially receive regulatory milestone payments totaling up to \$30 million and sales-based milestone payments totaling up to \$185 million. In addition, we are entitled to receive significant double-digit royalties calculated as a percentage of net sales of the licensed products in the CANbridge Territory. During the fourth quarter of 2018, we received a \$10 million payment from CANBridge in relation to a regulatory milestone. We satisfied the necessary performance obligations to recognize this license revenue under the terms of the arrangement.

Additionally, during the first quarter of 2018, we entered into a sub-license agreement with Pint. The license agreement granted intellectual property rights and set forth the respective obligations with respect to development, commercialization and supply of NERLYNX in Mexico and 21 countries and territories in Central and South America. This license agreement met the contract existence criteria and contained distinct, identifiable performance obligations for which the stand-alone selling prices were readily determinable and allocable. Under the terms of the license agreement, we were entitled to receive a non-deductible, non-creditable upfront payment of \$10 million upon providing certain required documents on or before September 30, 2018 to the satisfaction of Pint. During the quarter ended September 30, 2018 we satisfied this performance obligation and revenue has been recognized under the terms of the arrangement. We are obligated to supply Pint with the licensed product during development pursuant to a supply agreement. This supply arrangement has been identified as a separate performance obligation. To determine the respective stand-alone selling prices, we estimated the transaction prices, including any variable consideration, at contract inception and determined the fair value of such obligations based on similar arrangements. When determining the transaction prices, we assumed that the goods or services will be transferred to the customer based on the terms of the existing contract, and did not take into consideration the possibility of a contract being canceled, renewed, or modified. We noted there was no additional variable consideration, significant financing components, noncash consideration, or consideration payable to the customer in these agreements. This license agreement also includes potential future milestone and royalty payments due to us upon successful completion of certain separate, distinct events, such as achieving regulatory approvals. The non-deductible, non-creditable milestones consist of certain development and commercial performance obligations, and we could earn up to approximately \$24.5 million if all remaining, respective performance obligations are achieved. At this time, we cannot estimate when these milestone-related performance obligations are expected to be achieved. The period between when we transfer control of the promised goods to a customer and when we receive payment from such customer is expected to be one year or less.

#### Reserves for Variable Consideration:

Revenue from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for which reserves are established. Components of variable consideration include trade discounts and allowances, product returns, provider chargebacks and discounts, government rebates, payor rebates, and other incentives, such as voluntary patient assistance, and other allowances that are offered within contracts between us and our customers, payors, and other indirect customers relating to the sale of our products. These reserves, as detailed below, are based on the amounts earned, or to be claimed on the related sales, and are classified as reductions of accounts receivable or a current liability. These estimates take into consideration a range of possible outcomes which are probability-weighted in accordance with the expected value method in Topic 606 for relevant factors such as current contractual and statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns. Overall, these reserves reflect our best estimates of the amount of consideration to which it is entitled based on the terms of the respective underlying contracts.

The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized under the contract will not occur in a future period. Our analyses also contemplated application of the constraint in accordance with the guidance, under which it determined a material reversal of revenue would not occur in a future period for the estimates detailed below as of December 31, 2018 and, therefore, the transaction price was not reduced further during the year ended December 31, 2018. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, we will adjust these estimates, which would affect net product revenue and earnings in the period such variances become known.



Trade Discounts and Allowances:

We generally provide customers with discounts which include incentive fees that are explicitly stated in our contracts and are recorded as a reduction of revenue in the period the related product revenue is recognized. In addition, we compensate (through trade discounts and allowances) our Customers for sales order management, data, and distribution services. However, we have determined such services received to date are not distinct from our sale of products to the Customer and, therefore, these payments have been recorded as a reduction of revenue within the statement of operations and comprehensive loss through December 31, 2018.

Product Returns:

Consistent with industry practice, we offer the specialty pharmacies and specialty distributors limited product return rights for damaged and expiring products, provided it is within a specified period around the product expiration date as set forth in the applicable individual distribution agreement. We estimate the amount of our product sales that may be returned by our customers and record this estimate as a reduction of revenue in the period the related product revenue is recognized, as well a reduction to trade receivables, net on the consolidated balance sheets. We currently estimate product returns using our sales information, including our visibility into the inventory remaining in the distribution channel. We have an insignificant amount of returns to date and believe that returns of our products will continue to be minimal.

#### Provider Chargebacks and Discounts:

Chargebacks for fees and discounts to providers represent the estimated obligations resulting from contractual commitments to sell products to qualified healthcare providers at prices lower than the list prices charged to customers who directly purchase the product from us. Customers charge us for the difference between what they pay for the product and the ultimate selling price to the qualified healthcare providers. These reserves are established in the same period that the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability. Chargeback amounts are generally determined at the time of resale to the qualified healthcare provider by customers, and we generally issue payments for such amounts within a few weeks of the customer's notification to us of the resale. Reserves for chargebacks consist of payments that we expect to issue for units that remain in the distribution channel at each reporting period-end that we expect will be sold to qualified healthcare providers, and chargebacks that customers have claimed, but for which we have not yet issued a payment.

#### Government Rebates:

We are subject to discount obligations under state Medicaid programs and Medicare. These reserves are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability which is included in accrued expenses and other current liabilities on the consolidated balance sheets. Our liability for these rebates consists of invoices received for claims from prior quarters that have not been paid or for which an invoice has not yet been received, estimates of claims for the current quarter, and estimated future claims that will be made for product that has been recognized as revenue, but which remains in the distribution channel at the end of each reporting period.

#### Payor Rebates:

We contract with certain private payor organizations, primarily insurance companies and pharmacy benefit managers, for the payment of rebates with respect to utilization of its products. We estimate these rebates and records such estimates in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability.

#### Other Incentives:

Other incentives which we offer include voluntary patient assistance programs, such as the co-pay assistance program, which are intended to provide financial assistance to qualified commercially-insured patients with prescription drug co-payments required by payors. The calculation of the accrual for co-pay assistance is based on an estimate of claims and the cost per claim that we expect to receive associated with product that has been recognized as revenue, but remains in the distribution channel at the end of each reporting period. The adjustments are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability which is included as a component of accrued expenses and other current liabilities on the consolidated balance sheets.

#### Recently Issued Accounting Standards

In January 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative

assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the condensed consolidated financial statements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted ASU No. 2016-01 in the first quarter of 2018 with no impact to our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The amendments in ASU 2016-02 will require organizations that lease assets, with lease terms of more than 12 months, to recognize on their balance sheet the assets and liabilities for the rights and obligations created by those leases. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP that requires only capital leases to be recognized on the balance sheet, ASU No. 2016-02 will require both types of leases to be recognized on the balance sheet. We expect that this standard will have a material effect on its financial statements. While we continue to assess all of the effects of adoption, it currently believes the most significant effects relate to the recognition of new right of use assets and lease liabilities on the balance sheet for our office and equipment operating leases. We does not expect a significant change in its leasing activities between now and adoption. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently in the process of evaluating the impact of ASU 2016-02 on our outstanding leases and expects that adoption will materially We are adopting ASU No. 2016-02 in the first quarter of 2019, which we expect to result in an increase in our assets and liabilities on our consolidated balance sheets, related to recording right-of-use assets and corresponding lease liabilities of up to approximately \$30 million.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which addresses the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We adopted ASU 2016-15 in the first quarter of 2018 with no impact to its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash that changes the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This amendment is effective for us in the fiscal year beginning after December 15, 2017, but early adoption is permissible. We adopted ASU 2016-18 in the first quarter of 2018. We noted a change in the beginning-of-period and end-of-period total amounts within the statement of cash flows due to the inclusion of restricted cash within cash and cash equivalents.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Some of the securities in which we invest have market risk in that a change in prevailing interest rates may cause the principal amount of the cash equivalents to fluctuate. Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash and cash equivalents. We invest our excess cash primarily in cash equivalents such as money market investments as of December 31, 2018. The primary objectives of our investment activities are to ensure liquidity and to preserve principal while at the same time maximizing the income we receive from our cash and cash equivalents without significantly increasing risk. Additionally, we established guidelines regarding approved investments and maturities of investments, which are designed to maintain safety and liquidity.

Because of the short-term maturities of our cash equivalents, we do not believe that a 10% increase in interest rates would have a material effect on the realized value of our cash equivalents.

72

---

We also have interest rate exposure as a result of our outstanding term loans. As of December 31, 2018, the aggregate outstanding principal amounts of the term loans was \$155 million. The term loans bear interest at an annual rate equal to the greater of (i) 8.25% and (ii) the sum of (a) the “prime rate,” as reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 3.5%. If overall interest rates had increased by 100 basis points during the year ended December 31, 2018 our interest expense would not have been materially affected.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

All financial statements and supplementary data required by this Item are listed in Part IV, Item 15 of this Annual Report and are presented beginning on Page F-1.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

#### ITEM 9A. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the timelines specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined under Exchange Act Rule 13a-15(e)), as of December 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of December 31, 2018.

##### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the year ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

##### Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018. Management based its assessment on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework - 2013 (COSO 2013 framework). Based on this evaluation, our management concluded that, as of December 31, 2018, our internal control over financial reporting was effective.

Our internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, our independent registered public accounting firm, as stated in their report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2018.

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Puma Biotechnology, Inc.:

### Opinion on Internal Control Over Financial Reporting

We have audited Puma Biotechnology, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the two year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated March 1, 2019 expressed an unqualified opinion on those consolidated financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have



a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Los Angeles, California

March 1, 2019

74

---

ITEM 9B. OTHER INFORMATION

None.

Part III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be included in our 2019 Proxy Statement, which will be filed with the SEC, and is incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be included in our 2019 Proxy Statement, which will be filed with the SEC, and is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item will be included in our 2019 Proxy Statement, which will be filed with the SEC, and is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will be included in our 2019 Proxy Statement, which will be filed with the SEC, and is incorporated by reference herein.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will be included in our 2019 Proxy Statement, which will be filed with the SEC, and is incorporated by reference herein.

Part IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Reference is made to the Index to Consolidated Financial Statements beginning on Page F-1 hereof.

75

---

Consolidated Financial Statement Schedules

(a) Documents Filed as Part of Report

(1) Consolidated Financial Statements

• <u>Reports of Independent Registered Public Accounting Firms</u>	F-2
• <u>Consolidated Balance Sheets at December 31, 2018 and 2017</u>	F-4
• <u>Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016</u>	F-5
• <u>Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2018, 2017 and 2016</u>	F-6
• <u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016</u>	F-7
• <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016</u>	F-8
• <u>Notes to Consolidated Financial Statements</u>	F-9

(2) Consolidated Financial Statement Schedules

Consolidated Financial Statement Schedules have been omitted because they are either not required or not applicable, or because the information required to be presented is included in the consolidated financial statements or the notes thereto included in this Annual Report.

(3) Exhibits

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report and such Exhibit Index is incorporated by reference herein.

ITEM 16. Form 10-K SUMMARY

None.

EXHIBIT INDEX

Exhibit Number	Description
2.1	<u>Agreement and Plan of Merger, dated September 29, 2011, by and among Innovative Acquisitions Corp., IAC Merger Corporation, a Delaware corporation and wholly-owned subsidiary of the Company, and Puma Biotechnology, Inc., a Delaware corporation (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on October 4, 2011 and incorporated herein by reference)</u>
3.1	<u>Certificate of Merger relating to the merger of IAC Merger Corporation with and into Puma Biotechnology, Inc., filed with the Secretary of State of Delaware on October 4, 2011 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on October 11, 2011 and incorporated herein by reference)</u>
3.2	<u>Certificate of Ownership and Merger relating to the merger of Puma Biotechnology, Inc. with and into Innovative Acquisitions Corp., filed with the Secretary of State of the State of Delaware on October 4, 2011 (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on October 11, 2011 and incorporated herein by reference)</u>
3.3	<u>Certificate of Merger relating to the merger of IAC Merger Corporation with and into Puma Biotechnology, Inc., filed with the Secretary of State of Delaware on October 4, 2011 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on October 11, 2011 and incorporated herein by reference)</u>
3.4	<u>Second Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on June 14, 2016 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 15, 2016 and incorporated herein by reference)</u>
3.5	<u>Second Amended and Restated Bylaws of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on May 8, 2017 and incorporated herein by reference)</u>
4.1	<u>Form of Common Stock Certificate (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1/A filed with the SEC on February 1, 2012 and incorporated herein by reference)</u>
4.2#	<u>Warrant to Purchase Shares of Common Stock of Puma Biotechnology, Inc., dated October 4, 2011, issued to Alan H. Auerbach (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on October 11, 2011 and incorporated herein by reference)</u>
10.1(a)*	<u>License Agreement, dated August 18, 2011, by and between the Company, as successor to Puma Biotechnology, Inc., and Pfizer Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed with the SEC on December 16, 2011 and incorporated herein by reference)</u>
10.1(b)*	<u>Amendment No. 1 to License Agreement dated July 18, 2014, between the Company and Pfizer, Inc. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 10, 2014 and incorporated herein by reference)</u>
10.2(a)#	

Puma Biotechnology, Inc. 2011 Incentive Award Plan (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on October 11, 2011 and incorporated herein by reference)

10.2(b)# First Amendment to Puma Biotechnology, Inc. 2011 Incentive Award Plan (filed as Appendix A to Amendment No. 1 to the Company's Proxy Statement on Schedule 14A filed with the SEC on June 4, 2014 and incorporated herein by reference)

10.2(c)# Second Amendment to Puma Biotechnology, Inc. 2011 Incentive Award Plan (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2015 and incorporated herein by reference)

10.2(d)# Third Amendment to Puma Biotechnology, Inc. 2011 Incentive Award Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 14, 2017 and incorporated herein by reference)

10.2(e)# Fourth Amendment to Puma Biotechnology, Inc. 2011 Incentive Award Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 14, 2017 and incorporated herein by reference)

10.2(f)# Puma Biotechnology, Inc. 2017 Employment Inducement Incentive Award Plan (filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed with the SEC on May 31, 2017 and incorporated herein by reference)

- 10.2(g)# Form of Stock Option Grant Notice and Stock Option Agreement, issued pursuant to the 2011 Incentive Award Plan (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K filed with the SEC on March 29, 2012 and incorporated herein by reference)
- 10.2(h)# Form of Chief Executive Officer Stock Option Grant Notice and Stock Option Agreement, issued pursuant to the 2011 Incentive Award Plan (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K filed with the SEC on March 29, 2012 and incorporated herein by reference)
- 10.2(i)# Form of Performance Share Award Agreement, issued pursuant to the 2011 Incentive Award Plan (filed as Exhibit 10.2(d) to the Company's Annual Report on Form 10-K filed with the SEC on March 3, 2014 and incorporated herein by reference)
- 10.2(j)# Form of Restricted Stock Unit Award Agreement, issued pursuant to the 2011 Incentive Award Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 17, 2016 and incorporated herein by reference)
- 10.2(k)+# Form of Stock Option Grant Notice and Stock Option Agreement, issued pursuant to the 2017 Employment Inducement Incentive Award Plan
- 10.3(a) Registration Rights Agreement, dated October 4, 2011, by and among Puma, the investors listed on Exhibit A attached thereto and the Company (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K/A filed with the SEC on December 16, 2011 and incorporated herein by reference)
- 10.3(b) Amendment No. 1 to Registration Rights Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2011 and incorporated herein by reference)
- 10.4# Letter Agreement, dated October 21, 2011, between the Company and Charles Eyler (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on October 27, 2011 and incorporated herein by reference)
- 10.5(a) Office Lease by and between the Company and CA - 10880 Wilshire Limited Partnership, executed on December 7, 2011 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 13, 2011 and incorporated herein by reference)
- 10.5(b) First Amendment to the Office Lease, dated as of November 28, 2012, by and between the Company and CA - 10880 Wilshire Limited Partnership (filed as Exhibit 10.13(b) to the Company's Annual Report on Form 10-K filed with the SEC on April 1, 2013 and incorporated herein by reference)
- 10.5(c) Second Amendment to the Office Lease, dated as of December 3, 2013, by and between the Company and CA - 10880 Wilshire Limited Partnership (filed as Exhibit 10.6(c) to the Company's Annual Report on Form 10-K filed with the SEC on March 3, 2014 and incorporated herein by reference)
- 10.5(d) Third Amendment to the Office Lease, dated as of March 18, 2014, by and between the Company and CA - 10880 Wilshire Limited Partnership (filed as Exhibit 10.5(d) to the Company's Annual Report on Form 10-K filed with the SEC on March 2, 2015 and incorporated herein by reference)
- 10.5(e) Fourth Amendment to the Office Lease, dated as of July 31, 2015, by and between the Company and CA - 10880 Wilshire Limited Partnership (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2015 and incorporated herein by reference)

- 10.6# Employment Agreement, dated January 19, 2012, by and between the Company and Alan H. Auerbach (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 24, 2012 and incorporated herein by reference)
- 10.7(a) Office Lease by and between DWF III Gateway, LLC and the Company, executed June 7, 2012 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 13, 2012 and incorporated herein by reference)
- 10.7(b) First Amendment to Lease, dated as of May 19, 2014, by and between DWF III Gateway, LLC and Puma Biotechnology, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 23, 2014 and incorporated herein by reference)

- 10.7(c) Second Amendment to Lease, dated as of June 10, 2014, by and between DWF III Gateway, LLC and Puma Biotechnology, Inc. (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2015 and incorporated herein by reference)
- 10.7(d) Third Amendment to Lease, dated as of July 21, 2015, by and between PR 707 Gateway, LLC (as successor in interest to DWF III Gateway, LLC) and the Company (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2015 and incorporated herein by reference)
- 10.8# Letter Agreement, dated May 2, 2012, between the Company and Richard P. Bryce (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 26, 2012 and incorporated herein by reference)
- 10.9# Form of Indemnification Agreement (filed as Exhibit 10.17 to the Company's Registration Statement on Form S-1/A filed with the SEC on October 15, 2012 and incorporated herein by reference)
- 10.10(a)# Non-Employee Director Compensation Program (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2017 and incorporated herein by reference)
- 10.10(b)# Amended Non-Employee Director Compensation Program (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2018 and incorporated herein by reference)
- 10.11# Letter Agreement, dated August 21, 2015, between the Company and Steven Lo (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2015 and incorporated herein by reference)
- 10.12(a)\* License Agreement, dated November 20, 2017, by and between the Company and Specialised Therapeutics Asia Pte Ltd. (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K filed with the SEC on March 9, 2018 and incorporated herein by reference)
- 10.12(b)\* Amendment No. 1, dated April 20, 2018, to the License Agreement by and between the Company and Specialised Therapeutics Asia Pte Ltd. (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2018 and incorporated herein by reference)
- 10.13(a)\* Loan and Security Agreement dated October 31, 2017, by and among the Company, Silicon Valley Bank, as administrative and collateral agent and lender, and Oxford Finance LLC (filed as Exhibit 10.14(a) to the Company's Annual Report on Form 10-K filed with the SEC on March 9, 2018 and incorporated herein by reference)
- 10.13(b)\* Form of Secured Promissory Note (filed as Exhibit 10.14(b) to the Company's Annual Report on Form 10-K filed with the SEC on March 9, 2018 and incorporated herein by reference)
- 10.13(c)\* First Amendment to Loan and Security Agreement, dated May 8, 2018, by and among the Company, Silicon Valley Bank, as administrative and collateral agent and lender, and Oxford Finance LLC (filed as Exhibit 10.1(a) to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2018 and incorporated herein by reference)
- 10.13(d)\*



Form of Secured Promissory Note (filed as Exhibit 10.1(b) to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2018 and incorporated herein by reference)

- 10.13(e) Second Amendment to Loan and Security Agreement, dated September 27, 2018, by and among the Company, Silicon Valley Bank, as administrative and collateral agent and lender, and Oxford Finance LLC (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 5, 2018 and incorporated herein by reference)
- 10.14# Letter Agreement, dated December 8, 2017, between the Company and Douglas Hunt (filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K filed with the SEC on March 9, 2018 and incorporated herein by reference)
- 10.15(a)\* Collaboration and License Agreement, dated January 30, 2018, between the Company and CANbridge Biomed Limited (as successor in interest to CANbridgepharma Limited) (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 10, 2018 and incorporated herein by reference)
- 10.15(b)+\* Side Letter Agreement, dated November 19, 2018, between the Company and CANbridge Biomed Limited (as successor in interest to CANbridgepharma Limited)

10.16\* License Agreement, dated March 30, 2018, between the Company and Pint Pharma International SA (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 10, 2018 and incorporated herein by reference)

10.17\* Supply Agreement, dated April 20, 2018, by and between the Company and Specialised Therapeutics Asia Pte. Ltd. (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2018 and incorporated herein by reference)

10.18# Letter Agreement, dated September 28, 2018, between the Company and Maximo F. Nougues (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 9, 2018 and incorporated herein by reference)

10.19+\* License Agreement, dated January 9, 2019, by and between the Company and Knight Therapeutics Inc.

21.1+ Subsidiaries

23.1+ Consent of KPMG LLP

23.2+ Consent of PKF, LLP (formally PKF, Certified Public Accountants, A Professional Corporation)

24.1+ Power of Attorney (included on signature page)

31.1+ Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2+ Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1++ Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2++ Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS+ XBRL Instance Document

101.SCH+ XBRL Taxonomy Extension Schema Document

101.CAL+ XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF+ XBRL Taxonomy Extension Definition Linkbase Document

101.LAB+ XBRL Taxonomy Extension Label Linkbase Document

101.PRE+ XBRL Taxonomy Extension Linkbase Document

+Filed herewith.

++Furnished herewith.

\*Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934.

#Management contract or compensatory plan or arrangement.



Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 1, 2019.

PUMA BIOTECHNOLOGY, INC.

By: /s/ Alan H. Auerbach  
 Alan H. Auerbach  
 President & Chief Executive Officer

(Principal Executive Officer)

KNOWN BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Alan H. Auerbach and Maximo Nougues, or either of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and any documents related to this report and filed pursuant to the Securities Exchange Act of 1934, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof. This power of attorney shall be governed by and construed with the laws of the State of Delaware and applicable federal securities laws.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Alan H. Auerbach	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)	March 1, 2019
Alan H. Auerbach		
/s/ Maximo Nougues	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 1, 2019
Maximo Nougues		

/s/ Michael P. Miller      Director      March 1,  
2019

Michael P. Miller

/s/ Jay M. Moyes      Director      March 1,  
2019

Jay M. Moyes

/s/ Adrian M.      Director      March 1,  
Senderowicz      2019

Adrian M. Senderowicz

/s/ Troy E. Wilson      Director      March 1,  
2019

Troy E. Wilson

/s/ Frank Zavrl      Director      March 1,  
2019

Frank Zavrl

PUMA BIOTECHNOLOGY, INC. AND SUBSIDIARY

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Reports of Independent Registered Public Accounting Firms</u>	F-2
<u>Consolidated Balance Sheets at December 31, 2018 and 2017</u>	F-4
<u>Consolidated Statements of Operations for the Years Ended December 31, 2017, 2017 and 2016</u>	F-5
<u>Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2018, 2017 and 2016</u>	F-6
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016</u>	F-7
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Puma Biotechnology, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Puma Biotechnology, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the two year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the 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 consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2017.

Los Angeles, California  
March 1, 2019

F-2

---



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Puma Biotechnology, Inc., and Subsidiary

We have audited the accompanying consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2016 of Puma Biotechnology, Inc., and Subsidiary (the "Company"). We also have audited Puma Biotechnology, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework - 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Puma Biotechnology, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations, comprehensive loss, changes in stockholders' equity and cash flows of Puma Biotechnology, Inc. and Subsidiary for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Puma Biotechnology, Inc. and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria

established in Internal Control—Integrated Framework - 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The accompanying consolidated financial statements for the year ended December 31, 2016 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's significant operating losses raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

San Diego, California /s/ PKF

March 1, 2017

PKF, LLP

(formerly PKF

Certified Public Accountants

A Professional Corporation)

## PUMA BIOTECHNOLOGY, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 108,419	\$ 81,698
Marketable securities	57,002	—
Accounts receivable, net	20,773	9,670
Inventory	2,625	2,029
Prepaid expenses, and other, current	12,397	12,997
Other current assets	1,787	—
Total current assets	203,003	106,394
Property and equipment, net	3,963	4,470
Prepaid expenses and other, long-term	3,429	1,989
Intangible assets, net	44,408	48,355
Restricted cash	4,319	4,317
Total assets	\$ 259,122	\$ 165,525
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 20,684	\$ 27,692
Accrued expenses	46,431	30,648
Total current liabilities	67,115	58,340
Deferred rent	5,815	5,406
Long-term debt	151,886	48,477
Total liabilities	224,816	112,223
Stockholders' equity:		
Common stock - \$.0001 par value per share; 100,000,000 shares authorized; 38,325,037		
shares issued and outstanding at December 31, 2018 and 37,594,851 issued and		
outstanding at December 31, 2017	4	4
Additional paid-in capital	1,236,355	1,142,213
Receivable from exercise of stock options	—	(449 )
Accumulated other comprehensive loss	(12 )	—
Accumulated deficit	(1,202,041 )	(1,088,466 )
Total stockholders' equity	34,306	53,302
Total liabilities and stockholders' equity	\$ 259,122	\$ 165,525

See Accompanying Notes to the Consolidated Financial Statements



## PUMA BIOTECHNOLOGY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	For the Year Ended December 31,		
	2018	2017	2016
<b>Revenue:</b>			
Product revenue, net	\$200,491	\$26,185	\$—
License revenue	50,500	1,500	—
Total revenue	250,991	27,685	—
<b>Operating costs and expenses:</b>			
Cost of sales	34,621	5,572	—
Selling, general and administrative	146,188	106,693	53,798
Research and development	164,854	207,810	222,798
Total operating costs and expenses	345,663	320,075	276,596
Loss from operations	(94,672 )	(292,390 )	(276,596 )
<b>Other (expenses) income:</b>			
Interest income	1,796	1,256	958
Interest expense	(10,985 )	(720 )	—
Class action verdict expense	(9,000 )	—	—
Other expenses	(714 )	(101 )	(373 )
Total other (expenses) income:	(18,903 )	435	585
Net loss	\$(113,575 )	\$(291,955 )	\$(276,011 )
Net loss applicable to common stockholders	\$(113,575 )	\$(291,955 )	\$(276,011 )
Net loss per share of common stock—basic and diluted	\$(2.99 )	\$(7.85 )	\$(8.29 )
Weighted-average shares of common stock outstanding—basic and diluted	37,942,411	37,169,678	33,295,114

See Accompanying Notes to the Consolidated Financial Statements

PUMA BIOTECHNOLOGY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	For the Year Ended December 31,		
	2018	2017	2016
Net loss	\$(113,575)	\$(291,955)	\$(276,011)
Other comprehensive loss			
Unrealized (loss) gain on available-for-sale securities	(12 )	13	134
Comprehensive loss	\$(113,587)	\$(291,942)	\$(275,877)

See Accompanying Notes to the Consolidated Financial Statements

F-6

---

## PUMA BIOTECHNOLOGY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share and per share data)

	Common Stock	Additional	Receivables	Accumulated			
	Shares	Paid-in	from	Other	Accumulated		Total
	Amount	Capital	Exercises	Comprehensive	Deficit		
			of	Income			
			Options	(Loss)			
Balance at December 31, 2015	32,466,842	3	726,651	—	(147 )	(520,500 )	206,007
Stock-based compensation	—	—	117,264	—	—	—	117,264
Exercise of stock options	46,668	—	576	—	—	—	576
Issuance of common stock through							
equity placement at \$40.00 per							
share, net of issuance costs	4,312,500	1	161,853	—	—	—	161,854
Unrealized loss on available-for-sale securities	—	—	—	—	134	—	134
Net loss	—	—	—	—	—	(276,011 )	(276,011)
Balance at December 31, 2016	36,826,010	4	1,006,344	—	(13 )	(796,511 )	209,824
Stock-based compensation	—	—	108,735	—	—	—	108,735
Shares issued or restricted stock							
units vested under employee							
stock plans	768,841	—	27,134	(449 )	—	—	26,685
Unrealized loss on available-for-sale securities	—	—	—	—	13	—	13
Net loss	—	—	—	—	—	(291,955 )	(291,955)
Balance at December 31, 2017	37,594,851	4	1,142,213	(449 )	—	(1,088,466 )	53,302
Stock-based compensation	—	—	86,939	—	—	—	86,939
Shares issued or restricted stock units	730,186	—	7,203	449	—	—	7,652

vested under employee  
stock plans

Unrealized loss on available-for-sale								
securities	—	—	—	—	(12 )	—	(12 )	
Net loss	—	—	—	—	—	(113,575 )	(113,575)	
Balance at December 31, 2018	\$38,325,037	\$ 4	\$1,236,355	\$ —	\$ (12 )	\$(1,202,041 )	\$34,306	

See Accompanying Notes to the Consolidated Financial Statements

F-7



## PUMA BIOTECHNOLOGY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Year Ended December 31,		
	2018	2017	2016
<b>Operating activities:</b>			
Net loss	\$(113,575)	\$(291,955)	\$(276,011)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation and amortization	7,384	2,811	1,149
Built-out allowance received from landlord	—	—	2,997
Stock-based compensation	86,939	108,735	117,264
Disposal of leasehold improvements	—	—	368
Debt modification fees	289	—	—
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable, net	(11,103 )	(9,670 )	—
Inventory	(596 )	(2,029 )	—
Prepaid expenses and other	(840 )	(1,142 )	3,413
Other current assets	(1,787 )	—	—
Accounts payable	(7,008 )	7,657	2,231
Accrued expenses	15,783	13,222	2,787
Deferred rent	409	(99 )	4,112
Net cash used in operating activities	(24,105 )	(172,470)	(141,690)
<b>Investing activities:</b>			
Intangible assets	—	(50,000 )	—
Purchase of property and equipment	(439 )	(431 )	(4,287 )
Expenditures for leasehold improvements	(170 )	—	(2,997 )
Purchase of available-for-sale securities	(107,502)	(79,729 )	(81,794 )
Sale/maturity of available-for-sale securities	50,488	114,724	231,267
Net cash (used in) provided by investing activities	(57,623 )	(15,436 )	142,189
<b>Financing activities:</b>			
Net proceeds from issuance of common stock	—	—	161,854
Net proceeds from shares issued under employee stock plans	7,652	26,685	576
Proceeds from long-term debt	105,000	50,000	—
Payment of debt issuance costs	(4,201 )	(1,575 )	—
Net cash provided by financing activities	108,451	75,110	162,430
Net increase (decrease) in cash, cash equivalents and restricted cash	26,723	(112,796)	162,929
Cash, cash equivalents and restricted cash, beginning of period	86,015	198,811	35,882
Cash, cash equivalents and restricted cash, end of period	\$ 112,738	\$ 86,015	\$ 198,811
<b>Supplemental disclosures of non-cash investing and financing activities:</b>			
Property and equipment purchases in accounts payable	\$—	\$27	\$—
Receivables related to stock option exercises	\$—	\$449	\$—
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid	\$8,055	\$334	\$—

See Accompanying Notes to the Consolidated Financial Statements

F-8

---

PUMA BIOTECHNOLOGY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Business and Basis of Presentation:

Business:

Puma Biotechnology, Inc., or the Company, is a biopharmaceutical company based in Los Angeles, California with a focus on the development and commercialization of innovative products to enhance cancer care. The Company in-licenses the global development and commercialization rights to three drug candidates—PB272 (neratinib (oral)), PB272 (neratinib (intravenous)) and PB357. Neratinib is a potent irreversible tyrosine kinase inhibitor that blocks signal transduction through the epidermal growth factor receptors HER1, HER2 and HER4. Currently, the Company is primarily focused on the development and commercialization of the oral version of neratinib, and its most advanced drug candidates are directed at the treatment of HER2-positive breast cancer. The Company believes that neratinib has clinical application in the treatment of several other cancers as well, including non-small cell lung cancer and other tumor types that over-express or have a mutation in HER2.

In November 2012, the Company established and incorporated Puma Biotechnology Ltd., a wholly owned subsidiary, for the sole purpose of serving as the Company's legal representative in the United Kingdom and the European Union in connection with the Company's clinical trial activity in those countries. Puma Biotechnology Ltd. is currently the holder of the marketing authorisation for commercialization of NERLYNX in the European Union. In December 2018, the Company established and incorporated Puma Biotechnology, B.V., a wholly owned subsidiary, for the sole purpose transferring the above mentioned marketing authorisation in preparation of the departure of the United Kingdom from the European Union.

Basis of Presentation:

The Company is focused on developing and commercializing neratinib for the treatment of patients with human epidermal growth factor receptor type 2, or HER2-positive, breast cancer, HER2 mutated non-small cell lung cancer, HER2-negative breast cancer that has a HER2 mutation and other solid tumors that have an activating mutation in HER2. The Company has reported a net loss of approximately \$113.6 million and negative cash flows from operations of approximately \$24.1 million for the year ended December 31, 2018. Management believes that the Company will continue to incur net losses and negative net cash flows from operating activities through the drug development process and global commercialization.

The Company has incurred significant operating losses and negative cash flows from operations since its inception. On July 17, 2017, the Company received U.S. Food and Drug Administration, or FDA, approval for its first product, NERLYNX® (neratinib), formerly known as PB272 (neratinib (oral)), for the extended adjuvant treatment of adult patients with early stage HER2-overexpressed/amplified breast cancer following adjuvant trastuzumab-based therapy. Following FDA approval in July 2017, NERLYNX became available by prescription in the United States, and the Company commenced commercialization.

The Company in-licenses PB272 (neratinib (oral)), PB272 (neratinib (intravenous)) and PB357, as well as certain related compounds, from Pfizer Inc., or Pfizer. The Company is required to make substantial payments to Pfizer upon the achievement of certain milestones and has contractual obligations for clinical trial contracts.

Additionally, the Company has entered into exclusive license agreements with Specialised Therapeutics Asia Pte Ltd., or STA, Medison Pharma Ltd., or Medison, CANbridgepharma Limited, or CANbridge, and, most recently, Pint

Pharma International SA, or Pint, to pursue regulatory approval and commercialize NERLYNX, if approved, in various specified regions outside of the United States. The Company plans to continue to pursue commercialization of NERLYNX in additional countries outside the United States, if approved, and is evaluating various commercialization options in those countries, including developing a direct salesforce, contracting with third parties to provide sales and marketing capabilities, or some combination of these two options. In September 2018, the European Commission, or EC, granted marketing authorisation for NERLYNX for the extended adjuvant treatment of adult patients with early stage hormone receptor positive HER2-overexpressed/amplified breast cancer and who are less than one year from the completion of prior adjuvant trastuzumab based therapy.

Commercialization in the United States and in the European Union, may require funding in addition to the cash and cash equivalents totaling approximately \$108.4 million and marketable securities totaling approximately \$57.0 million available at December 31, 2018. The Company believes that its existing cash and cash equivalents and marketable securities as of December 31, 2018 and proceeds that will become available to the Company through product sales are sufficient to satisfy its operating cash and needs for at least one year after the filing of the Annual Report on Form 10-K in which these financial statements are included. The Company continues to remain dependent on its ability to obtain sufficient funding to sustain operations and continue to successfully commercialize neratinib in the United States and launch in the European Union. While the Company has been successful in raising capital in the past, there can be no assurance that it will be able to do so in the future. The Company's ability to obtain funding may be adversely impacted by uncertain market conditions, unfavorable decisions of regulatory authorities or adverse clinical trial results. The outcome of these matters cannot be predicted at this time.

F-9

---

Since its inception through December 31, 2018, the Company's financing has primarily been proceeds from product and license revenue, public offerings of its common stock, private equity placements, and borrowings under its loan and security agreement with Silicon Valley Bank, or SVB and Oxford Finance LLC, or Oxford.

The Company may need additional financing before it can achieve profitability, if ever. There can be no assurance that additional capital will be available on favorable terms or at all or that any additional capital that the Company is able to obtain will be sufficient to meet its needs. If it is unable to raise additional capital, the Company could likely be forced to curtail desired development activities, which will delay the development of its product candidates.

#### Note 2—Significant Accounting Policies:

The significant accounting policies followed in the preparation of these consolidated financial statements are as follows:

##### Financial Instruments

The carrying value of financial instruments, such as cash equivalents, accounts receivable and accounts payable, approximate their fair value because of their short-term nature. The carrying value of long-term debt approximates its fair value as the principal amounts outstanding are subject to variable interest rates that are based on market rates which are regularly reset.

##### Use of Estimates:

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the balance sheet, and reported amounts of expenses for the period presented. Accordingly, actual results could differ from those estimates.

Significant estimates include estimates for variable consideration for which reserves were established. These estimates are included in the calculation of net revenues and include trade discounts and allowances, product returns, provider chargebacks and discounts, government rebates, payor rebates, and other incentives, such as voluntary patient assistance, and other allowances that are offered within contracts between the Company and its customers, payors, and other indirect customers relating to the Company's sale of its products.

##### Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

##### Investment Securities:

The Company classifies all investment securities (short term and long term) as available-for-sale, as the sale of such securities may be required prior to maturity to implement management's strategies. These securities are carried at fair value, with the unrealized gains and losses, reported as a component of accumulated other comprehensive loss in stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities, if any, are

determined on a specific identification basis. A decline in the market value of any available-for-sale security below cost that is determined to be other than temporary results in the revaluation of its carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the straight-line method. Interest income is recognized when earned.

License Fees and Intangible Assets:

The Company expenses amounts paid to acquire licenses associated with products under development when the ultimate recoverability of the amounts paid is uncertain and the technology has no alternative future use when acquired. Acquisitions of technology licenses are charged to expense or capitalized based upon the asset achieving technological feasibility in accordance with management's assessment regarding the ultimate recoverability of the amounts paid and the potential for alternative future use. The Company has determined that technological feasibility for its product candidates is reached when the requisite regulatory approvals are obtained to make the product available for sale. The Company capitalizes technology licenses upon reaching technological feasibility.

F-10

---

The Company maintains definite-lived intangible assets related to the license agreement with Pfizer. These assets are amortized over their remaining useful lives, which are estimated based on the shorter of the remaining patent life or the estimated useful life of the underlying product. Intangible assets are amortized using the economic consumption method if anticipated future revenues can be reasonably estimated. The straight-line method is used when future revenues cannot be reasonably estimated. Amortization costs are recorded as part of cost of sales.

The Company assesses its intangible assets for impairment if indicators are present or changes in circumstance suggest that impairment may exist. Events that could result in an impairment, or trigger an interim impairment assessment, include the receipt of additional clinical or nonclinical data regarding one of the Company's drug candidates or a potentially competitive drug candidate, changes in the clinical development program for a drug candidate, or new information regarding potential sales for the drug. If impairment indicators are present or changes in circumstance suggest that impairment may exist, the Company performs a recoverability test by comparing the sum of the estimated undiscounted cash flows of each intangible asset to its carrying value on the consolidated balance sheet. If the undiscounted cash flows used in the recoverability test are less than the carrying value, the Company would determine the fair value of the intangible asset and recognize an impairment loss if the carrying value of the intangible asset exceeds its fair value. In connection with the FDA approval of NERLYNX in July 2017, the Company triggered a one-time milestone payment pursuant to its license agreement with Pfizer. The Company capitalized the milestone payment as an intangible asset and is amortizing the asset to cost of sales on a straight-line basis over the estimated useful life of the licensed patent through 2030. The Company recorded amortization expense related to its intangible asset of \$3.9 million for the year ended December 31, 2018. As of December 31, 2018, estimated future amortization expense related to the Company's intangible asset was approximately \$3.9 million for each year starting 2019 through 2029, and \$1.0 million for 2030.

#### Royalties:

Royalties incurred in connection with the Company's license agreement with Pfizer, as disclosed in Note 12 Commitments and Contingencies, are expensed to cost of sales as revenue from product sales is recognized.

#### Inventory:

The Company values its inventories at the lower of cost and estimated net realizable value. The Company determines the cost of its inventories, which includes amounts related to materials and manufacturing overhead, on a first-in, first-out basis. The Company performs an assessment of the recoverability of capitalized inventory during each reporting period, and it writes down any excess and obsolete inventories to their estimated realizable value in the period in which the impairment is first identified. Such impairment charges, should they occur, are recorded within the cost of sales. The determination of whether inventory costs will be realizable requires estimates by management. If actual market conditions are less favorable than projected by management, additional write-downs of inventory may be required, which would be recorded as a cost of sales in the consolidated statements of operations and comprehensive loss.

The Company capitalizes inventory costs associated with the Company's products after regulatory approval, if any, when, based on management's judgment, future commercialization is considered probable and the future economic benefit is expected to be realized. Inventory totaling \$4.5 million, acquired prior to receipt of marketing approval of a product candidate, was recorded as research and development expense as incurred. Inventory that can be used in either the production of clinical or commercial product is recorded as research and development expense when selected for use in a clinical trial. Starter kits, provided to patients prior to insurance approval, are expensed by the Company to sales and marketing expense as incurred.

As of December 31, 2018, the Company's inventory balance consisted primarily of raw materials purchased subsequent to FDA approval of NERLYNX.

Revenue Recognition:

The Company adopted Accounting Standards Codification, or ASC, Topic 606 – Revenue from Contracts with Customers, or Topic 606, on January 1, 2017. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements, and financial instruments. Under ASC Topic 606, an entity recognizes revenue when its customer obtains control of the promised goods or services, in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. The Company had no contracts with customers until the FDA approved NERLYNX on July 17, 2017. Subsequent to receiving FDA approval, the Company entered into a limited number of arrangements with specialty pharmacies and specialty distributors in the United States to distribute NERLYNX. These arrangements are the Company's initial contracts with customers. The Company has determined that these sales channels with customers are similar.

F-11

---



To determine revenue recognition for arrangements that an entity determines are within the scope of ASC Topic 606, the entity performs the following five steps: (i) identifies the contract(s) with a customer, (ii) identifies the performance obligations in the contract, (iii) determines the transaction price, (iv) allocates the transaction price to the performance obligations in the contract, and (v) recognizes revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to arrangements that meet the definition of a contract under ASC Topic 606, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC Topic 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. For a complete discussion of accounting for product revenue, see Product Revenue, Net (below).

#### Product Revenue, Net:

The Company sells NERLYNX to a limited number of specialty pharmacies and specialty distributors in the United States. These customers subsequently resell the Company's products to patients and certain medical centers or hospitals. In addition to distribution agreements with these customers, the Company enters into arrangements with health care providers and payors that provide for government mandated and/or privately negotiated rebates, chargebacks and discounts with respect to the purchase of the Company's products.

The Company recognizes revenue on product sales when the specialty pharmacy or specialty distributor, as applicable, obtains control of the Company's product, which occurs at a point in time (upon delivery). Product revenue is recorded net of applicable reserves for variable consideration, including discounts and allowances. The Company's payment terms range between 10 and 68 days

Shipping and handling costs for product shipments occur prior to the customer obtaining control of the goods, and are recorded in cost of sales.

If taxes should be collected from Customers relating to product sales and remitted to governmental authorities, they will be excluded from revenue. The Company expenses incremental costs of obtaining a contract when incurred, if the expected amortization period of the asset that the Company would have recognized is one year or less. However, no such costs were incurred during the year ended December 31, 2018.

Product revenue from each of our customers who individually accounted for 10% or more of total revenues consisted of the following:

	For the Year Ended December 31, 2018	
CVS/Caremark	39	%
Accredo/Acaria	25	%
Diplomat	13	%

License Revenue:

The Company also recognizes license revenue under certain of the Company's sub-license agreements that are within the scope of ASC Topic 606. The terms of these agreements may contain multiple performance obligations, which may include licenses and research and development activities. The Company evaluates these agreements under ASC Topic 606 to determine the distinct performance obligations. Non-refundable, upfront fees that are not contingent on any future performance and require no consequential continuing involvement by the Company, are recognized as revenue when the license term commences and the licensed data, technology or product is delivered. The Company defers recognition of non-refundable upfront license fees if the performance obligations are not satisfied.

Prior to recognizing revenue, the Company makes estimates of the transaction price, including variable consideration that is subject to a constraint. Amounts of variable consideration are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved.

F-12

---

If there are multiple distinct performance obligations, the Company allocates the transaction price to each distinct performance obligation based on its relative standalone selling price. The standalone selling price is generally determined based on the prices charged to customers or using expected cost plus margin. Revenue is recognized by measuring the progress toward complete satisfaction of the performance obligations using an input measure.

During the first quarter of 2018, the Company entered into a sub-licensing agreement with CANbridge, to pursue regulatory approval and commercialize NERLYNX, if approved, in the People's Republic of China (including mainland China, Hong Kong, Macao, and Taiwan). This agreement granted intellectual property rights and set forth the parties' respective obligations with respect to development, commercialization and supply of the licensed product. For the CANBridge license agreement, a non-refundable, an upfront license fee of \$30 million was received and recognized as license revenue in accordance with ASC Topic 606. The license agreement met the contract existence criteria and contained distinct, identifiable performance obligations for which the stand-alone selling prices were readily determinable and allocable. The Company is obligated to supply CANBridge with the licensed product in accordance with the supply agreement entered in connection with the license agreement. This supply arrangement has been identified as a separate performance obligation. The Company also identified the Joint Steering Committee as a separate, distinct performance obligation. To determine the stand-alone selling price, the Company estimated the transaction prices, including any variable consideration, at contract inception and determined the fair value of such obligations based on similar arrangements. When determining the transaction prices, the Company assumed that the goods or services will be transferred to the customer based on the terms of the existing contract, and did not take into consideration the possibility of a contract being canceled, renewed, or modified. The Company noted there was no additional variable consideration, significant financing components, noncash consideration, or consideration payable to the customer in this agreement. This license agreement also include potential future milestone and royalty payments due to the Company upon successful completion of certain separate, distinct performance obligations. Pursuant to the CANbridge Agreement, the Company will potentially receive additional regulatory milestone payments totaling up to \$30 million and sales-based milestone payments totaling up to \$185 million. In addition, the Company is entitled to receive significant double-digit royalties calculated as a percentage of net sales of the licensed products in the CANbridge Territory. During the fourth quarter of 2018, the Company received a \$10 million payment from CANBridge in relation to the achievement of a regulatory milestone. The Company satisfied the necessary performance obligations to recognize this license revenue under the terms of the arrangement.

Additionally, during the first quarter of 2018, the Company entered into a sub-license agreement with Pint. The license agreement granted intellectual property rights and set forth the respective obligations with respect to development, commercialization and supply of NERLYNX in Mexico and 21 countries and territories in Central and South America. This license agreement met the contract existence criteria and contained distinct, identifiable performance obligations for which the stand-alone selling prices were readily determinable and allocable. Under the terms of the license agreement, the Company was entitled to receive a non-deductible, non-creditable upfront payment of \$10 million upon providing certain required documents on or before September 30, 2018 to the satisfaction of Pint. During the third quarter of 2018, the Company satisfied the necessary performance obligations to recognize the revenue under the terms of the arrangement. The Company is obligated to supply Pint with the licensed product during development pursuant to a supply agreement. This supply arrangement has been identified as a separate performance obligation. The Company is also obligated to participate in a Joint Steering Committee, which was identified as a separate, distinct performance obligation. To determine the respective stand-alone selling prices, the Company estimated the transaction prices, including any variable consideration, at contract inception and determined the fair value of such obligations based on similar arrangements. When determining the transaction prices, the Company assumed that the goods or services will be transferred to the customer based on the terms of the existing contract, and did not take into consideration the possibility of a contract being canceled, renewed, or modified. The Company noted there were no significant financing components, noncash consideration, or consideration payable to the customer in these agreements. This license agreement also includes potential future milestone and royalty payments due to the Company upon successful completion of certain separate, distinct events, such as achieving

regulatory approvals. The non-deductible, non-creditable milestones consist of certain development and commercial performance obligations, and the Company could earn up to approximately \$24.5 million if all remaining, respective performance obligations and milestones are achieved. At this time, the Company cannot estimate when these milestone-related performance obligations are expected to be achieved.

Reserves for Variable Consideration:

Revenue from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for which reserves are established. Components of variable consideration include trade discounts and allowances, product returns, provider chargebacks and discounts, government rebates, payor rebates, and other incentives, such as voluntary patient assistance, and other allowances that are offered within contracts between the Company and its customers, payors, and other indirect customers relating to the Company's sale of its products. These reserves, as detailed below, are based on the related sales, and are classified as reductions of accounts receivable or as a current liability. These estimates take into consideration a range of possible outcomes that are probability-weighted in accordance with the expected value method in ASC Topic 606 for relevant factors such as current contractual and statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns. Overall, these reserves reflect the Company's best estimates of the amount of consideration to which it is entitled based on the terms of the respective underlying contracts.

The amount of variable consideration that is included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized under the contract will not occur in a future period. The Company's analyses also contemplated application of the constraint in accordance with the guidance, under which it determined a material reversal of revenue would not occur in a future period for the estimates detailed below as of December 31, 2018 and, therefore, the transaction price was not reduced further during the year ended December 31, 2018. Actual amounts of consideration ultimately received may differ from the Company's estimates. If actual results in the future vary from the Company's estimates, the Company will adjust these estimates, which would affect net product revenue and earnings in the period such variances become known.

#### Trade Discounts and Allowances:

The Company generally provides customers with discounts, which include incentive fees that are explicitly stated in the Company's contracts and are recorded as a reduction of revenue in the period the related product revenue is recognized. The reserve for discounts is established in the same period that the related revenue is recognized, together with reductions to trade receivables, net on the consolidated balance sheets. In addition, the Company compensates its customers for sales order management, data, and distribution services. The Company has determined such services received to date are not distinct from the Company's sale of products to its customers and, therefore, these payments have been recorded as a reduction of revenue within the statement of operations and comprehensive loss through December 31, 2018.

#### Product Returns:

Consistent with industry practice, the Company offers the specialty pharmacies and specialty distributors that are its customers limited product return rights for damaged and expiring product, provided it is within a specified period around the product expiration date as set forth in the applicable individual distribution agreement. The Company estimates the amount of its product sales that may be returned by its customers and records this estimate as a reduction of revenue in the period the related product revenue is recognized, as well as a reduction to trade receivables, net on the consolidated balance sheets. The Company currently estimates product returns using its own sales information, including its visibility into the inventory remaining in the distribution channel. The Company has an insignificant amount of returns to date and believes that returns of its products will continue to be minimal.

#### Provider Chargebacks and Discounts:

Chargebacks for fees and discounts to providers represent the estimated obligations resulting from contractual commitments to sell products to qualified healthcare providers at prices lower than the list prices charged to its customers who directly purchase the product from the Company. Customers charge the Company for the difference between what they pay for the product and the ultimate selling price to the qualified healthcare providers. The reserve for chargebacks is established in the same period that the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability. Chargeback amounts are generally determined at the time of resale to the qualified healthcare provider by customers, and the Company generally issues payments for such amounts within a few weeks of the customer's notification to the Company of the resale. Reserves for chargebacks consist of payments the Company expects to issue for units that remain in the distribution channel at each reporting period-end that the Company expects will be sold to qualified healthcare providers and chargebacks that customers have claimed, but for which the Company has not yet issued a payment.

#### Government Rebates:

The Company is subject to discount obligations under state Medicaid programs and Medicare. These reserves are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability, which is included in accrued expenses and other current liabilities on the consolidated balance sheets. The Company's liability for these rebates consists of invoices received for claims from prior quarters that have not been paid or for which an invoice has not yet been received, estimates of claims for the current quarter, and estimates of future claims that will be made for product that has been recognized as revenue, but which remains in the distribution channel at the end of each reporting period.

Payor Rebates:

The Company contracts with certain private payor organizations, primarily insurance companies and pharmacy benefit managers, for the payment of rebates with respect to utilization of its products. The Company estimates these rebates and records such estimates in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability.

F-14

---

## Other Incentives:

Other incentives the Company offers include voluntary patient assistance programs, such as the co-pay assistance program, which are intended to provide financial assistance to qualified commercially-insured patients with prescription drug co-payments required by payors. The calculation of the accrual for co-pay assistance is based on an estimate of claims and the cost per claim that the Company expects to receive associated with product that has been recognized as revenue, but remains in the distribution channel at the end of each reporting period. The adjustments are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability, which is included as a component of accrued expenses and other current liabilities on the consolidated balance sheets.

## Assets Measured at Fair Value on a Recurring Basis:

ASC 820, Fair Value Measurement, or ASC 820, provides a single definition of fair value and a common framework for measuring fair value as well as disclosure requirements for fair value measurements used in financial statements. Under ASC 820, fair value is determined based upon the exit price that would be received by a company to sell an asset or paid by a company to transfer a liability in an orderly transaction between market participants, exclusive of any transaction costs. Fair value measurements are determined by either the principal market or the most advantageous market. The principal market is the market with the greatest level of activity and volume for the asset or liability. Absent a principal market to measure fair value, the Company uses the most advantageous market, which is the market from which the Company would receive the highest selling price for the asset or pay the lowest price to settle the liability, after considering transaction costs. However, when using the most advantageous market, transaction costs are only considered to determine which market is the most advantageous and these costs are then excluded when applying a fair value measurement. ASC 820 creates a three-level hierarchy to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below, with Level 1 having the highest priority and Level 3 having the lowest.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable. Following are the major categories of assets measured at fair value on a recurring basis as of December 31, 2018 and 2017, using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3) (in thousands):

December 31, 2018	Level			Total
	Level 1	Level 2	3	
Cash equivalents	\$83,329	\$2,987	\$ —	\$86,316
Commercial paper	—	35,941	—	35,941
Corporate bonds	—	18,077	—	18,077

Edgar Filing: PUMA BIOTECHNOLOGY, INC. - Form 10-K

U.S. government securities	2,984	—	—	2,984
	\$86,313	\$57,005	\$ —	\$143,318

December 31, 2017	Level			Total
	Level 1	Level 2	3	
Cash equivalents	\$67,753	\$—	\$ —	\$67,753
	\$67,753	\$—	\$ —	\$67,753

The Company's investments in commercial paper, corporate bonds and U.S. government securities are exposed to price fluctuations. The fair value measurements for commercial paper, corporate bonds and U.S. government securities are based upon the quoted prices of similar items in active markets multiplied by the number of securities owned.

The cash equivalents balance previously disclosed in the footnotes of the Company's 2017 Annual Report on Form 10-K of \$81.7 million incorrectly included cash of \$13.9 million. The Company has excluded cash from the \$67.8 million cash equivalents balance as of December 31, 2017 as currently presented. The misstatement was not material to the previously-reported financial statements.



The following tables summarize the Company's short-term investments (in thousands):

	Maturity (in years)	Amortized cost	Unrealized Gain/Losses	Estimated fair value
December 31, 2018				
Cash equivalents		\$ 86,316	\$ — \$ —	\$ 86,316
Commercial paper	Less than 1	35,941	— —	35,941
Corporate bonds	Less than 1	18,089	— (12 )	18,077
U.S. government securities	Less than 1	2,984	— —	2,984
		\$ 143,330	\$ — \$ (12 )	\$ 143,318

	Maturity (in years)	Amortized cost	Unrealized Gain/Losses	Estimated fair value
December 31, 2017				
Cash equivalents		\$ 67,753	\$ — \$ —	\$ 67,753
		\$ 67,753	\$ — \$ —	\$ 67,753

#### Concentration of Risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, principally consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents and restricted cash in excess of the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation insured limits at December 31, 2018, were approximately \$112.7 million. The Company does not believe it is exposed to any significant credit risk due to the quality nature of the financial instruments in which the money is held. Pursuant to the Company's internal investment policy, investments must be rated A-1/P-1 or better by Standard and Poor's Rating Service and Moody's Investors Service at the time of purchase.

The Company sells its products in the United States primarily through specialty pharmacies and specialty distributors. Therefore, wholesale distributors and large pharmacy chains account for a large portion of its trade receivables and net product revenues. The creditworthiness of its customers is continuously monitored, and the Company has internal policies regarding customer credit limits. The Company estimates an allowance for doubtful accounts primarily based on the credit worthiness of our customers, historical payment patterns, aging of receivable balances and general economic conditions.

The Company's success depends on its ability to successfully commercialize NERLYNX. The Company currently has a single product with limited commercial sales experience, which makes it difficult to evaluate its current business, predict its future prospects and forecast financial performance and growth. The Company has invested a significant portion of its efforts and financial resources in the development and commercialization of the lead product, NERLYNX, and expects NERLYNX to constitute the vast majority of product revenue for the foreseeable future. The Company's success depends on its ability to effectively commercialize NERLYNX.

The Company relies exclusively on third parties to formulate and manufacture NERLYNX and its drug candidates. The commercialization of NERLYNX and any other drug candidates, if approved, could be stopped, delayed or made less profitable if those third parties fail to provide sufficient quantities of product or fail to do so at acceptable quality

levels or prices. The Company has no experience in drug formulation or manufacturing and does not intend to establish its own manufacturing facilities. The Company lacks the resources and expertise to formulate or manufacture NERLYNX and other drug candidates. While the drug candidates were being developed by Pfizer, both the drug substance and drug product were manufactured by third-party contractors. The Company is using the same third-party contractors to manufacture, supply, store and distribute drug supplies for clinical trials and the commercialization of NERLYNX. If the Company is unable to continue its relationships with one or more of these third-party contractors, it could experience delays in the development or commercialization efforts as it locates and qualifies new manufacturers. The Company intends to rely on one or more third-party contractors to manufacture the commercial supply of drugs.

Research and Development Expenses:

Research and development expenses, or R&D, are charged to operations as incurred. The major components of research and development costs include clinical manufacturing costs, clinical trial expenses, consulting and other third-party costs, salaries and employee benefits, stock-based compensation expense, supplies and materials, and allocations of various overhead costs. Clinical trial expenses include, but are not limited to, investigator fees, site costs, comparator drug costs, and clinical research organization, or CRO, costs. In the normal course of business, the Company contracts with third parties to perform various clinical trial activities in the ongoing development of potential products. The financial terms of these agreements are subject to negotiation and variations from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement

of certain events, the successful enrollment of patients and the completion of portions of the clinical trial or similar conditions. The Company's accruals for clinical trials are based on estimates of the services received and efforts expended pursuant to contracts with numerous clinical trial sites, cooperative groups and CROs. As actual costs become known, the Company adjusts its accruals in that period.

In instances where the Company enters into agreements with third parties for clinical trials and other consulting activities, upfront amounts are recorded to prepaid expenses and other in the accompanying Consolidated Balance Sheets and expensed as services are performed or as the underlying goods are delivered. If the Company does not expect the services to be rendered or goods to be delivered, any remaining capitalized amounts for non-refundable upfront payments are charged to expense immediately. Amounts due under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments and payments upon the completion of milestones or receipt of deliverables.

Costs related to the acquisition of technology rights and patents for which development work is still in process are charged to operations as incurred and considered a component of research and development costs.

#### Stock-Based Compensation:

##### Stock option awards:

ASC 718, Compensation-Stock Compensation, or ASC 718, requires the fair value of all share-based payments to employees, including grants of stock options, to be recognized in the statement of operations over the requisite service period. Under ASC 718, employee option grants are generally valued at the grant date and those valuations do not change once they have been established. The fair value of each option award is estimated on the grant date using the Black-Scholes Option Pricing Method. As allowed by ASC 718, the Company's estimate of expected volatility is based on its average volatilities using its past six years of publicly traded history. Prior to 2018, while the Company had a short period of publicly traded stock history, the Company calculated its estimate of average volatility based on a sampling of companies with similar attributes. Beginning in 2018, the Company estimated its expected volatility based on its average volatilities using its past six years of publicly traded stock history, including industry, stage of life cycle, size and financial leverage. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant valuation. Option forfeitures are calculated when the option is granted to reduce the option expense to be recognized over the life of the award and updated upon receipt of further information as to the amount of options expected to be forfeited. The option expense is "trued-up" upon the actual forfeiture of a stock option grant. Due to its limited history of stock option exercises, the Company uses the simplified method to determine the expected life of the option grants.

##### Restricted stock units:

Restricted stock units, or RSUs, are valued on the grant date and the fair value of the RSUs is equal to the market price of the Company's common stock on the grant date. The RSU expense is recognized over the requisite service period. When the requisite service period begins prior to the grant date (because the service inception date occurs prior to the grant date), the Company is required to begin recognizing compensation cost before there is a measurement date (i.e., the grant date). The service inception date is the beginning of the requisite service period. If the service inception date precedes the grant date, accrual of compensation cost for periods before the grant date shall be based on the fair value of the award at the reporting date. In the period in which the grant date occurs, cumulative compensation cost shall be adjusted to reflect the cumulative effect of measuring compensation cost based on fair value at the grant date rather than the fair value previously used at the service inception date (or any subsequent reporting date).

Warrants:

Warrants (refer to Note 9 for further details) granted to employees are normally valued at the fair value of the instrument on the grant date and are recognized in the statement of operations over the requisite service period. When the requisite service period precedes the grant date and a market condition exists in the warrant, the Company values the warrant using the Monte Carlo Simulation Method. When the terms of the warrant become fixed, the Company values the warrant using the Black-Scholes Option Pricing Method. As allowed by ASC 718 for companies with a short period of publicly traded stock history, the Company's estimate of expected volatility is based on the average volatilities of a sampling of eight to nine companies with similar attributes to the Company, including industry, stage of life cycle, size and financial leverage. The risk-free rate for periods within the contractual life of the warrant is based on the U.S. Treasury yield curve in effect at the time of grant valuation. In determining the value of the warrant until the terms are fixed, the Company factors in the probability of the market condition occurring and several possible scenarios. When the requisite service period precedes the grant date and is deemed to be complete, the Company records the fair value of the warrant at the time of issuance as an equity stock-based compensation transaction. The grant date is determined when all pertinent information, such as exercise price and quantity are known.

Income Taxes:

The Company follows ASC 740, Income Taxes, or ASC 740, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the consolidated financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the asset will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The standard addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2018, the Company has established a reserve of 20% of its research and development (“R&D”) credit carryover balance.

#### Segment Reporting:

Management has determined that the Company operates in one business segment, which is the development and commercialization of innovative products to enhance cancer care.

#### Net Loss per Share of Common Stock:

Basic net loss per share of common stock is computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during the periods presented, as required by ASC 260, Earnings per Share. For purposes of calculating diluted loss per share of common stock, the denominator includes both the weighted average number of shares of common stock outstanding and the number of dilutive common stock equivalents, such as stock options, RSUs and warrants. A common stock equivalent is not included in the denominator when calculating diluted earnings per common share if the effect of such common stock equivalent would be anti-dilutive. For the year ended December 31, 2018, potentially dilutive securities excluded from the calculations were 5,708,544 shares issuable upon exercise of options, 2,116,250 shares issuable upon exercise of a warrant, and 1,838,670 shares underlying RSUs that were subject to vesting and were antidilutive. For the year ended December 31, 2017, potentially dilutive securities excluded from the calculations were 6,134,513 shares issuable upon exercise of options, 2,116,250 shares issuable upon exercise of a warrant, and 1,637,662 shares underlying RSUs that were subject to vesting and were antidilutive. For the year ended December 31, 2016, potentially dilutive securities excluded from the calculations were 9,325,381 shares, issuable upon exercise of options and warrants or issuable as performance awards.

Recently Issued Accounting Standards:

In January 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the condensed consolidated financial statements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted ASU No. 2016-01 in the first quarter of 2018 with no impact to its consolidated financial statements and related disclosures.

F-18

---

In February 2016, the FASB issued ASU No. 2016-02, Leases. The amendments in ASU 2016-02 will require organizations that lease assets, with lease terms of more than 12 months, to recognize on their balance sheet the assets and liabilities for the rights and obligations created by those leases. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP that requires only capital leases to be recognized on the balance sheet, ASU No. 2016-02 will require both types of leases to be recognized on the balance sheet. The Company expects that this standard will have a material effect on its financial statements. While the Company continues to assess all of the effects of adoption, it currently believes the most significant effects relate to the recognition of new right of use assets and lease liabilities on the balance sheet for our office and equipment operating leases. The Company does not expect a significant change in its leasing activities between now and adoption. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is adopting ASU No. 2016-02 in the first quarter of 2019, which it expects to result in an increase in its assets and liabilities on its consolidated balance sheets related to recording right-of-use assets and corresponding lease liabilities of up to approximately \$30 million.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which addresses the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company adopted ASU 2016-15 in the first quarter of 2018 with no impact to its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash that changes the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This amendment is effective for the Company in the fiscal year beginning after December 15, 2017, but early adoption is permissible. The Company adopted ASU 2016-18 in the first quarter of 2018. The Company noted a change in the beginning-of-period and end-of-period total amounts within the statement of cash flows due to the inclusion of restricted cash within cash and cash equivalents.

### Note 3—Prepaid Expenses and Other:

Prepaid expenses and other consisted of the following at December 31 (in thousands):

	December 31, 2018	December 31, 2017
<b>Current:</b>		
CRO services	\$ 5,824	\$ 7,188
Other clinical development	888	878
Insurance	2,446	1,306
Other	3,239	3,625
	12,397	12,997
<b>Long-term:</b>		
CRO services	1,073	860
Other clinical development	650	886
Insurance	14	26

Other	1,692	217
	3,429	1,989
Totals	\$ 15,826	\$ 14,986

Other prepaid amounts consist primarily of deposits, licenses, subscriptions, software, and professional fees

F-19

---



## Note 4—Other Current Assets:

Other current assets consisted of the following at December 31 (in thousands):

	December 31, 2018	December 31, 2017
Insurance receivable	\$ 1,175	\$ —
Other	612	\$ —
Totals	\$ 1,787	\$ —

Other current asset amounts consist primarily of insurance reimbursements related to the class action lawsuit that was still ongoing at December 31, 2018, and a tenant improvement receivable.

## Note 5—Property and Equipment:

Property and equipment consisted of the following at December 31 (in thousands):

	December 31, 2018	December 31, 2017
<b>Property and Equipment:</b>		
Leasehold improvements	\$ 4,048	\$ 3,878
Computer equipment	2,402	2,147
Telephone equipment	343	302
Furniture and fixtures	2,346	2,206
	9,139	8,533
Less: accumulated depreciation	(5,176 )	(4,063 )
Totals	\$ 3,963	\$ 4,470

## Note 6—Intangible Assets:

Intangible assets consisted of the following at December 31 (in thousands):

	December 31, 2018	Estimated useful life
Acquired and in-licensed rights	\$ 50,000	13 Years
Less: accumulated amortization	(5,592 )	
Total intangible asset, net	\$ 44,408	

Estimated future intangible amortization expense as of December 31, 2018 is as follows (in thousands):

2019	3,947
2020	3,947
2021	3,947
2022	3,947
Thereafter	28,620
Total	\$44,408

F-20

---

## Note 7—Accrued Expenses:

Accrued expenses consisted of the following at December 31 (in thousands):

	December 31, 2018	December 31, 2017
Accrued CRO services	10,187	\$ 8,335
Accrued royalties	9,162	3,922
Accrued class action verdict costs	9,000	—
Accrued variable consideration	3,818	1,425
Accrued bonus	1,705	3,376
Accrued compensation	4,435	2,797
Accrued legal fees	1,379	2,046
Accrued other clinical development	2,380	3,438
Other	4,365	5,309
Totals	\$ 46,431	\$ 30,648

Accrued CRO services, accrued other clinical development expenses, and accrued legal fees represent the Company's estimates of such costs. Accrued compensation includes sales commissions and vacation. Accrued royalties represent royalties incurred in connection with the Company's license agreement with Pfizer. Vacation is accrued at the rate the employee earns vacation and reduced as vacation is used by the employee. Accrued variable consideration represents estimates of adjustments to net revenue for which reserves are established. Other accrued expenses consist primarily of accrued contractor/consultant costs, business license fees, taxes, insurance, and marketing fees.

Accrued class action verdict costs represent an initial estimate of potential amounts that may be owed to class action participants as a result of the recent jury verdict in *Hsu v. Puma Biotechnology, Inc., et al.* The total amount of aggregate class-wide damages is uncertain and will be ascertained only after an extensive claims process and the exhaustion of any appeals. It is also possible that the total damages will be higher than this estimate.

All accrued expenses are adjusted in the period the actual costs become known.

## Note 8—Debt:

Long term debt consisted of the following at December 31, 2018 (in thousands):

	December 31, 2018	Maturity Date
Long term debt	\$ 155,000	May 1, 2023
Accretion of final interest payment	1,330	
Less: deferred financing costs	(4,444 )	
Total long term debt, net	\$ 151,886	

In October 2017, the Company entered into a loan and security agreement with SVB, as administrative agent, and the lenders party thereto from time to time, including Oxford and SVB. Pursuant to the terms of the credit facility provided for by the loan and security agreement, the Company borrowed \$50.0 million.

In May 2018, the Company entered into an amendment to the loan and security agreement. Under the amended credit facility, the lenders agreed to make term loans available to the Company in an aggregate amount of \$155.0 million, consisting of (i) an aggregate amount of \$125.0 million, the proceeds of which, in part, were used to repay the \$50.0 million borrowed under the original credit facility, and (ii) an aggregate amount of \$30.0 million that the Company drew in December 2018, which was available to under the credit facility as a result of achieving a specified minimum revenue milestone. Proceeds from the term loans under the amended credit facility may be used for working capital and general business purposes. Upon entry into the amended credit facility, the Company was required to pay the lenders aggregate fees of \$4.2 million, consisting of a first amendment facility fee of \$0.4 million and a final payment of \$3.8 million in connection with the repayment of the \$50.0 million borrowed under the original credit facility. The amended credit facility is secured by substantially all of the Company's personal property other than its intellectual property. The Company also pledged 65% of the issued and outstanding capital stock of its subsidiary, Puma Biotechnology Ltd.

The term loans under the amended credit facility bear interest at an annual rate equal to the greater of (i) 8.25% and (ii) the sum of (a) the “prime rate,” as reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 3.5%. The Company is required to make monthly interest-only payments on each term loan commencing on the first calendar day of the calendar month following the funding date of such term loan, and continuing on the first calendar day of each calendar month thereafter through July 1, 2020. Commencing on July 1, 2020, and continuing on the first calendar day of each calendar month thereafter, the Company will make consecutive equal monthly payments of principal, together with applicable interest, in arrears to each lender, calculated pursuant to the amended credit facility. All unpaid principal and accrued and unpaid interest with respect to each term loan is due and payable in full on May 1, 2023. Upon repayment of the term loans, the Company is also required to make a final payment to the lenders equal to 7.5% of the original principal amount of term loans funded.

At the Company’s option, the Company may prepay the outstanding principal balance of any term loan in whole but not in part, subject to a prepayment fee of 3.0% of any amount prepaid if the prepayment occurs through and including the first anniversary of the funding date of such term loan, 2.0% of any amount prepaid if the prepayment occurs after the first anniversary of the funding date of such term loan through and including the second anniversary of the funding date of such term loan, and 1.0% of the amount prepaid if the prepayment occurs after the second anniversary of the funding date of such term loan and prior to May 1, 2023.

The amended credit facility includes affirmative and negative covenants applicable to the Company, its current subsidiary and any subsidiaries the Company creates in the future. The affirmative covenants include, among others, covenants requiring the Company to maintain its legal existence and governmental approvals, deliver certain financial reports, maintain insurance coverage and satisfy certain requirements regarding deposit accounts. The Company must also achieve product revenue, measured as of the last day of each fiscal quarter on a trailing 3-month basis, that is (i) greater than or equal to 70% of the Company’s revenue target set forth in its board-approved projections for the 2018 fiscal year and (ii) greater than or equal to 50% of the Company’s revenue target set forth in its board-approved projections for the 2019 fiscal year. New minimum revenue levels will be established for each subsequent fiscal year by mutual agreement of the Company, SVB as administrative agent, and the lenders. The negative covenants include, among others, restrictions on the Company’s transferring collateral, incurring additional indebtedness, engaging in mergers or acquisitions, paying dividends or making other distributions, making investments, creating liens, selling assets and suffering a change in control, in each case subject to certain exceptions.

The amended credit facility also includes events of default, the occurrence and continuation of which could cause interest to be charged at the rate that is otherwise applicable plus 5.0% and would provide SVB, as collateral agent, with the right to exercise remedies against the Company and the collateral securing the amended credit facility, including foreclosure against the property securing the credit facilities, including its cash. These events of default include, among other things, the Company’s failure to pay principal or interest due under the amended credit facility, a breach of certain covenants under the amended credit facility, the Company’s insolvency, a material adverse change, the occurrence of any default under certain other indebtedness in an amount greater than \$0.5 million and one or more judgments against the Company in an amount greater than \$0.5 million individually or in the aggregate.

As of December 31, 2018, there was \$155 million in term loans outstanding under the amended credit facility, and the Company was in compliance with all applicable covenants under the amended credit facility.

Note 9—Stockholders’ Equity:

Common Stock:

October 2016 Common Stock Offering. On October 19, 2016, the Company entered into an underwriting agreement in connection with the public offering, issuance and sale by the Company of 3,750,000 shares of the Company's common stock, par value \$0.0001 per share, at a public offering price of \$40.00 per share, less underwriting discounts and commissions. Under the terms of the underwriting agreement, the Company also granted the underwriters an option exercisable for 30 days to purchase up to an additional 562,500 shares of its common stock at the public offering prices, less underwriting discounts and commissions. On October 20, 2016, the underwriters exercised their option to purchase additional shares in full. The Company received net proceeds from the offering of approximately \$161.9 million, after deducting underwriting discounts and commissions and estimated offering expenses.

The Company issued 200,743, 557,080, and 46,668 shares of common stock upon exercise of stock options during the years ended December 31, 2018, 2017 and 2016, respectively. The Company issued 529,443, 211,761, and 2,917 shares of common stock upon vesting of RSUs during the years ended December 31, 2018, 2017 and 2016, respectively.

F-22

---

Authorized Shares:

The Company has 100,000,000 shares of stock authorized for issuance, all of which 100,000,000 are common stock, par value \$0.0001 per share.

Warrants:

In October 2011, the Company issued an anti-dilutive warrant to Alan Auerbach, the Company's founder and chief executive officer. The warrant was issued to provide Mr. Auerbach with the right to maintain ownership of at least 20% of the Company's common stock in the event that the Company raised capital through the sale of its securities in the future.

In connection with the closing of a public offering in October 2012, the exercise price and number of shares underlying the warrant issued to Mr. Auerbach were established and, accordingly, the final value of the warrant became fixed. Pursuant to the terms of the warrant, Mr. Auerbach may exercise the warrant to acquire 2,116,250 shares of the Company's common stock at \$16 per share until October 4, 2021

Stock Options and Restricted Stock Units:

The Company's 2011 Incentive Award Plan, or the 2011 Plan, was adopted by the Company's Board of Directors on September 15, 2011. Pursuant to the 2011 Plan, the Company may grant incentive stock options and nonqualified stock options, as well as other forms of equity-based compensation. Incentive stock options may be granted only to employees, while consultants, employees, officers and directors are eligible for the grant of nonqualified options under the 2011 Plan. The maximum term of stock options granted under the 2011 Plan is 10 years. The exercise price of incentive stock options granted under the 2011 Plan must be at least equal to the fair value of such shares on the date of grant. Through December 31, 2018, a total of 12,529,412 shares of the Company's common stock have been reserved for issuance under the 2011 Plan.

The Company awarded only "plain vanilla options" as determined by the SEC Staff Accounting Bulletin 107, or Share Based Payment. As of December 31, 2018, 7,175,879 shares of the Company's common stock are issuable upon the exercise of outstanding awards granted under the 2011 Plan and 2,339,678 shares of the Company's common stock are available for future issuance under the 2011 Plan. The fair value of options granted to employees was estimated using the Black-Scholes Option Pricing Method (see Note 2) with the following weighted-average assumptions used during the years ended December 31:

	2018	2017
Dividend yield	0.0 %	0.0 %
Expected volatility	96.5 %	70.2 %
Risk-free interest rate	2.7 %	2.0 %
Expected life in years	5.85	5.83

The Company's 2017 Employment Inducement Incentive Award Plan, or the 2017 Plan, was adopted by the Company's Board of Directors on April 27, 2017. Pursuant to the 2017 Plan, the Company may grant stock options and restricted stock units, as well as other forms of equity-based compensation to employees, as an inducement to join the Company. The maximum term of stock options granted under the 2017 Plan is 10 years. The exercise price of stock options granted under the 2017 Plan must be at least equal to the fair market value of such shares on the date of grant. As of December 31, 2018, a total of 1,000,000 shares of the Company's common stock have been reserved for issuance under the 2017 Plan. As of December 31, 2018, 371,335 shares have been awarded under the 2017 Plan.

F-23

---



Employee stock-based compensation expense was as follows for the years ended December 31 (in thousands except per share data):

	For the Year Ended December 31,		
	2018	2017	2016
<b>Stock-based compensation:</b>			
<b>Options -</b>			
Research and development	\$26,456	\$67,299	\$88,049
Selling, general and administrative	14,063	23,024	25,043
Performance shares - R&D	—	—	(528 )
<b>Restricted stock units -</b>			
<b>Selling, general and administrative</b>			
	20,851	8,170	1,580
Research and development	25,569	10,242	3,120
<b>Total stock-based compensation expense</b>			
	\$86,939	\$108,735	\$117,264

Activity with respect to options granted under the 2011 and 2017 Plan is summarized as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2015	5,542,285	\$ 105.59	8.6	\$ 87,632
Granted	1,658,465	\$ 42.34	9.3	
Forfeited	(446,544 )	\$ 122.50		
Exercised	(43,751 )	\$ 13.16		\$ 1,360
Expired	(131,933 )	\$ 185.10		
Outstanding at December 31, 2016	6,578,522	\$ 87.52	8.0	\$ 18,442
Granted	519,791	\$ 38.87	8.4	
Forfeited	(285,377 )	\$ 50.11		

Edgar Filing: PUMA BIOTECHNOLOGY, INC. - Form 10-K

Exercised	(557,080 )	\$ 48.71		\$ 27,185
Expired	(121,343 )	\$ 125.40		
Outstanding at December 31, 2017	6,134,513	\$ 87.91	7.2	\$ 220,060
Granted	315,566	\$ 59.13	9.3	
Forfeited	(183,837 )	\$ 51.96		
Exercised	(200,743 )	\$ 35.88		\$ 5,063
Expired	(356,955 )	\$ 116.96		
Outstanding at December 31, 2018	5,708,544	\$ 87.49	6.1	\$ 7,762
Nonvested at December 31, 2018	779,292	\$ 48.97	8.5	—
Exercisable	4,929,252	\$ 93.58	5.7	\$ 7,762

F-24

---

At December 31, 2018, total estimated unrecognized employee compensation cost related to non-vested stock options granted prior to that date was approximately \$20.8 million, which is expected to be recognized over a weighted-average period of 1.5 years. At December 31, 2018, the total estimated unrecognized employee compensation cost related to non-vested RSUs was approximately \$87.9 million, which is expected to be recognized over a weighted-average period of 2.0 years. The weighted-average grant date fair value of options granted during the years ended December 31, 2018, 2017 and 2016, was \$45.62, \$24.30 and \$25.69 per share, respectively. The weighted average grant date fair value of RSUs awarded during the year ended December 31, 2018, 2017 and 2016 was \$41.42, \$94.93, and \$54.35, respectively.

Stock options	Shares	Weighted Average Grant-Date Fair Value
Nonvested shares at December 31, 2016	3,106,083	\$ 47.78
Granted	519,791	24.30
Vested/Issued	(1,552,061)	59.76
Forfeited	(285,377 )	30.21
Nonvested shares at December 31, 2017	1,788,436	33.37
Granted	315,566	45.62
Vested/Issued	(1,140,873)	36.81
Forfeited	(183,837 )	31.43
Nonvested shares at December 31, 2018	779,292	\$ 33.75

Restricted stock units	Shares	Weighted Average Grant-Date Fair Value
Nonvested shares at December 31, 2016	630,508	\$ 54.35
Granted	1,277,081	94.93
Vested/Issued	(211,761 )	55.17
Forfeited	(58,166 )	63.02
Nonvested shares at December 31, 2017	1,637,662	85.58
Granted	1,175,231	41.42
Vested/Issued	(529,443 )	79.98
Forfeited	(444,780 )	80.99
Nonvested shares at December 31, 2018	1,838,670	\$ 60.08

#### Note 10—401(k) Savings Plan:

During 2012, the Company adopted a 401(k) savings plan for the benefit of its employees. The Company is required to make matching contributions to the 401(k) plan equal to 100% of the first 3% of wages deferred by each

participating employee and 50% on the next 2% of wages deferred by each participating employee. The Company incurred expenses for employer matching contributions of approximately \$1.9 million, \$0.9 million and \$ 1.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 11—Income Taxes:

On December 22, 2017, H.R. 1/Public Law No. 115-97 known as the Tax Cuts and Jobs Act, or the Tax Act, was signed into law. The effects of this new federal legislation are recognized upon enactment, which is the date a bill is signed into law. The Tax Act includes numerous changes in existing tax law, including a permanent reduction in the federal corporate income tax rate from 35% (as the top corporate tax rate) to 21%, limitations on executive compensation and deductibility of interest expense. The Company has revalued its net deferred tax assets as of December 31, 2017 to reflect the rate reduction. As of December 31, 2018 the Company calculated an approximate \$4.6 million limitation on executive compensation deduction pursuant to IRC section 162(m) and an approximate \$9.2 million limitation on interest expense pursuant to IRC section 162(j).

F-25

---

Pursuant to the SEC Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act," or SAB 118, a company may select between one of three scenarios to determine a reasonable estimate arising from the Tax Act. Those scenarios are (i) a final estimate which effectively closes the measurement window; (ii) a reasonable estimate leaving the measurement window open for future revisions; and (iii) no estimate as the law is still being analyzed. The Company recognized an adjustment of \$141.1 million in the period ending December 31, 2017, which was offset by a full valuation allowance. Other impacts of the Tax Act including, but not limited to, a limitation of the deduction for net operating losses and additional limitations on the deductibility of executive compensation and interest expense are not expected to have a material impact to the financial statement presentation as the company records has historically generated tax losses and in a full valuation allowance. The Company's review of the final impact of the Tax Act may be different from certain provisional amounts reported due to changes in interpretations and assumptions of the current guidance available as well as the issuance of new regulatory guidance in the future. As of December 31, 2018, we have completed our accounting for the tax effects of the 2017 Tax Act and did not identify any measurement period adjustments related to SAB 118.

The Company's provision for income taxes for the year ended December 31, 2018 is \$17,000 and did not have any provisions for income taxes for the years ended December 31, 2017 and 2016.

(in thousands)	2018	2017	2016
<b>Current:</b>			
Federal	\$ —	\$ —	\$ —
State	17	—	—
	\$ 17	\$ —	\$ —
<b>Deferred:</b>			
Federal	—	—	—
State	—	—	—
	\$ —	\$ —	\$ —
<b>Total</b>	<b>\$ 17</b>	<b>\$ —</b>	<b>\$ —</b>

The provision (credit) for income taxes in the accompanying Consolidated Statements of Operations differs from the amount calculated by applying the statutory income tax rate to income (loss) from continuing operations before income taxes. Approximately \$15.8 million was recorded by the Company as a prior period adjustment. The majority of this adjustment comes from a change in the state blended rate and state tax return to provision adjustments. These state tax adjustments are due to the Company performing a nexus study which resulted in 36 additional required state filings and true-up of the state tax net operating loss. The primary components of such differences are as follows as of December 31 (in thousands):

	2018	2017	2016
Tax computed at the federal statutory rate	\$(23,771)	\$(99,234 )	\$(93,839 )
State taxes	(2,791 )	(15,890 )	(15,693 )
Permanent items	10,932	(1,404 )	6,152
R&D credits	(5,630 )	(6,217 )	(2,728 )
Deferred tax asset adjustment	—	6,805	—
Other	—	(20 )	(113 )

Edgar Filing: PUMA BIOTECHNOLOGY, INC. - Form 10-K

Impact of federal statutory rate change related to the 2017 Tax Act	—	141,147	—
Prior year adjustments	15,750	—	—
Change in valuation allowance	5,527	(25,187)	106,221
Total provision	\$17	\$—	\$—

F-26

---

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes give rise to the Company's deferred income taxes. The components of the Company's net deferred tax assets as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
<b>Deferred tax assets—2018:</b>		
Net operating loss carry forwards	\$257,021	\$257,121
Business credit carry forwards	35,107	29,695
Organization costs	3,593	180
Compensation	72,804	76,423
Deferred rent - leasehold improvement	1,404	680
Other	—	806
Subtotal	369,929	364,905
Deferred tax liabilities	(255 )	(758 )
Total deferred tax assets	369,674	364,147
Valuation allowance	(369,674)	(364,147)
Net deferred tax assets	\$—	\$—

As the ultimate realization of the potential benefits of the Company's deferred tax assets is considered unlikely by management, the Company has offset the deferred tax assets attributable to those potential benefits through valuation allowances. Accordingly, the Company did not recognize any benefit from income taxes in the accompanying Consolidated Statements of Operations to offset its pre-tax losses. The valuation allowance increased \$5.5 million and \$48.1 million for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, the Company had federal and state net operating loss carryforwards respectively of approximately \$948.5 million and \$863.9 million, which will begin to expire in 2028 and 2031. At December 31, 2018, the Company also has federal research and development credit carryforwards of approximately \$23.2 million. If not utilized, the carryforwards will begin expiring in 2032. The Company has state research and development credit carryforwards of approximately \$11.9 million which do not expire. Pursuant to the Internal Revenue Code, Sections 382 and 383, use of the Company's net operating loss and credit carryforwards could be limited if a cumulative change in ownership of more than 50% occurs within a three-year period. The Company has not yet performed an assessment on the potential limitation on net operating loss and credit carryforwards.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits at December 31:

	2018	2017	2016
<b>Unrecognized tax benefits</b>	\$7,151	\$5,315	\$4,475
Gross decreases-tax positions in prior period			
Gross increases - tax positions in a current period	1,626	1,836	840
Unrecognized tax benefits - December 31	8,777	\$7,151	\$5,315

The unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$8.8 million at December 31, 2018. The Company does not have tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefit will significantly increase or decrease within 12 months of the reporting date.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by the federal and state jurisdictions where applicable. There are currently no pending income tax examinations. The Company's tax years for 2008 and forward are subject to examination by the federal and California tax authorities due to the carryforward of unutilized net operating losses and research and development credits.

F-27

---



## Note 12—Commitments and Contingencies:

## Office Leases:

In December 2011, the Company entered into a non-cancelable operating lease for office space in Los Angeles, California, which lease was subsequently amended in November 2012, December 2013, March 2014 and July 2015, and December 2017. The initial term of the lease was for seven years and commenced on December 10, 2011. As amended, the Company rents approximately 65,656 square feet. The term of the lease runs until March 2026, and rent amounts payable by the Company increase approximately 3% per year. Concurrent with the execution of the lease, the Company provided the landlord an automatically renewable stand-by letter of credit in the amount of \$2.5 million. The stand-by letter of credit is collateralized by a high-yield savings account which is classified as restricted cash on the accompanying Consolidated Balance Sheets.

In June 2012, the Company entered into a long-term lease agreement for office space in South San Francisco, California, which was subsequently amended in May 2014 and July 2015. As amended, the Company rents approximately 29,470 square feet. The term of this lease runs until March 2026, and rents payable by the Company increase approximately 3% per year. The Company provided the landlord an automatically renewable stand-by letter of credit in the amount of \$1,591,400. The stand-by letter of credit is collateralized by a high-yield savings account which is classified as restricted cash on the accompanying Consolidated Balance Sheets.

Rent expense for the years ended December 31, 2018, 2017, and 2016, was approximately \$4.7 million, \$3.9 million and \$3.5 million, respectively.

Future minimum lease payments for each of the years subsequent to December 31, 2018, are as follows (in thousands):

Year Ending December 31,	Amount
2019	4,924
2020	5,141
2021	5,300
2022	5,464
Thereafter	18,927
Total	39,756

## License Agreement:

In August 2011, the Company entered into an agreement pursuant to which Pfizer agreed to grant it a worldwide license for the development, manufacture and commercialization of PB272 neratinib (oral), PB272 neratinib (intravenous) and PB357, and certain related compounds. The license is exclusive with respect to certain patent rights

owned by or licensed to Pfizer. Under the agreement, the Company is obligated to commence a new clinical trial for a product containing one of these compounds within a specified period of time and to use commercially reasonable efforts to complete clinical trials and to achieve certain milestones as provided in a development plan. From the closing date of the agreement through December 31, 2011, Pfizer continued to conduct the existing clinical trials on behalf of the Company at the Licensor's sole expense. At the Company's request, Pfizer has agreed to continue to perform certain services in support of the existing clinical trials at the Company's expense. These services will continue through the completion of the transitioned clinical trials. The license agreement "capped" the out of pocket expense the Company would be responsible for completing the then existing clinical trials. All agreed upon costs incurred by the Company above the "cost cap" would be reimbursed by Pfizer. The Company exceeded the "cost cap" during the fourth quarter of 2012. In accordance with the license agreement, the Company billed Pfizer for agreed upon costs above the "cost cap" until December 31, 2013.

On July 18, 2014, the Company entered into an amendment to the license agreement with Pfizer. The amendment amends the agreement to (1) reduce the royalty rate payable by the Company to Pfizer on sales of licensed products; (2) release Pfizer from its obligation to pay for certain out-of-pocket costs incurred or accrued on or after January 1, 2014 to complete certain ongoing clinical studies; and (3) provide that Pfizer and the Company will continue to cooperate to effect the transfer to the Company of certain records, regulatory filings, materials and inventory controlled by Pfizer as promptly as reasonably practicable.

F-28

---

As consideration for the license, the Company is required to make substantial payments upon the achievement of certain milestones totaling approximately \$187.5 million if all such milestones are achieved. In connection with the FDA approval of NERLYNX in July of 2017, the Company triggered a one-time milestone payment pursuant to the agreement. Should the Company commercialize any more of the compounds licensed from Pfizer or any products containing any of these compounds, the Company will be obligated to pay to Pfizer annual royalties at a fixed rate in the low-to-mid teens of net sales of all such products, subject to certain reductions and offsets in some circumstances. The Company's royalty obligation continues, on a product-by-product and country-by-country basis, until the later of (1) the last to expire licensed patent covering the applicable licensed product in such country, or (2) the earlier of generic competition for such licensed product reaching a certain level in such country or expiration of a certain time period after first commercial sale of such licensed product in such country. In the event that the Company sublicenses the rights granted to the Company under the license agreement with Pfizer to a third party, the same milestone and royalty payments are required. The Company can terminate the license agreement at will, or for safety concerns, in each case upon specified advance notice.

#### Clinical Trial Contracts:

The Company engages with clinical research organizations and contract manufacturing organizations, or CMOs, in addition to engaging in contracts for the management of its ongoing clinical trials and pre-commercialization efforts. The Company may cancel these agreements with a 30 to 45 day written notice to the outside vendor. The Company would be obligated to pay for services rendered up to that point. The contracts also contain variable costs that are hard to predict as they are based on such things as patients enrolled and clinical trial sites, which can vary and therefore, are not included in the table below. The contracts held by the Company as of December 31, 2018, are summarized as follows (in thousands):

Indication	Estimated	
	Contractual	Obligation
	as of	Months
	December 31,	Remaining
	2018	on
		Contract
HER2 Overexpressed/Amplified Breast Cancer (Extension)	\$ 11,690	15
HER2 Overexpressed/Amplified Breast Cancer		
(Licensor Legacy Clinical Trials)	1,191	8
HER2 Mutated Breast Cancer and HER2 Mutated		
Breast Cancer with Brain Mets	109	36
Metastatic & Adjuvant Breast Cancer	25,618	10
Neoadjuvant Breast Cancer	779	6
Preclinical Research	6,838	13
HER2 Mutated Solid Tumors	14,602	14
Other	34,914	20

Total	95,741
-------	--------

Included in the above are payments to be made when milestones are reached. As of December 31, 2018, Company obligations for potential milestone payments totaled approximately \$27.2 million. This amount will be paid by the Company if all milestones are reached and would reduce the overall contractual obligation if one or more milestone is never reached.

#### Legal Proceedings

The Company and certain of our executive officers were named as defendants in the lawsuits detailed below. Due to the stage of these proceedings, the Company cannot reasonably predict the outcome, nor can it estimate the amount of loss or range of loss, if any, that may result. The Company records a liability in the consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. An adverse outcome in these proceedings would likely not have a material adverse effect on the Company's results of operations, cash flows or financial condition.

Hsu vs. Puma Biotechnology, Inc., et al.

On June 3, 2015, Hsingching Hsu, individually and on behalf of all others similarly situated, filed a class action lawsuit against the Company and certain of its executive officers in the United States District Court for the Central District of California (Case No. 8:15-

cv-00865-AG-JCG). On October 16, 2015, lead plaintiff Norfolk Pension Fund filed a consolidated complaint on behalf of all persons who purchased the Company's securities between July 22, 2014 and May 29, 2015. The consolidated complaint alleges that the Company and certain of the Company's executive officers made false or misleading statements and failed to disclose material adverse facts about its business, operations, prospects and performance in violation of Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiff sought damages, interest, costs, attorneys' fees, and other unspecified equitable relief. On July 10, 2018, the Company and two of its executive officers filed a motion for summary judgment seeking judgment in their favor on all claims. At the same time, the lead plaintiff filed its own motion for summary judgment, seeking judgment in favor on some, but not all, of its claims. The motions were heard in September 2018. The court granted the parties' motions in part and denied them in part. Among the determinations by the court, the court granted summary judgment in favor of defendant Charles Eyler, the Company's former Senior Vice President, Finance and Administration and Treasurer, and dismissed the claims against him. The court also granted summary judgment in defendants' favor with respect to certain statements alleged by the plaintiff to include false or misleading statements. A trial on the remaining claims, which was initially set for November 6, 2018, was held from January 15, 2019 to January 29, 2019 on the court's own motion. At trial, the jury found that one of the four remaining challenged statements was false or misleading, and awarded \$4.50 per share in damages, which represents approximately 5% of the total claimed damages of \$87.20 per share. The total amount of aggregate class-wide damages is uncertain and will be ascertained only after an extensive claims process and the exhaustion of any appeals. Trading models suggest that approximately ten million shares traded during the class period may be eligible to claim damages. Based on prior lawsuits, the Company believes that the number of stockholders who submit proof of claims sufficient to recover damages is typically in the range of 20% to 40% of the total eligible shares. Based on these assumptions, total damages after claims could range from \$9 million to \$18 million. It is also reasonably possible that the total damages will be higher than this estimate, however, at this time, the amount is not estimable. A final judgment has not been entered.

Eshelman vs. Puma Biotechnology, Inc., et al.

In February 2016, Fredric N. Eshelman filed a lawsuit against the Company's Chief Executive Officer and President, Alan H. Auerbach, and the Company in the United States District Court for the Eastern District of North Carolina (Case No. 7:16-cv-00018-D). The complaint generally alleges that Mr. Auerbach and the Company made defamatory statements regarding Dr. Eshelman in connection with a proxy contest. Dr. Eshelman seeks compensatory and punitive damages and expenses and costs, including attorneys' fees. In April 2016, the Company filed a motion to dismiss the complaint, and in May 2016, Dr. Eshelman filed a notice of voluntary dismissal of the claims against Mr. Auerbach. In May 2017, the court denied the Company's motion to dismiss. Discovery ended in September 2017. In September 2018, the court denied the Company's motion for summary judgment and granted in part and denied in part Dr. Eshelman's motion for partial summary judgment. This matter is set for trial beginning March 11, 2019. The Company intends to vigorously defend against Dr. Eshelman's claims.

#### Derivative Actions

On April 12 and April 14, 2016, purported stockholders filed two derivative lawsuits purportedly on behalf of the Company against certain of the Company's officers and directors in the Superior Court of the State of California, Los Angeles, captioned Xie vs. Auerbach, No. BC616617, and McKenney vs. Auerbach, No. BC617059. The complaints asserted claims for breach of fiduciary duty, unjust enrichment, abuse of control, mismanagement and waste of corporate assets. The complaints seek an unspecified sum of damages and equitable relief.

Separately, on February 9, 2018, another purported stockholder filed a derivative lawsuit purportedly on behalf of the Company against certain of our officers and directors in the United States District Court, Central District of California, captioned Van Der Gracht De its vs. Auerbach, No. 8:18-cv-00236. The complaint asserted claims for violation of securities law, breach of fiduciary duty, waste of corporate assets, and unjust enrichment.

On May 30, 2018, another stockholder filed a derivative lawsuit purportedly on behalf of the Company against certain of its officers and directors in the United States District Court, Central District of California, captioned Duran vs. Auerbach, No. 2:18-cv-04802. The complaint asserted claims for violations of securities laws, breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The complaint seeks an unspecified sum of damages, declaratory judgment, corporate reforms, restitution, and costs and disbursements associated with the lawsuit.

On July 30, 2018, the parties reached a settlement in principle of the Xie, Rommerswael and Duran lawsuits. On January 7, 2019, the Court approved the settlement and entered final judgment in the Rommerswael case. The parties are expected to seek dismissal of the Xie and Duran lawsuits.

F-30

---

## Note 13—Quarterly Financial Data:

Quarterly financial data (in thousands except share and per

share data):

(unaudited)

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
<b>2018</b>				
Revenues	\$66,516	\$50,767	\$62,629	\$71,079
Net loss	(24,345 )	(44,335 )	(14,201 )	(30,694 )
Net loss attributable to common stock	(24,345 )	(44,335 )	(14,201 )	(30,694 )
Net loss per share—basic and diluted	\$(0.65 )	\$(1.17 )	\$(0.37 )	\$(0.80 )
Weighted-average shares of common stock				
outstanding—basic and diluted	37,699,024	37,819,767	38,043,174	38,201,056
<b>2017</b>				
Revenues	\$—	\$—	\$6,077	\$21,608
Net loss	72,865	77,832	77,180	64,078
Net loss attributable to common stock	72,865	77,832	77,180	64,078
Net loss per share—basic and diluted	\$1.97	\$2.10	\$2.07	\$1.71
Weighted-average shares of common stock				
outstanding—basic and diluted	36,931,167	36,992,017	37,214,002	37,534,410
<b>2016</b>				
Revenues	\$—	\$—	\$—	\$—
Net loss	(70,972 )	(66,597 )	(65,781 )	(72,661 )
Net loss attributable to common stock	(70,972 )	(66,597 )	(65,781 )	(72,661 )
Net loss per share—basic and diluted	\$(2.19 )	\$(2.05 )	\$(2.02 )	\$(2.04 )
Weighted-average shares of common stock				
outstanding—basic and diluted	32,478,408	32,493,092	32,497,168	35,694,193

## Note 14—Subsequent Events:

## Knight Agreement

On January 9, 2019, the Company entered into a license agreement, or the Knight Agreement, with Knight. Pursuant to the Knight Agreement, the Company granted to Knight, under certain of the Company's intellectual property rights relating to neratinib, an exclusive, sublicensable (under certain circumstances) license (i) to commercialize any product containing neratinib and certain related compounds in Canada, or the Knight Territory, (ii) to seek and maintain regulatory approvals for the licensed products in the Knight Territory and (iii) to manufacture the licensed

products anywhere in the world solely for the development and commercialization of the licensed products in the Knight Territory for human use, subject to the terms of the Knight Agreement and a supply agreement to be negotiated and executed by the parties. Pursuant to the Knight Agreement, the Company will receive upfront and milestone payments up to \$7.2 million, each milestone payment payable upon the achievement of the milestone event specified in the Knight Agreement. In addition, the Company is entitled to receive double digit royalties calculated as a percentage of net sales of the licensed products in the Knight Territory.

Hsu vs. Puma Biotechnology, Inc., et al.

F-31