UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2011

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 001-35050

ENDOCYTE, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**35-1969-140**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

3000 Kent Avenue, Suite A1-100
West Lafayette, IN 47906
(Address of Registrant's principal executive offices)

Registrant's telephone number, including area code: (765) 463-7175

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

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

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

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

Number of shares of the registrant's Common Stock, $0.001 par value, outstanding on August 2, 2011: 35,568,301

ENDOCYTE, INC.
FORM 10-Q
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2011
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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements

ENDOCYTE, INC.

CONDENSED BALANCE SHEETS

	December 31, 2010	June 30, 2011 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 16,872,783	$ 29,722,622
Short-term investments	—	54,171,847
Prepaid expenses	2,637,783	1,194,991
Other assets	539,659	462,840
Total current assets	20,050,225	85,552,300
Property and equipment, net	863,008	772,516
Deferred financing costs and other non-current assets	300,985	597,260
Total assets	$ 21,214,218	$ 86,922,076
Liabilities, Convertible Preferred Stock, and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 2,836,395	$ 3,994,419
Accrued wages and benefits	155,102	888,430
Accrued interest payable	140,427	111,011
Current portion of long-term debt	4,318,078	5,606,830
Preferred stock warrants	223,032	—
Total current liabilities	7,673,034	10,600,690
Long-term debt, net of current portion	10,485,811	7,922,441
Subordinated notes	9,529,413	—
Other liabilities	637,500	637,500
Total liabilities	28,325,758	19,160,631
Convertible preferred stock, $0.001 par value, 14,310,992 shares authorized; 11,747,563 and 0, shares issued and outstanding at December 31, 2010 and June 30, 2011, respectively	89,799,483	—
Stockholders' equity (deficit):		
Common stock: $0.001 par value, 100,000,000 shares authorized; 1,203,228 and 29,724,837 shares issued and outstanding at December 31, 2010 and June 30, 2011, respectively	1,203	29,725
Additional paid-in capital	1,156,681	183,478,546
Accumulated other comprehensive income	—	29,776
Retained deficit	(98,068,907)	(115,776,602)
Total stockholders' equity (deficit)	(96,911,023)	67,761,445
Total liabilities, convertible preferred stock, and stockholders' equity (deficit)	$ 21,214,218	$ 86,922,076

See accompanying notes.

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ENDOCYTE, INC.

CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2011	Six Months Ended June 30, 2010	Six Months Ended June 30, 2011
	(unaudited)		(unaudited)	
Revenue:				
Grant revenue	$ —	$ —	$ —	$ —
Collaboration revenue	—	—	—	—
Total revenue	—	—	—	—
Operating expenses:				
Research and development	3,700,006	7,721,894	7,599,422	12,160,276
General and administrative	1,547,088	2,339,999	3,022 086	4,414,361
Total operating expenses	5,247,094	10,061,893	10,621,508	16,574,637
Loss from operations	(5,247,094)	(10,061,893)	(10,621,508)	(16,574,637)
Other income (expense) net:				
Interest income	1,253	36,839	4,368	55,864
Interest expense	(202,175)	(490,645)	(451,610)	(1,188,260)
Other income (expense) net	25,513	(3,400)	37,692	(662)
Net loss	$(5,422,503)	$(10,519,099)	$(11,031,058)	$(17,707,695)
Net loss per share — basic and diluted	$ (5.93)	$ (0.35)	$ (6.33)	$ (0.76)
Weighted-average number of common shares used in net loss per share calculation — basic and diluted	914,580	29,693,004	1,743,522	23,335,731

See accompanying notes.

ENDOCYTE, INC.

STATEMENTS OF CONVERTIBLE PREFERRED STOCK, STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE LOSS

	Convertible Preferred Stock		Common Stock		Additional	Accumulated Other Comprehensive	Retained		Comprehensive
	Shares	Amount	Shares	Amount	Paid-In Capital	Income (Loss)	Deficit	Total	Loss
Balances, December 31, 2010	11,747,563	$ 89,799,483	1,203,228	$ 1,203	$ 1,156,681	$ —	$ (98,068,907)	$(96,911,023)	$ (20,094,899)
Fair value adjustment of the subordinated notes	—	—	—	—	(644,118)	—	—	(644,118)	—
Net proceeds from initial public offering	—	—	14,375,000	14,375	78,153,468	—	—	78,167,843	—
Conversion of preferred stock to common stock	(11,747,563)	(89,799,483)	11,747,563	11,747	89,787,735	—	—	89,799,482	—
Reclassify warrants to equity	—	—	—	—	223,031	—	—	223,031	—
Conversion of subordinated notes to common stock	—	—	2,335,823	2,336	13,981,441	—	—	13,983,777	—
Exercise of stock options	—	—	63,223	64	41,713	—	—	41,777	—
Stock-based compensation	—	—	—	—	778,595	—	—	778,595	—
Net loss	—	—	—	—	—	—	(17,707,695)	(17,707,695)	(17,707,695)
Unrealized gain on securities	—	—	—	—	—	29,776	—	29,776	29,776
Balances June 30, 2011 (unaudited)	—	$ —	29,724,837	$29,725	$183,478,546	$ 29,776	$(115,776,602)	$ 67,761,445	$ (17,677,919)

See accompanying notes.

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ENDOCYTE, INC.

CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2011
	(unaudited)	
Operating activities		
Net loss	$(11,031,058)	$ (17,707,695)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	131,743	131,748
Stock-based expense	252,334	778,595
Accretion of bond discount	(3,076)	112,472
Non cash interest expense	68,882	471,258
Change in fair value on preferred stock warrants	(32,057)	—
Change in operating assets and liabilities:		
Accounts and accrued interest receivable	—	(122,263)
Prepaid expenses and other assets	(18,650)	1,057,154
Accounts payable	415,239	1,082,582
Accrued interest, wages, benefits and other liabilities	(48,660)	878,461
Net cash used in operating activities	(10,265,303)	(13,317,688)
Investing activities		
Purchases of property and equipment	(137,768)	(41,257)
Purchases of investments	(12,295,754)	(151,253,212)
Proceeds from sale of investments	21,007,856	96,998,670
Net cash provided by (used in) investing activities	8,574,334	(54,295,799)
Financing activities		
Proceeds from issuance of subordinated convertible notes, net of issuance costs	—	3,590,837
Principal payments on borrowings	(3,052,305)	(1,337,131)
Proceeds from initial public offering, net of issuance costs	—	78,167,843
Proceeds from the exercise of stock options	42,623	41,777
Net cash provided by (used in) financing activities	(3,009,682)	80,463,326
Net increase (decrease) in cash and cash equivalents	(4,700,651)	12,849,839
Cash and cash equivalents at beginning of period	8,699,372	16,872,783
Cash and cash equivalents at end of period	$ 3,998,721	$ 29,722,622

See accompanying notes.

ENDOCYTE, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Nature of Business and Organization

Endocyte, Inc. (the "Company") was incorporated on December 6, 1995. The Company is a biopharmaceutical company developing targeted therapies for the treatment of cancer and inflammatory diseases. The Company uses its proprietary technology to create novel small molecule drug conjugates, or SMDCs, and companion imaging diagnostics.

Initial Public Offering

On February 9, 2011, the Company completed its initial public offering of 14,375,000 shares of common stock, including 1,875,000 shares of common stock pursuant to the exercise of the over-allotment option by the underwriters. Proceeds, net of underwriting discounts, commissions and other transaction costs were approximately $78.2 million. Upon the closing of the offering, the Subordinated Notes (see footnote 6) automatically converted into 2,335,823 shares of common stock using a conversion price of $5.10 per share (85% of the original issue price of the shares sold in the initial public offering), all of the outstanding shares of preferred stock were converted to common stock and the outstanding warrants to purchase Series C-3 preferred stock were converted to warrants to purchase common stock and reclassified from a liability to equity. Prepaid expenses as of December 31, 2010 included $1.9 million of deferred costs for legal, accounting and other direct costs related to the Company's initial public offering. These costs were reclassified to additional paid-in capital upon completion of the initial public offering as a reduction of the initial public offering proceeds.

Stock Split

On January 10, 2011, the Company effected a 1.00 for 1.91 reverse stock split of its common stock. All historical common stock and per share information has been changed to reflect the stock split.

2. Significant Accounting Policies

Basis of Presentation

The condensed financial statements are prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals and revisions of estimates, considered necessary for a fair presentation of the accompanying condensed financial statements have been included. Interim results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011 or any other future period. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. We issued the financial statements by filing with the Securities and Exchange Commission (SEC) and have evaluated subsequent events up to the time of filing.

Segment Information

Operating segments are defined as components of an enterprise engaging in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment and the Company operates in only one geographic segment.

Use of Estimates

The preparation of financial statements in conformity with GAAP in the U.S. requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from those estimates.

Cash and Cash Equivalents

The Company considers cash and all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents, except for those funds managed by the Company's investment manager, which are classified as short-term investments. Cash equivalents consist primarily of money market instruments.

Short-Term Investments

Short-term investments consist primarily of investments with original maturities greater than three months and less than one year when purchased. Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. All securities held at June 30, 2011, were classified as available-for-sale as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 320, *Investments — Debt and Equity Securities* ("ASC 320"). The Company had no investment securities at December 31, 2010. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income. The Company considers and accounts for other-than-temporary impairments according to ASC 320. The cost of securities sold is based on the specific-identification method. Discounts and premiums on debt securities are amortized to interest income and expense over the term of the security.

Research and Development Expenses

Research and development expenses represent costs associated with the ongoing development of SMDCs and companion imaging diagnostics and include salaries, supplies, and expenses for clinical trials. The Company records accruals for clinical trial expenses based on the estimated amount of work completed. The Company monitors patient enrollment levels and related activities to the extent possible through internal reviews, correspondence, and discussions with research organizations.

Upfront payments made in connection with business collaborations and research and development arrangements are evaluated under ASC Subtopic 730-20, *Research and Development Arrangements*. Upfront payments made in connection with business development collaborations are expensed as research and development costs, as the assets acquired do not have alternative future use. Amounts related to future research and development are capitalized as prepaid research and development and are expensed over the service period based upon the level of services provided. To date, no significant amounts have been capitalized.

Stock-Based Compensation

The Company accounts for its stock options pursuant to ASC Topic 718, *Compensation — Stock Compensation* ("ASC 718"), which requires the recognition of the fair value or calculated value for nonpublic entities, of stock-based compensation in net income. Stock-based compensation consists of stock options, which are granted to employees at exercise prices at or above the fair market value of the Company's common stock on the dates of grant. The Company used the calculated value to measure its stock-based compensation prior to the filing of its initial public offering. The Company recognizes compensation cost based on the grant-date value estimated in accordance with the provisions of ASC 718.

Net Loss per Share

Basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method and the if-converted method. For purposes of this calculation, convertible preferred stock, stock options and warrants are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

The following tables and discussion provide a reconciliation of the numerator and denominator of the basic and diluted net loss per share computations. The calculation below provides net loss, weighted-average common shares outstanding, and the resultant net loss per share on both a basic and diluted basis for the three months and six months ended June 30, 2010 and 2011.

Historical net loss per share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Numerator:				
Net loss	$(5,422,503)	$(10,519,099)	$(11,031,058)	$(17,707,695)
Denominator:				
Weighted-average common shares outstanding	914,580	29,693,004	1,743,522	23,335,731
Basic and diluted net loss per share	$ (5.93)	$ (0.35)	$ (6.33)	$ (0.76)

Common stock equivalents

As of June 30 2010 and 2011, the following number of potential common stock equivalents were outstanding:

	As of June 30,	
	2010	2011
Outstanding common stock options	2,047,232	2,812,872
Outstanding restricted stock units	—	262,324
Outstanding restricted stock	222,510	26,175
Outstanding warrants	69,294	133,968
Common stock issuable upon conversion of preferred stock	11,747,563	—
Total	14,089,599	3,235,339

These common stock equivalents were excluded from the determination of diluted net loss per share due to their anti-dilutive effect on earnings.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Accumulated other comprehensive loss consists of unrealized net loss and changes in unrealized gains and losses on available-for-sale securities. Comprehensive loss from operations was calculated as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Net loss	$(5,422,503)	$(10,519,099)	$(11,031,058)	$(17,707,695)
Unrealized gain (loss) on available-for-sale securities	1,573	26,496	(2,032)	29,776
Comprehensive loss	$(5,420,930)	$(10,492,603)	$(11,033,090)	$(17,677,919)

3. New Accounting Pronouncements

Recently Adopted Accounting Standards

In October 2009, the FASB ratified ASU No. 2009-13 guidance related to revenue recognition that amends the previous guidance on arrangements with multiple deliverables, within ASC 605-25, *Revenue Recognition — Multiple Element Arrangements*. This guidance provides principles and application guidance on whether multiple deliverables exist, how the arrangements should be separated, and how the consideration should be allocated. It also clarifies the method to allocate revenue in an arrangement using the estimated selling price. This guidance became effective for the Company as of January 1, 2011, and did not impact the Company's financial position or results of operations.

In April 2010, the FASB ratified ASU No. 2010-17 guidance related to the milestone method of revenue recognition. The ASU provides guidance on defining a milestone under ASC 605. This guidance states that an entity can make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. This guidance became effective for the Company as of January 1, 2011, and did not impact the Company's financial position or results of operations.

4. Short-Term Investments

The Company applies the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements.

ASC 820 establishes a three-level valuation hierarchy for fair value measurements. These valuation techniques are based upon the transparency of inputs (observable and unobservable) to the valuation of an asset or liability as of the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 — Valuation is based on quoted prices for identical assets or liabilities in active markets.

Level 2 — Valuation is based on quoted prices for similar assets or liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for the full term of the financial instrument.

Level 3 — Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

The fair value of the Company's fixed income securities is based on a market approach using quoted market values.

The following table summarizes the fair value of short-term investments as of June 30, 2011:

Description	Cost	Level 1	Fair Value (Carrying Value)
U.S. Treasuries	$53,141,682	$53,170,978	$53,170,978
U.S. Government agency obligations	1,000,388	1,000,869	1,000,869
	$54,142,070	$54,171,847	$54,171,847

Total unrealized gross gains were $29,776 for the six months ended June 30, 2011, respectively. Total unrealized gross losses were $0 for the six months ended June 30, 2011. The Company does not consider any of the unrealized losses to be other-than-temporary impairments. The Company held no investment securities as of December 31, 2010.

5. **Notes Payable**

Long-term debt consisted of the following:

	As of December 31, 2010	As of June 30, 2011
Notes payable to Mid Cap Financial, or Mid-Cap, and Silicon Valley Bank, or SVB, with fixed interest rate of 9.75%, monthly payments through September 1, 2013	$15,000,000	$13,662,869
Less unamortized discount	(196,111)	(133,598)
	14,803,889	13,529,271
Less current portion	(4,318,078)	(5,606,830)
	$10,485,811	$ 7,922,441

The Company was required to make interest-only payments on the notes payable to Mid-Cap and SVB each month through March 2011, and principal and interest payments of $566,612 monthly started April 1, 2011. The loan is collateralized by a security interest in all of the Company's assets, excluding intellectual property. The loan agreement includes customary covenants, including those that require prior written consent of the lenders before the Company can incur or prepay indebtedness, create additional liens, sell, or transfer any material portion of its assets. The loan agreement also contains customary events of defaults, and also includes a material adverse effect clause. The Company is in compliance with all material covenants and other obligations in the loan agreement.

6. Subordinated Notes

In December 2010 and January 2011, the Company issued $8.1 million and $3.7 million, respectively, of Subordinated Convertible Promissory Notes (the "Subordinated Notes"). The Subordinated Notes, plus accrued and unpaid interest thereon, were converted into 2,335,823 shares of common stock upon the closing of the initial public offering on February 9, 2011, using a conversion price of $5.10 per share (85% of offering price). As of December 31, 2010, the Subordinated Notes were treated as share-settled debt under ASC 480-10-25-14 and were recorded at fair value. The Subordinated Notes accrued interest in kind at an annual rate of 10.0 percent.

7. Convertible Preferred Stock

On February 9, 2011, all of the Company's outstanding shares of preferred stock converted into 11,747,563 shares of common stock in connection with the completion of the initial public offering. The Company's total outstanding convertible preferred stock, with a par value of $0.001 per share, consisted of the following as of December 31, 2010:

Convertible Preferred Stock	Shares Authorized	Shares Issued	Price per Share	Total Proceeds (Net of Offering Costs)
Series A-1	750,261	750,167	$ 1.91	$ 1,470,370
Series A-2	241,884	241,634	5.73	1,430,749
Series B	936,649	936,241	8.12	7,530,180
Series C-1	1,937,172	1,895,765	8.12	15,320,640
Series C-2	2,801,047	2,787,791	8.12	22,447,353
Series C-3	7,643,979	5,135,965	8.12	41,600,191
				$89,799,483

8. Stockholders' Equity (Deficit)

Common Stock

In conjunction with the issuance of Series B convertible preferred stock, the Company issued common stock to several Series B investors. The Company has the right, but not the obligation, to repurchase the common stock, if certain conditions are not met by the Series B investors. Based on the post-money valuation upon the Company's closing of the initial public offering on February 9, 2011, 196,335 of the shares of common stock subject to certain repurchase conditions were released to several Series B investors. The remaining 26,175 shares of common stock held by the Series B investors remain restricted and, subject to certain conditions, may be repurchased by the Company.

Stock Options

The Company has an employee stock option plan for which 2,486,663 shares of common stock were authorized and reserved at December 31, 2010 and 3,795,563 at June 30, 2011. The plan is available to all employees, directors and certain contractors as determined by the Board. Employees are granted incentive stock options, while directors and contractors are issued non-qualified options. The plan allows the holder of an option to purchase common stock at the exercise price, which was at or above the fair value of the Company's common stock on the date of grant.

Generally, options granted in the 1997 and 2007 plans fully vest four years from the grant date and have a term of ten years. Options granted in the 1997 and 2007 plans in connection with an employee's commencement of employment generally vest over a four-year period with one-half of the shares subject to the grant vesting after two years of employment and remaining options vesting monthly over the remainder of the four-year period. Options granted for performance or promotions vest monthly over a four-year period. Generally, options granted in the 2010 Equity Incentive Plan vest annually over a four year period. Unexercised stock options terminate on the tenth anniversary date after the date of grant. The Company recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. The Company utilizes a Black-Scholes option-pricing model to estimate the value of stock options. The Black-Scholes model allows the use of a range of assumptions related to volatility, risk-free interest rate, and employee exercise behavior. Since the Company completed its initial public offering in February 2011, it does not have sufficient history as a publicly traded company to evaluate volatility. As a result, the Company has used an average of several peer companies' volatilities to determine a reasonable estimate of volatility. For purposes of identifying similar entities, the Company considered characteristics such as industry, length of trading history, market capitalization and similar product pipelines.

Due the lack of available quarterly data for these peer companies and insufficient history as a public company, the Company elected to use the "simplified" method for "plain vanilla" options to estimate the expected term of the stock options grants. Under this approach, the weighted-average expected life is presumed to be the average of the vesting term and the contractual term of the option. The risk-free interest rate is derived from the weighted-average yield of a Treasury security with the same term as the expected life of the options and the dividend yield is based on historical experience and the Company's estimate of future dividend yields.

The weighted-average value of the individual options during the three months and six months ended June 30, 2010 and 2011 were determined using the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Weighted-average volatility	32.0%	83.0%	34.0%	83.0%
Risk-free interest rate	3.46%	2.29%	3.83%	2.31%
Weighted-average expected life (in years)	10.0	6.2	10.0	6.2
Dividend yield	0.00%	0.00%	0.00%	0.00%

The Company's stock option activity and related information during the six months ended June 30, 2011 are summarized as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	2,019,333	$ 2.82		
Granted during period	115,022	6.40		
Exercised during period	(37,662)	0.45		
Expired during period	(23,039)	7.64		
Forfeited during period	—			
Outstanding at March 31, 2011	2,073,654	3.01	7.12	$11,532,189
Exercisable at March 31, 2011	1,330,431	$ 2.44	6.25	$ 8,159,102
Outstanding at April 1, 2011	2,073,654			
Granted during period	769,490	9.71		
Exercised during period	(25,561)	0.97		
Expired during period	—			
Forfeited during period	(4,711)	5.84		
Outstanding at June 30, 2011	2,812,872	$ 4.86	7.71	$26,623,947
Exercisable at June 30, 2011	1,405,952	$ 2.57	6.22	$16,515,766

As of June 30, 2011, the total remaining unrecognized compensation cost related to stock options was $6.0 million which is being amortized over the remaining requisite service period. The expense is expected to be recognized over a weighted average period of 1.8 years.

Restricted Stock Units

In May 2011, the Company adopted and granted awards under a new performance-based restricted stock unit ("RSU") program (the "2011 RSU Program") under the Company's 2010 Equity Incentive Plan. Each unit represents an amount equal to one share of the Company's common stock. The RSUs will be earned, in whole or in part, based on performance and service conditions. The performance condition is based upon whether the Company receives regulatory approval to sell a therapeutic product, and the awards include a target number of RSUs that will vest upon a First Commercial Approval, and a maximum number of RSUs that will vest upon a Second Commercial Approval. The RSUs will vest fifty percent based on the performance condition of commercial approval and fifty percent one year thereafter to fulfill the service condition, which requires the employee to remain employed by the company.

As of June 30, 2011, the Company has 262,324 RSU awards outstanding. The unrecorded stock compensation expense is based on number of units granted, less estimated forfeitures based on the Company's historical forfeiture rate of 6.49%, and the closing market price of the Company's common stock at the grant date of May 26, 2011 of $11.80. As of June 30, 2011, the performance condition of obtaining regulatory approval has not been achieved, therefore, no vesting has occurred. The awards are being accounted for under ASC 718, and compensation expense is to be recorded if the Company has determined that it is probable that the performance conditions will be achieved. As of June 30, 2011, it is not probable that the performance conditions will be achieved, therefore, no compensation expense was recorded for the three months ended June 30, 2011. Unrecorded compensation expense for the 2011 RSU program as of June 30, 2011 was $2.6 million.

9. Income Taxes

The Company accounts for income taxes under the liability method in accordance with the provisions of ASC Topic 740, *Income Taxes*. The Company recognizes future tax benefits, such as net operating losses, to the extent those benefits are expected to be realized in future periods. Due to uncertainty surrounding the realization of its deferred tax assets, the Company has recorded an equal and offsetting valuation allowance against its net deferred tax assets. The Company has not determined whether it experienced a change in ownership as defined under Section 382 of the U.S. Internal Revenue Code as a result of the initial public offering in February 2011 or the public offering in August 2011, and whether the future use of its Net Operating Loss carryforwards could be subject to limitation.

10. Subsequent Event

On July 21, 2011, the Company formed Endocyte Europe B.V., a limited liability corporation in The Netherlands. This new legal entity has been formed to assist with the administration of the filing of applications with the European Medicines Authority and pre-commercial planning activities.

On August 2, 2011, the Company completed a public offering of 4,968,321 shares of common stock, including 871,489 shares of common stock pursuant to the exercise of the over-allotment by the underwriters. Proceeds, net of underwriting discounts, commissions and other transaction costs were approximately $66.8 million. The Company had 35,568,301 shares of common stock outstanding after the public offering.

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

This quarterly report on Form 10-Q contains certain statements that are forward-looking statements within the meaning of federal securities laws. When used in this report, the words "may," "will," "should," "could," "would," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "project," "target," "forecast," "intend" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include the important risks and uncertainties that may affect our future operations as discussed in Part II — Item 1A of this Quarterly Report on Form 10-Q and any other filings made with the Securities and Exchange Commission. Readers of this report are cautioned not to place undue reliance on these forward-looking statements. While we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. This cautionary statement is applicable to all forward-looking statements contained in this report.

Overview

We are a biopharmaceutical company developing targeted therapies for the treatment of cancer and inflammatory diseases. We use our proprietary technology to create novel small molecule drug conjugates, or SMDCs, and companion imaging diagnostics. Our SMDCs actively target receptors that are over-expressed on diseased cells, relative to healthy cells. This targeted approach is designed to enable the treatment of patients with highly active drugs at greater doses, delivered more frequently, and over longer periods of time than would be possible with the untargeted drug alone. We are also developing companion imaging diagnostics for each of our SMDCs that are designed to identify the patients whose disease over-expresses the target of the therapy and who are therefore more likely to benefit from treatment. This combination of an SMDC with its companion imaging diagnostic is designed to personalize the treatment of patients by delivering effective therapy, selectively to diseased cells, in the patients most likely to benefit.

Our lead SMDC candidate, EC145, targets the folate receptor, which is frequently over-expressed on cancer cells. We have chosen platinum-resistant ovarian cancer, or PROC, a highly treatment-resistant disease, as our lead indication for development of EC145 because of the high unmet need in treating this patient population and the high percentage of ovarian cancer patients whose tumors over-express the targeted folate receptor. We recently conducted a multicenter, open-label randomized phase 2 clinical trial of EC145 in 149 women with PROC, referred to as the PRECEDENT trial. We received final PFS data in the fourth quarter of 2010 and based upon our findings from the PRECEDENT trial, we initiated enrollment of our PROCEED trial, a phase 3 registration trial in women with PROC, in the first half of 2011. We spent a significant amount of time and resources in 2010 on the PRECEDENT trial and as we conduct the PROCEED trial, we will be increasing the amount of time and resources, both financial and personnel, devoted to our EC145 program in PROC. We are currently preparing to file marketing authorization applications to the European Medicines Agency, or EMA, for EC145 for the treatment of PROC and for EC20 for patient selection. These filings will be based on the results of our PRECEDENT trial. Our filings will be supported by a separate Phase 2 single agent trial that we conducted. The PRECEDENT trial met its primary endpoint, as the combination of EC145 and PLD showed an improvement in the time to disease progression or death compared to PLD alone. This improvement was more substantial in patients who had been selected with the companion imaging diagnostic EC20.

In addition to PROC, we are pursuing clinical trials of EC145 in other indications and we also plan to advance other SMDCs and companion imaging diagnostics through development as preclinical and clinical trial results merit and funding permits. We plan to begin a randomized phase 2 trial of EC145 and EC20 for the treatment of second line non-small cell lung cancer (NSCLC) in the first quarter of 2012.

On February 9, 2011, we sold 14,375,000 shares of common stock, including 1,875,000 shares of common stock pursuant to the exercise of the over-allotment option by the underwriters in our initial public offering. Proceeds, net of underwriting discounts, commissions and other transaction costs, were approximately $78.2 million. Upon the completion of the offering, all of our outstanding Subordinated Convertible Promissory Notes, or Subordinated Notes, plus accrued and unpaid interest thereon were automatically converted into 2,335,823 shares of common stock using a conversion price of $5.10 per share (85% of the original issue price of the shares sold in the initial public offering), all of our outstanding preferred stock was converted into an aggregate 11,747,563 shares of common stock, and all of the outstanding warrants to purchase our preferred stock were converted into warrants to purchase common stock.

On August 2, 2011, we sold 4,968,321 shares of common stock through a public offering, including 871,489 shares of common stock pursuant to the exercise of the underwriters' over-allotment. Proceeds, net of underwriting discounts, commissions and other transaction costs, were approximately $66.8 million.

We have never been profitable and have incurred significant net losses since our inception. As of June 30, 2011, we had a retained deficit of $115.8 million. We expect to continue to incur significant and increasing operating losses for the next several years as we pursue the advancement of our SMDCs and companion imaging diagnostics through the research, development, regulatory and commercialization processes. We expect that our current cash position, including cash equivalents and short term investments plus the net proceeds from the August 2011 public offeringare sufficient to fund our operations through the end of 2013. Our current operating plan includes completion of PROCEED, the phase 3 clinical trial of EC145 and EC20, through the availability of final primary PFS data from that study which is anticipated to be in the second quarter of 2013, the preparation of applications for conditional marketing authorization for EC145 and EC20, pre-commercial activities in Europe, a randomized phase 2 trial of EC145 and EC20 for the treatment of second line NSCLC and to advance our earlier stage phase 1 and preclinical pipeline. If we were to receive conditional marketing approval in Europe of EC145 and EC20 prior to the completion of the PROCEED study, this could impact the enrollment timeline as European sites would transition from clinical trials to commercial use. This could delay the availability of final data from the PROCEED trial. We may be able to mitigate this potential delay by adding clinical trial sites in locations where conditional marketing approval has not been granted. If the FDA requires us to undertake a second phase 3 clinical trial or obtain final OS data from PROCEED or we initiate significant investments in commercial capabilities, we will require additional financing through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements, to fund the additional activities. Such funding may not be available on favorable terms, or at all. Our failure to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategies.

Critical Accounting Policies

As of the date of the filing of the quarterly report, we believe there have been no material changes or additions to our critical accounting policies during the six months ended June 30, 2011, from those discussed in our 2010 Annual Report on Form 10-K filed.

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Results of Operations

Comparison of Three Months Ended June 30, 2010 Compared to Three Months Ended June ***30, 2011***

	Three Months Ended June 30,		Increase/ (Decrease)	%
	2010	2011		
	(In thousands)			
Statement of operations data:				
Revenue	$ —	$ —	$ —	—
Operating expenses:				
Research and development	3,701	7,721	4,020	109%
General and administrative	1,546	2,341	795	51%
Total operating expenses	5,247	10,062	4,815	92%
Loss from operations	(5,247)	(10,062)	(4.815)	92%
Interest income	1	37	36	3600%
Interest expense	(202)	(490)	(288)	143%
Other income (expense), net	26	(4)	(30)	115%
Net loss	$ (5,422)	$ (10,519)	$ (5,097)	94%

Research and Development

The increase in research and development expense for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 was primarily attributable to a $3.3 million increase in clinical trial and product expenses principally due to the PROCEED trial which commenced enrollment in the quarter ended June 30, 2011. The increase also includes $347,000 of severance compensation and related stock-based compensation expense.

Included in research and development expense were stock-based compensation charges of $100,000 and $373,000 for the three months ended June 30, 2010 and 2011, respectively, which for 2011 included a $133,000 charge relating to severance stock-based compensation.

Research and development expenses include expenses of $98,000 and $173,000 for the three months ended June 30, 2010 and 2011, respectively, for company-funded research at Purdue University, the primary employer of our Chief Science Officer.

General and Administrative

The increase in general and administrative expenses in the three months ended June 30, 2011 compared to the three months ended June 30, 2010 was primarily attributable to an increase in professional fees associated with being a public company and increased compensation expenses.

Included in general administrative expenses were stock-based compensation charges of $28,000 and $222,000 for the three months ended June 30, 2010 and 2011, respectively.

Interest Income

The increase in interest income in the three months ended June 30, 2011 compared to the three months ended June 30, 2010 resulted from an increase in short-term investments due to the proceeds from the initial public offering.

Interest Expense

The increase in interest expense in the three months ended June 30, 2011 compared to the three months ended June 30, 2010 was due to the increase in the principal obligation outstanding under the credit facility we entered into in August 2010 with Mid Cap Financial, or Mid-Cap, and Silicon Valley Bank, or SVB.

Other Income, Net

Other income decreased in 2011 compared to 2010 due to the income we recognized in 2010 for the change in the fair value of the preferred stock warrant liability. No change in fair value occurred in 2011 as the warrants were reclassified to equity upon the initial public offering, The decrease was also due to an increase in charitable contributions made in 2011.

Comparison of Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2011

	Six Months Ended June 30,		Increase/	
	2010	2011	(Decrease)	%
		(In thousands)		
Statement of operations data:				
Revenue	$ —	$ —	$ —	—
Operating expenses:				
Research and development	7,600	12,160	4,560	60%
General and administrative	3,022	4,415	1,393	46%
Total operating expenses	10,622	16,575	5,953	56%
Loss from operations	(10,622)	(16,575)	(5,953)	56%
Interest income	4	56	52	1300%
Interest expense	(451)	(1,188)	(737)	163%
Other income (expense), net	38	(1)	(39)	103%
Net loss	$(11,031)	$ (17,708)	$ (6,677)	61%

Research and Development

The increase in research and development expense for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 was primarily due to a $4.1 million increase in clinical trial and product expenses principally due to the PROCEED trial which commenced enrollment in April. The increase also includes $347,000 of severance compensation charges and related stock-based compensation expense. These increases were partially offset by decreased spending on our EC0489 and EC0225 programs as enrollment in the phase 1 trials for these SMDC’s has concluded.

Included in research and development expense were stock-based compensation charges of $198,000 and $458,000 for the six months ended June 30, 2010 and 2011, respectively, which for 2011 included a $133,000 charge relating to severance stock-based compensation.

Research and development expenses include expenses of $196,000 and $173,000 for the six months ended June 30, 2010 and 2011, respectively, for company-funded research at Purdue University, the primary employer of our Chief Science Officer.

General and Administrative

The increase in general and administrative expenses in the six months ended June 30, 2011 compared to the six months ended June 30, 2010 was primarily attributable to an increase in professional fees and insurance associated with being a public company and compensation expenses.

Included in general administrative expenses were stock-based compensation charges of $54,000 and $321,000 for the six months ended June 30, 2010 and 2011, respectively.

Interest Income

The increase in interest income in the six months ended June 30, 2011 compared to the six months ended June 30, 2010 resulted from an increase in short-term investments due to the proceeds from the initial public offering.

Interest Expense

The increase in interest expense in the six months ended June 30, 2011 compared to the six months ended June 30, 2010 was due to the increase in the principal obligation outstanding under the credit facility we entered into in August 2010 with Mid Cap Financial, or Mid-Cap, and Silicon Valley Bank, or SVB, and the interest payable on outstanding subordinated notes which were converted to common shares at the initial public offering.

Other Income, Net

Other income decreased in 2011 compared to 2010 due to the income we recognized in 2010 for the change in the fair value of the preferred stock warrant liability. No change in fair value occurred in 2011 as the warrants were reclassified to equity upon the initial public offering, The decrease was also due to a decrease in gains on disposition of fixed assets.

Liquidity and Capital Resources

We have funded our operations principally through private placements of equity and debt securities, revenue from strategic collaborations, revenue from grants, loans, private equity and debt financings and, most recently, our public offerings. As of June 30, 2011, we had cash, cash equivalents and short-term investments of $83.9 million.

In August 2010, we obtained a $15.0 million loan commitment from Mid-Cap and SVB to pay-off an existing loan commitment that was set to mature in March and July 2011. Upon execution of the agreement, we drew $10.0 million in principal. In December 2010, we amended the term loan arrangement with Mid-Cap and SVB in order to access the remaining tranche of $5.0 million.

On October 29, 2010, we were notified we had been awarded a total of $1.5 million under section 48D of the Code for Qualifying Therapeutic Discovery Projects. In November 2010, we received $1.4 million of this award, and the remaining $0.1 million was received in February 2011. This was accounted for as other income.

In December 2010, we issued $8.1 million of Subordinated Notes, and as of December 31, 2010, the Subordinated Notes were treated as share-settled debt under ASC 480-10-25-14 and were recorded at fair value. The Subordinated Notes accrued interest in kind at an annual rate of 10.0 percent. In January 2011, we issued an additional $3.7 million of Subordinated Notes to certain accredited investors.

On February 9, 2011, we completed our initial public offering of 14,375,000 shares of common stock, including 1,875,000 shares of common stock pursuant to the exercise of the over-allotment option by the underwriters. Proceeds, net of underwriting discounts, commissions and other transaction costs, were $78.2 million. Upon the completion of the offering, all outstanding Subordinated Notes, plus accrued and unpaid interest thereon were automatically converted into 2,335,823 shares of common stock using a conversion price of $5.10 per share (85% of the original issue price of the shares sold in the initial public offering), all outstanding shares of preferred stock were converted into an aggregate 11,747,563 shares of common stock, and all outstanding warrants to purchase preferred stock were converted into warrants to purchase common stock.

On August 2, 2011, we sold 4,968,321 shares of common stock in a public offering, including 871,489 shares of common stock pursuant to the exercise of the underwriters' over-allotment option. Proceeds, net of underwriting discounts, commissions and other transaction costs, were approximately $66.8 million.

Currently, our primary uses of working capital are for conducting the phase 3 clinical trial of EC145 and EC20, preparing the applications for conditional marketing authorization from the EMA and preparing for the randomized phase 2 trial of EC145 and EC20 in NSCLC.

The following table sets forth the primary sources and uses of cash for each of the periods set forth below:

	Six Months Ended June 30,	
	2010	2011
	(unaudited) (In thousands)	
Net cash provided by (used in) operating activities	$ (10,265)	$ (13,317)
Net cash provided by (used in) investing activities	8,574	(54,296)
Net cash provided by (used in) financing activities	(3,010)	80,463
Net decrease in cash and cash equivalents	$ (4,701)	$ 12,850

Operating Activities

The use of cash in each of the periods primarily resulted from our net losses adjusted for non-cash items and changes in operating assets and liabilities. The increase in cash used for the six months ended June 30, 2010 compared to June 30, 2011 was primarily due to an increase in clinical trial expenses and general and administrative expenses for professional fees, offset by a decrease in prepaid initial public offering expenses that were reclassified to equity in 2011 and an increase in accounts payable.

Investing Activities

The cash provided by (used in) investing activities for each of the periods was due primarily to the net result of purchases of short-term investments of $12.3 million and $151.3 million and maturities and sales of short-term investments of $21.0 million and $97.0 million, which was partially offset by capital expenditures for equipment of $138,000 and $41,000 for the six months ended June 30, 2010 and 2011, respectively.

Financing Activities

The cash used by financing activities in the six months ended June 30, 2010 consisted of principal payments on our previous credit facility. The cash provided by financing activities in the six months ended June 30, 2011 primarily consisted of receiving proceeds of $3.6 million for the issuance of Subordinated Notes and $78.2 million net proceeds from our initial public offering, partially offset by $1.3 million of principal payments on our current credit facility.

Credit Facilities

In August 2010, we entered into a $15.0 million credit facility with Mid-Cap and SVB to pay-off the prior credit facility, to fund research and development, and for general corporate purposes. We drew down $10.0 million in principal amount upon signing the agreement at a fixed 9.75 percent interest rate and drew down the remaining $5.0 million in December 2010. Repayment of the principal began in April 2011 following a seven-month interest-only period, followed by a 30-month repayment of principal and interest. The loan is collateralized by a security interest in all of our assets, excluding intellectual property. The loan agreement includes customary covenants and may be accelerated upon the occurrence of any event of default in the loan agreement, including defects in collateral securing the loan, judgment defaults or any event or development that has a material adverse effect, as defined in the agreement. The failure of any preclinical study or clinical trial will not, in and of itself, constitute a material adverse effect. We are in compliance with all material covenants and other obligations in the loan agreement.

Operating Capital Requirements

If we obtain conditional marketing approval in Europe, we anticipate commercializing our first product in 2013 at the earliest. Therefore, we anticipate we will continue to generate significant losses for the next several years as we incur expenses to complete our clinical trial programs for EC145 and EC20 in platinum-resistant ovarian cancer, or PROC and NSCLC, build commercial capabilities, develop our pipeline, initiate clinical trials of earlier stage products and expand our corporate infrastructure.

If our available cash, cash equivalents and short-term investments are insufficient to satisfy our liquidity requirements, or if we develop additional opportunities to do so, we may seek to sell additional equity or debt securities, obtain additional credit facilities or refinance our current credit facility with Mid-Cap and SVB. The sale of additional equity and debt securities may result in additional dilution to our stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these securities may have rights senior to those of our common stock and could contain covenants that would restrict our operations. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, if at all. If we were unable to obtain additional financing, we may be required to reduce the scope of, delay or eliminate some or all of our planned research, development and commercialization activities, which could harm our business.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amounts of our working capital requirements. Our future funding requirements will depend on many factors, including but not limited to:

- the number and characteristics of the SMDCs and companion imaging diagnostics we pursue;
- the scope, progress, results and costs of researching and developing our SMDCs and companion imaging diagnostics and conducting preclinical and clinical trials;
- the timing of, and the costs involved in, obtaining regulatory approvals for our SMDCs and companion imaging diagnostics;
- the cost of commercialization activities if any of our SMDCs and companion imaging diagnostics are approved for sale, including marketing sales and distribution costs;
- the cost of manufacturing any of our any SMDCs and companion imaging diagnostics we successfully commercialize;

- our ability to establish and maintain strategic partnerships, licensing or other arrangements and the financial terms of such agreements;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and
- the timing, receipt and amount of sales of, or royalties on, our SMDCs and companion imaging diagnostics, if any.

Contractual Obligations and Commitments

There have been no significant changes during the six months ended June 30, 2011 to the items that we disclosed as our contractual obligations and commitments in our Form 10-K for the year ended December 31, 2010.

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

We are exposed to market risk related to changes in interest rates. As of December 31, 2010 and June 30, 2011 we had cash, cash equivalents and short-term investments of $16.9 million and $83.9 million, respectively. The short-term investments consisted of money market funds, U.S. Treasuries, Certificates of Deposit and cash equivalents. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments are in short-term marketable securities. Our short-term investments are subject to interest rate risk and will fall in value if market interest rates increase. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 10 percent change in interest rates would not have a material effect on the fair market value of our portfolio. We have the ability to hold our short-investments until maturity, and therefore we would not expect our operations results or cash flows to be affected by any significant degree by the effect of a change in market interest rates on our investments. We carry our investments based on publicly available information. We do not currently have any investment securities for which a market is not readily available or active. In addition, our credit facility with Mid-Cap and SVB provides that we will make interest payments at fixed rates.

We do not believe that any credit risk has the potential to materially impact the value of our assets and liabilities.

We contract with contract research organizations and investigational sites globally. We may be subject to fluctuations in foreign currency rates in connection with these agreements. A ten percent fluctuation in foreign currency rates would not have a material impact on our financial statements. We do not hedge our foreign currency exchange rate risk.

Item 4. Controls and Procedures

Conclusion Regarding Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q , the effectiveness of our disclosure controls and procedures. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures as of such date are effective at the reasonable assurance level in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. *Risk Factors*

Risk factors which could cause actual results to differ from our expectations and which could negatively impact our financial condition and results of operations are discussed below and elsewhere in this report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that are currently not believed to be significant to our business may also affect our actual results and could harm our business, financial condition and results of operations. If any of the risks or uncertainties described below or any additional risks and uncertainties actually occur, our business, results of operations and financial condition could be materially and adversely affected.

Risks Related to Our Business and Industry

We have incurred significant losses since our inception and anticipate that we will continue to incur losses for the foreseeable future. We may never achieve or sustain profitability.

We are a clinical-stage biopharmaceutical company with a limited operating history. Biopharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. We are not profitable and have incurred losses in each year since our inception in December 1995. We have not generated any revenue from product sales to date. We continue to incur significant research and development and other expenses related to our ongoing operations. Our net loss for the six months ended June 30, 2011 was $17.7 million. As of June 30, 2011, we had a retained deficit of $115.8 million. We expect to continue to incur losses for the foreseeable future, and we expect these losses to increase as we continue our development of, and seek regulatory approvals for, our small molecule drug conjugates, or SMDCs, and companion imaging diagnostics, and begin to commercialize any approved products. As such, we are subject to all the risks incident to the creation of new SMDCs and companion imaging diagnostics, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business. If our product candidates fail in clinical trials, or do not gain regulatory approval, or fail to achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods.

We are a clinical-stage company with no approved products, which makes it difficult to assess our future viability.

We were incorporated in December 1995, are a clinical-stage company and, as of June 30, 2011, have not derived any revenue from the sales of our products. Our operations to date have been limited to organizing and staffing our company, acquiring, developing and securing our technology, undertaking preclinical studies and clinical trials of our product candidates and engaging in research and development under collaboration agreements. We have not yet demonstrated an ability to obtain regulatory approval, formulate and manufacture commercial-scale products, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, it is difficult to predict our future success and the viability of any commercial programs that we may choose to take forward. From our inception through June 30, 2011, we have derived non-grant related revenues of $11.9 million from payments under collaborative agreements with Bristol-Myers Squibb, or BMS, and Sanofi-Aventis. We do not expect any further payments under these agreements, neither of which are still in force.

We are highly dependent on the success of our lead SMDC, EC145, and we cannot give any assurance that we will successfully complete its clinical development, or that it will receive regulatory approval or be successfully commercialized.

Our lead SMDC, EC145, has been evaluated in a randomized phase 2 clinical trial for the treatment of women with platinum-resistant ovarian cancer, or PROC, and is currently being evaluated in a randomized phase 3 clinical trial in the same indication. In addition, we recently completed a phase 2 single-arm clinical trial for heavily pre-treated non-small cell lung cancer, or NSCLC, and are planning an additional randomized phase 2 clinical trial in the same indication. Our future trials may not be successful, and EC145 may never receive regulatory approval or be successfully commercialized. We may fail to obtain necessary marketing approvals for EC145 from the EMA or FDA or similar non-U.S. regulatory authorities if our clinical development program for EC145 fails to demonstrate that it is safe and effective to the satisfaction of such authorities, or if we have inadequate financial or other resources to advance EC145 through the necessary development activities. Even if EC145 receives regulatory approval, we may not be successful in marketing it for a number of reasons, including the introduction by our competitors of more clinically-effective or cost-effective alternatives or failure in our sales and marketing efforts. Any failure to obtain approval of EC145 and successfully commercialize it would have a material and adverse impact on our business.

The results of previous clinical trials may not be predictive of future results, and our current and planned clinical trials may not satisfy the requirements of the FDA or other non-U.S. regulatory authorities.

The clinical trials of our product candidates are, and the manufacturing and marketing of any approved products will be, subject to extensive and rigorous review and regulation by numerous government authorities in the United States, Europe and in other countries where we intend to test and market our product candidates. Before obtaining regulatory approvals for the commercial sale of any product candidate, we must demonstrate through preclinical testing and clinical trials that the product candidate is safe and effective for use in each indication for which we intend to market such product candidate. This process can take many years and requires the expenditure of substantial financial and human resources and may include post-marketing trials and surveillance. To date, we have not completed any randomized phase 3 clinical trials. We have completed two phase 2 single-arm and one phase 2 randomized clinical trials with EC145 for the treatment of patients with advanced ovarian cancer and NSCLC. In May 2011 we began evaluating EC145 in a phase 3 clinical trial, known as PROCEED, in PROC. We have three other product candidates in phase 1 clinical trials. In addition, we have other product candidates in the discovery and preclinical testing stages.

Positive results from preclinical studies and early clinical trials should not be relied upon as evidence that later-stage or large-scale clinical trials will succeed. 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, even after promising results in earlier trials. We will be required to demonstrate with substantial evidence through adequate and well-controlled clinical trials, including our phase 3 trial of EC145 for the treatment of women with PROC, which is currently underway, that our product candidates are safe and effective for use in the target population before we can seek regulatory approvals for their commercial sale in the United States.

In our end of phase 2 meeting with the FDA related to EC145, the FDA stated that, because of the difficulty in reliably determining cancer progression based on imaging studies in ovarian cancer, its office policy is to require overall survival, or OS, to be the primary endpoint for an ovarian cancer registration trial. However, the FDA stated that we may choose, at our own risk, to conduct a phase 3 trial in which progression free survival, or PFS, is the primary endpoint; provided that for such a trial to be the basis for approval, the PFS results must be very robust statistically and clinically meaningful, and the trial must be powered to demonstrate a statistically significant OS benefit. In addition to evaluating PFS in the patient population whose lesions over-expressed the folate receptor, EC20(+) and EC20(++) patients, we also plan to conduct a PFS analysis of the EC20(++) patient subset as part of the PROCEED clinical trial protocol. Even if our phase 3 trial meets either of its PFS primary endpoints, a positive trend in OS at the time of filing our new drug application, or NDA, may be required for approval or the FDA may delay consideration of approval until final OS data becomes available, which would result in significant additional costs and delay our ability to market EC145 for this indication. The FDA also noted that the final OS analysis from our phase 3 trial would be required as a post-marketing commitment should approval be granted based upon PFS. In addition, if the FDA approves EC145 based upon meeting either of our PFS primary endpoints, in certain circumstances the approval could be withdrawn if any required post-marketing trials or analyses do not meet FDA requirements. Furthermore, as is typical for cancer drug approvals, the FDA stated that for the initial approval of EC145 to be based on a single phase 3 clinical trial, the trial must provide evidence of persuasive and robust statistically significant clinical benefit such that it would be considered unethical to conduct another trial. If we fail to demonstrate a benefit of this magnitude in our phase 3 trial, we would expect that the FDA would require us to conduct a second phase 3 trial in order to receive marketing approval of EC145 for the treatment of PROC. Such a requirement would result in significant additional cost and would delay our ability to market EC145 for this indication.

Patients in our initial phase 3 trial are imaged with our companion imaging diagnostic, EC20, prior to treatment with EC145. Although EC20 is part of our phase 3 trial design, there can be no assurance that this trial will provide a sufficient basis for approval of an NDA for EC20. Similarly, we can provide no assurance to you that EC145 will be approved without EC20 approval.

The FDA and other regulatory authorities may change requirements for the approval of our product candidates even after reviewing and providing non-binding comment on a protocol for a pivotal phase 3 clinical trial that has the potential to result in FDA approval. In addition, regulatory authorities may also approve any of our product candidates for fewer or more limited indications than we request, may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve a product candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. Any of the foregoing scenarios could materially harm the commercial prospects for our product candidates.

Our efforts to obtain conditional marketing authorization for EC145 and EC20 from the European Medicines Agency may be unsuccessful.

We expect to file applications with the EMA in the first quarter of 2012 for conditional marketing authorization for EC145 for the treatment of PROC and for EC20 for patient selection. These filings will be based on the results of our randomized phase 2 clinical trial, which we refer to as the PRECEDENT trial, which investigated EC145 in combination with standard chemotherapy, pegylated liposomal doxorubicin, or PLD, for treatment of women with PROC and which also evaluated the utility of EC20 for patient selection.

Our filings will be supported by a separate phase 2 single agent trial that we conducted. The PRECEDENT trial met its primary endpoint, as the combination of EC145 and PLD showed an improvement in the time to disease progression or death compared to PLD alone. This improvement was more substantial in patients who had been selected with the companion imaging diagnostic EC20.

We cannot predict with any certainty whether the EMA will grant the marketing authorizations that we intend to seek in these applications. Marketing authorizations based on phase 2 randomized studies are unusual and, if granted, are subject to significant conditions, which likely would include requirements to:

- complete the phase 3 study;
- confirm that the patient risk-benefit is positive; and
- complete an annual renewal process.

If the EMA were to grant conditional marketing authorization of EC145 and EC20 based on our phase 2 studies, that authorization could be further limited or even withdrawn if our required phase 3 studies fail to demonstrate evidence of persuasive and robust statistically significant clinical benefit or result in unexpected safety concerns with the study drugs. We cannot give any assurance that the EMA will approve our applications for conditional marketing authorization or that, if approved, that the labeling restrictions and other approval conditions will enable us to profitably commercialize these drug candidates in the European Union. Any such conditional approval by the EMA would not authorize us to commercialize EC145 or EC20 in any country outside the European Union and would not be expected to have any beneficial effect on our ability to obtain regulatory approval from the FDA or other regulatory agencies.

Our plans to file applications with the EMA may be deferred or precluded by additional analyses.

We are planning to base our applications to the EMA for conditional marketing authorization on the results of our PRECEDENT trial. However, in connection with the applications, we will conduct additional analyses of the PRECEDENT trial results that have not yet been completed. These include EC20 validation, independent PFS, and final OS analyses. If the results of the additional analyses do not support the reported results of the PRECEDENT trial, our plans to file applications with the EMA may be delayed or abandoned.

There is a high risk that our development and clinical activities will not result in commercial products, and we will have invested in our current development and clinical programs, to the exclusion of others, for several more years before it is known whether one or more of our product candidates will receive regulatory approval or be commercially introduced.

Our product candidates are in various stages of development and are prone to the risks of failure inherent in biopharmaceutical development. We will need to complete significant additional clinical trials before we can demonstrate that our product candidates are safe and effective to the satisfaction of the FDA and other non-U.S. regulatory authorities. Clinical trials are expensive and uncertain processes that take years to complete. Failure can occur at any stage of the process. Further, even if our product candidates receive required regulatory approvals, we cannot assure you that they will be successful commercially. In addition, we have a large number of product candidates in our development pipeline, and while we invest in the technology and indications that we believe are most promising, financial and resource constraints may require us to forego or delay opportunities that may ultimately have greater commercial potential than those programs we are currently actively developing.

The coverage and reimbursement status of newly approved biopharmaceuticals is uncertain, and failure to obtain adequate coverage and adequate reimbursement of EC145 or other product candidates could limit our ability to generate revenue.

There is significant uncertainty related to the third-party coverage and reimbursement of newly approved drugs. The commercial success of our product candidates, including EC145, in both domestic and international markets will depend in part on the availability of coverage and adequate reimbursement from third-party payors, including government payors, such as the Medicare and Medicaid programs, and managed care organizations. Government and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new drugs and, as a result, they may not cover or provide adequate payment for our product candidates. These payors may conclude that our product candidates are less safe, less effective or less cost-effective than existing or later introduced products, and third-party payors may not approve our product candidates for coverage and reimbursement or may cease providing coverage and reimbursement for these product candidates. Because each country has one or more payment systems, obtaining reimbursement in the United States and internationally may take significant time and cause us to spend significant resources. The failure to obtain coverage and adequate reimbursement for our product candidates or healthcare cost containment initiatives that limit or deny reimbursement for our product candidates may significantly reduce any future product revenue.

In the United States and in other countries, there have been and we expect there will continue to be a number of legislative and regulatory proposals to change the healthcare system in ways that could significantly affect our business. International, federal and state lawmakers regularly propose and, at times, enact legislation that would result in significant changes to the healthcare system, some of which are intended to contain or reduce the costs of medical products and services. The U.S. government and other governments have shown significant interest in pursuing healthcare reform, as evidenced by the recent passing of the Patient Protection and Affordable Care Act and its amendment, the Health Care and Education Reconciliation Act. Such government-adopted reform measures may adversely impact the pricing of healthcare products and services in the United States or internationally and the amount of reimbursement available from governmental agencies or other third-party payors. In addition, in some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. The continuing efforts of U.S. and other governments, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce healthcare costs may adversely affect our ability to set satisfactory prices for our products, to generate revenues, and to achieve and maintain profitability.

In some countries, particularly in the European Union, prescription drug pricing is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product candidate. To obtain reimbursement or pricing approval in some countries, we may be required to conduct additional clinical trials that compare the cost-effectiveness of our product candidates to other available therapies. If reimbursement of our product candidates is unavailable or limited in scope or amount in a particular country, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability of our products in such country.

Our development activities could be delayed or stopped for a number of reasons, many of which are outside our control, including failure to recruit and enroll patients for clinical trials.

Each of our clinical trials requires the investment of substantial expense and time and the timing of the commencement, continuation and completion of these clinical trials may be subject to significant delays relating to various causes. We do not know whether our current clinical trials will be completed on schedule, or at all, and we cannot guarantee that our future planned clinical trials will begin on time, or at all. Clinical trials must be conducted in accordance with FDA or other applicable foreign government guidelines and are subject to oversight by the FDA, other foreign governmental agencies and independent institutional review boards, or IRBs, at the medical institutions where the clinical trials are conducted. In addition, clinical trials must be conducted with supplies of our product candidates produced under current Good Manufacturing Practice, or cGMP, and other requirements in foreign countries, and may require large numbers of test patients. Our current and planned clinical trials could be substantially delayed or prevented by several factors, including:

- limited number of, and competition for, suitable sites to conduct our clinical trials;
- government or regulatory delays and changes in regulatory requirements, policy and guidelines;
- delay or failure to obtain sufficient supplies of the product candidate for, or other drugs used in, our clinical trials as a result of our suppliers' non-compliance with cGMP, or for other reasons;
- delay or failure to reach agreement on acceptable clinical trial agreement terms with prospective sites or investigators; and
- delay or failure to obtain IRB approval to conduct a clinical trial at a prospective site.

The completion of our clinical trials could also be substantially delayed or prevented by several factors, including:

- slower than expected rates of patient recruitment and enrollment;
- unforeseen safety issues;
- lack of efficacy evidenced during clinical trials, which risk may be heightened given the advanced state of disease and lack of response to prior therapies of patients in our clinical trial for EC145 in PROC;
- termination of our clinical trials by an IRB at one or more clinical trial sites;
- inability or unwillingness of patients or medical investigators to follow our clinical trial protocols; and
- inability to monitor patients adequately during or after treatment or high patient dropout rates.

For example, we have in the past experienced slower than expected rates of patient recruitment and enrollment with our PRECEDENT trial due to a number of reasons, including slower than expected clinical trial site activations due to prolonged contract negotiations and delays in scheduling or approval by IRBs, lack of qualified patients at a particular site, competition with other clinical trials for patients, and clinical investigator scheduling and availability due to vacations or absences.

Our clinical trials may be suspended or terminated at any time by the FDA, other regulatory authorities or us. For example, a Data Safety Monitoring Board, or DSMB, will monitor PROCEED and could recommend closing the trial based on the results of a pre-specified interim futility analysis or any observed unexpected safety concern that may occur during the trial. Failure or significant delay in completing clinical trials for our product candidates could materially harm our financial results and the commercial prospects for our product candidates.

Even if we are able to obtain regulatory approval of EC145 based on our initial phase 3 clinical trial, marketing will be limited to our intended indication of PROC and not ovarian cancer generally, or any other type of cancer.

Even if we are able to obtain regulatory approval of EC145 based on our initial phase 3 clinical trial, PROCEED, and formulate and manufacture a commercial-scale product, our marketing of EC145 will be limited to our initial intended indication of PROC and not ovarian cancer generally, or any other type of cancer. According to the American Cancer Society, approximately 21,500 new cases of ovarian cancer were reported in the United States in 2009. Of those ovarian cancer cases, approximately 50 percent of patients will eventually develop PROC. Marketing of EC145, if approved for our intended indication, will be limited to those women with ovarian cancer who demonstrate a resistance to platinum-based therapies and who are EC20(+) or EC20(++). The intended indication for use may be further limited to only patients who are EC20(++). Marketing efforts for EC145 outside of our approved indication of PROC will require additional regulatory approvals, which we may never pursue or receive.

Our product candidates may cause undesirable side effects that could delay or prevent their regulatory approval or commercialization.

Common side effects of EC145 include abdominal pain, vomiting, constipation, nausea, fatigue, loss of appetite and peripheral sensory neuropathy. Because our products have been tested in relatively small patient populations and for limited durations to date, additional side effects may be observed as their development progresses.

Undesirable side effects caused by any of our product candidates could cause us or regulatory authorities to interrupt, delay or discontinue clinical trials and could result in the denial of regulatory approval by the FDA or other non-U.S. regulatory authorities for any or all targeted indications. This, in turn, could prevent us from commercializing our product candidates and generating revenues from their sale. In addition, if one of our products receives marketing approval and we or others later identify undesirable side effects caused by this product:

- regulatory authorities may withdraw their approval of this product;
- we may be required to recall this product, change the way this product is administered, conduct additional clinical trials or change the labeling of this product;
- this product may be rendered less competitive and sales may decrease; or
- our reputation may suffer generally both among clinicians and patients.

Any one or a combination of these events could prevent us from achieving or maintaining market acceptance of the affected product or could substantially increase the costs and expenses of commercializing the product, which in turn could delay or prevent us from generating significant revenues from the sale of the product.

We may not obtain government regulatory approval to market our product candidates or negotiate satisfactory pricing for our product candidates which could adversely impact our future profitability.

We intend to seek approval to market certain of our product candidates in both the United States and in non-U.S. jurisdictions. Prior to commercialization, each product candidate will be subject to an extensive and lengthy governmental regulatory approval process in the United States and in other countries. In order to market our products in the European Union and many other non-U.S. jurisdictions, we must obtain separate regulatory approvals and comply with numerous and varying regulatory requirements. Although we intend to file applications with the EMA seeking conditional marketing authorization for EC145 and EC20 based on the results of our randomized phase 2 PRECEDENT trial, we have not yet filed for marketing approval for any of our product candidates in the U.S. or in any other jurisdictions and may not receive the approvals necessary to commercialize our product candidates in any market. We may not be able to obtain regulatory approval for any product candidates, or even if approval is obtained, the labeling for such products may place restrictions on their use that could materially impact the marketability and profitability of the product subject to such restrictions. Satisfaction of these regulatory requirements, which includes satisfying the FDA and foreign regulatory authorities that the product is both safe and effective for its intended uses, typically takes several years or more depending upon the type, complexity, novelty and safety profile of the product and requires the expenditure of substantial resources. Uncertainty with respect to meeting the regulatory requirements governing our product candidates may result in excessive costs or extensive delays in the regulatory approval process, adding to the already lengthy review process.

Also, the approval procedure varies among countries and can involve additional testing and data review. The time and safety and efficacy data required to obtain foreign regulatory approval may differ from that required to obtain FDA approval. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory agencies in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory agencies in other countries or by the FDA. However, a failure or delay in obtaining regulatory approval in one jurisdiction may have a negative effect on the regulatory approval process in other jurisdictions, including approval by the FDA. The failure to obtain regulatory approval in any jurisdiction could materially harm our business.

We may require substantial additional funding which may not be available to us on acceptable terms, or at all.

We are advancing multiple product candidates through clinical development. We believe that our current cash position, including cash equivalents and short term investments is sufficient to fund the operations, including PROCEED, our phase 3 clinical trial of EC145 and EC20, through the availability of final primary PFS data from that study, which is anticipated to be in the second quarter of 2013. If we were to receive conditional marketing authorization in Europe of EC145 and EC20 prior to the completion of PROCEED, this could impact the enrollment timeline as European sites would transition from clinical trials to commercial use. This could delay the availability of final data from the PROCEED trial. We may be able to mitigate this potential delay by adding clinical trial sites in locations where conditional marketing authorization has not been granted. We would require additional funding through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements, to commercialize any of our SMDCs or companion imaging diagnostics. In addition, if the FDA requires us to undertake a second phase 3 clinical trial or obtain final OS data from PROCEED we will also require additional funding.

Our future funding requirements will depend on many factors, including but not limited to:

- our need to expand our research and development activities;
- the rate of progress and cost of our clinical trials and the need to conduct clinical trials beyond those planned;
- the outcome of the applications we intend to file with the EMA for conditional marketing authorization for EC145 and EC20;
- the costs associated with establishing a sales force and commercialization capabilities;
- the costs of acquiring, licensing or investing in businesses, product candidates and technologies;

- the costs and timing of seeking and obtaining approval from the FDA and non-U.S. regulatory authorities;
- our ability to maintain, defend and expand the scope of our intellectual property portfolio;
- our need and ability to hire additional management and scientific and medical personnel;
- the effect of competing technological and market developments;
- our need to implement additional internal systems and infrastructure, including financial and reporting systems appropriate for a public company; and
- the economic and other terms and timing of collaboration, licensing or other arrangements into which we may enter.

Until we can generate a sufficient amount of revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more of our clinical trials or research and development programs, or enter into collaboration or other arrangements with other companies to provide such funding for one or more of such clinical trials or programs in exchange for our affording such partner commercialization or other rights to the product candidates that are the subject of such clinical trials or programs.

In addition, our operating plan may change as a result of many factors currently unknown to us, and we may need additional funds sooner than planned. Also, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Raising additional capital may cause dilution to existing stockholders, restrict our operations or require us to relinquish rights.

We may seek the additional capital necessary to fund our operations through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of the current stockholders will be diluted and the terms may include liquidation or other preferences that adversely affect their rights as a common stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring additional debt, making capital expenditures, or declaring dividends, or which impose financial covenants on us that limit our operating flexibility to achieve our business objectives. If we raise additional funds through collaboration and licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us. In addition, we cannot assure you that additional funds will be available to us on favorable terms or at all.

If our competitors develop and market products that are more effective, safer or less expensive than our product candidates, our commercial opportunities will be negatively impacted.

The life sciences industry is highly competitive, and we face significant competition from many pharmaceutical, biopharmaceutical and biotechnology companies that are researching and marketing products designed to address various types of cancer and other indications we treat or may treat in the future. We are currently developing cancer therapeutics that will compete with other drugs and therapies that currently exist or are being developed. Also, our lead SMDC, EC145, is being clinically developed not as a primary therapy but as a therapy for patients whose tumors have developed resistance to chemotherapy, which limits its potential addressable market. Products we may develop in the future are also likely to face competition from other drugs and therapies. Many of our competitors have significantly greater financial, manufacturing, marketing and drug development resources than we do. Large biopharmaceutical companies, in particular, have extensive experience in clinical testing and in obtaining regulatory approvals for drugs. Additional mergers and acquisitions in the biopharmaceutical industry may result in even more resources being concentrated by our competition. Competition may increase further as a result of advances in the commercial applicability of technologies currently being developed and a greater availability of capital investment in those fields. These companies also have significantly greater research and marketing capabilities than we do. Some of the companies developing products which may compete with EC145 include Roche Holdings, Eisai Company, Nektar Therapeutics, Sunesis Pharmaceuticals, Eli Lilly, Sanofi-Aventis, and Amgen. In addition, many universities and U.S. private and public research institutes are active in cancer research, the results of which may result in direct competition with EC145 or other of our product candidates.

In certain instances, the drugs which will compete with our product candidates are widely available or established, existing standards of care. To compete effectively with these drugs, our product candidates will need to demonstrate advantages that lead to improved clinical safety or efficacy compared to these competitive products. We cannot assure you that we will be able to achieve competitive advantages versus alternative drugs or therapies. If our competitors market products that are more effective, safer or less expensive than our product candidates, if any, or that reach the market sooner than our product candidates, if any, we may not achieve commercial success.

We believe that our ability to successfully compete will depend on, among other things:

- our ability to design and successfully execute appropriate clinical trials;
- our ability to recruit and enroll patients for our clinical trials;
- the results of our clinical trials and the efficacy and safety of our product candidates;
- the speed at which we develop our product candidates;
- achieving and maintaining compliance with regulatory requirements applicable to our business;
- the timing and scope of regulatory approvals, including labeling;
- adequate levels of reimbursement under private and governmental health insurance plans, including Medicare;
- our ability to protect intellectual property rights related to our product candidates;
- our ability to commercialize and market any of our product candidates that may receive regulatory approval;
- our ability to have our partners manufacture and sell commercial quantities of any approved product candidates to the market;
- acceptance of our product candidates by physicians, other healthcare providers and patients; and
- the cost of treatment in relation to alternative therapies.

In addition, the biopharmaceutical industry is characterized by rapid technological change. Our future success will depend in large part on our ability to maintain a competitive position with respect to these technologies. Our competitors may render our technologies obsolete by advances in existing technological approaches or the development of new or different approaches, potentially eliminating the advantages in our drug discovery process that we believe we derive from our research approach and proprietary technologies. Also, because our research approach integrates many technologies, it may be difficult for us to stay abreast of the rapid changes in each technology. If we fail to stay at the forefront of technological change, we may be unable to compete effectively.

If we fail to attract and retain key management and scientific personnel, we may be unable to successfully develop or commercialize our product candidates.

Our success as a specialized scientific business depends on our continued ability to attract, retain and motivate highly qualified management and scientific and clinical personnel. The loss of the services of any of our senior management could delay or prevent the commercialization of our product candidates.

We may not be able to attract or retain qualified management and scientific personnel in the future due to the intense competition for a limited number of qualified personnel among biopharmaceutical, biotechnology, pharmaceutical and other businesses, particularly in Indiana. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that will impede the achievement of our research and development objectives, our ability to raise additional capital and our ability to implement our business strategy.

As we evolve from a company primarily involved in clinical development to a company also involved in commercialization, we may encounter difficulties in managing our growth and expanding our operations successfully.

As we advance our product candidates through clinical trials, we will need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with such third parties, as well as additional collaborators and suppliers.

Maintaining these relationships and managing our future growth will impose significant added responsibilities on members of our management and other personnel. We must be able to: manage our development efforts effectively; manage our clinical trials effectively; hire, train and integrate additional management, development, administrative and sales and marketing personnel; improve our managerial, development, operational and finance systems; and expand our facilities, all of which may impose a strain on our administrative and operational infrastructure.

If we are unable to establish sales, marketing and distribution capabilities or to enter into agreements with third parties to do so, we may be unable to successfully market and sell any products, even if we are able to obtain regulatory approval.

We currently have no marketing, sales or distribution capabilities. If our product candidates receive regulatory approval, we intend to establish our sales and marketing organization with technical expertise and supporting distribution capabilities to commercialize our product candidates, which will be expensive and time consuming. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of these products. With respect to our product candidates, we may choose to collaborate with third parties that have direct sales forces and established distribution systems, either to augment our own sales force and distribution systems or in lieu of our own sales force and distribution systems. To the extent that we enter into co-promotion or other licensing arrangements, our product revenue is likely to be lower than if we directly marketed or sold our products. In addition, any revenue we receive will depend in whole or in part upon the efforts of such third parties, which may not be successful and are generally not within our control. If we are unable to enter into such arrangements on acceptable terms or at all, we may not be able to successfully commercialize any of our product candidates that receive regulatory approval. If we are not successful in commercializing our product candidates, either on our own or through collaborations with one or more third parties, our future product revenue will suffer and we may incur significant additional losses.

If we do not establish development or commercialization collaborations, we may have to alter our development and marketing plans.

Our development programs and potential commercialization of our product candidates will require substantial additional cash to fund expenses. Our strategy includes potentially selectively collaborating with leading biopharmaceutical, pharmaceutical and biotechnology companies to assist us in furthering development and potential commercialization of some of our product candidates in the United States or internationally. Although we are not currently party to any collaboration agreements, we may enter into collaborations in the future, especially for target indications in which the potential collaborator has particular therapeutic expertise or for markets outside of the United States. We face significant competition in seeking appropriate collaborators and these collaborations are complex and time-consuming to negotiate and document. We may not be able to negotiate collaborations on acceptable terms, or at all. If that were to occur, we may have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization, reduce the scope of our sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms, or at all. If we do not have sufficient funds, we will not be able to bring our product candidates to market and generate product revenue. In addition, even if we do enter into one or more development or commercialization arrangements, we cannot assure you that the objectives of such arrangements will be realized or that the arrangement will not be terminated or expire. For example, we previously entered into an exclusive license agreement with BMS in a collaboration to develop and commercialize folate conjugates, which was terminated by BMS in June 2010, we believe as a result of a change in its strategic focus.

We rely on third parties to conduct clinical trials for our product candidates and plan to rely on third parties to conduct future clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, it may cause delays in commencing and completing clinical trials of our product candidates or we may be unable to obtain regulatory approval for or commercialize our product candidates.

Clinical trials must meet applicable FDA and foreign regulatory requirements. We do not have the ability to independently conduct phase 2 or phase 3 clinical trials for any of our product candidates. We rely on third parties, such as contract research organizations, medical institutions, clinical investigators and contract laboratories, to conduct all of our clinical trials of our product candidates; however, we remain responsible for ensuring that each of our clinical trials is conducted in accordance with its investigational plan and protocol. Moreover, the FDA and other non-U.S. regulatory authorities require us to comply with regulations and standards, commonly referred to as Good Clinical Practices for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate and that the trial subjects are adequately informed of the potential risks of participating in clinical trials. Our reliance on third parties does not relieve us of these responsibilities and requirements.

We or the third parties we rely on may encounter problems in clinical trials that may cause us or the FDA or foreign regulatory agencies to delay, suspend or terminate our clinical trials at any phase. These problems could include the possibility that we may not be able to manufacture sufficient quantities of materials for use in our clinical trials, conduct clinical trials at our preferred sites, enroll a sufficient number of patients for our clinical trials at one or more sites, or begin or successfully complete clinical trials in a timely fashion, if at all. Furthermore, we, the FDA or foreign regulatory agencies may suspend clinical trials of our product candidates at any time if we or they believe the subjects participating in the trials are being exposed to unacceptable health risks, whether as a result of adverse events occurring in our trials or otherwise, or if we or they find deficiencies in the clinical trial process or conduct of the investigation.

The FDA and foreign regulatory agencies could also require additional clinical trials before or after granting of marketing approval for any products, which would result in increased costs and significant delays in the development and commercialization of such products and could result in the withdrawal of such products from the market after obtaining marketing approval. Our failure to adequately demonstrate the safety and efficacy of a product candidate in clinical development could delay or prevent obtaining marketing approval of the product candidate and, after obtaining marketing approval, data from post-approval studies could result in the product being withdrawn from the market, either of which would likely have a material adverse effect on our business.

We rely on third parties to manufacture and supply our product candidates.

We do not currently own or operate manufacturing facilities for clinical or commercial production of our product candidates. We lack the resources and the capability to manufacture any of our product candidates on a clinical or commercial scale. We rely on four third-party suppliers to make the key components of EC145. The linker system for EC145 is currently obtained from a single source supplier and we have identified two alternate suppliers to prevent a possible disruption of manufacturing EC145. We believe that we currently have, or have the ability to access, sufficient supplies of all of the key components of EC145 in sufficient quantities to conduct and complete our PROCEED clinical trial and any other clinical trials related to EC145. We also believe that the suppliers we have identified will have the capacity to manufacture EC145 in the quantities that our development and future commercialization efforts may require. We do not have any long-term supply arrangements with any of these third parties and obtain our raw materials on a purchase order-basis. We expect to continue to depend on third-party contract manufacturers for the foreseeable future.

If for some reason our contract manufacturers cannot perform as agreed, we may be unable to replace them in a timely manner and the production of our product candidates would be interrupted, resulting in delays in clinical trials and additional costs. For example, we are currently obtaining clinical trial quantities of EC145 and our other product candidates from our contract manufacturers. We have no experience with managing the manufacturing of commercial quantities of any of our product candidates and scaling-up production to commercial quantities could take us significant time and result in significant costs, both of which could delay commercialization of EC145 for PROC, NSCLC or any other indication or of any of our other SMDCs. Switching manufacturers may be difficult because the number of potential manufacturers is limited and the FDA must approve any replacement manufacturer prior to manufacturing our product candidates. Such 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 product candidates after receipt of FDA approval to manufacture any of our product candidates. It may be difficult or impossible for us to find a replacement manufacturer on acceptable terms quickly, or at all.

To date, our product candidates have been manufactured in small quantities for preclinical studies and clinical trials by third-party manufacturers. If the FDA or other regulatory agencies approve any of our product candidates for commercial sale, we expect that we would continue to rely, at least initially, on third-party manufacturers to produce commercial quantities of our approved product candidates, as is the case with EC145. These manufacturers may not be able to successfully increase the manufacturing capacity for any of our approved product candidates in a timely or economic manner, or at all. Significant scale-up of manufacturing may require additional validation studies, which the FDA must review and approve. Additionally, any third-party manufacturer we retain to manufacture our product candidates on a commercial scale must pass an FDA pre-approval inspection for conformance to the cGMPs before we can obtain approval of our product candidates. If we are unable to successfully increase the manufacturing capacity for a product candidate in conformance with cGMPs, the regulatory approval or commercial launch of such products may be delayed or there may be a shortage in supply.

Our product candidates require precise, high quality manufacturing. Failure by our contract manufacturers to achieve and maintain high manufacturing standards could result in patient injury or death, product recalls or withdrawals, delays or failures in testing or delivery, cost overruns, or other problems that could seriously harm our business. Contract manufacturers may encounter difficulties involving production yields, quality control and quality assurance. These manufacturers are subject to ongoing periodic unannounced inspection by the FDA and corresponding state and non-U.S. authorities to ensure strict compliance with cGMP and other applicable government regulations and corresponding foreign standards; however, we do not have control over third-party manufacturers' compliance with these regulations and standards.

We are subject to risks associated with the availability of key raw materials, such as technetium-99m, as well as drugs used in our clinical trials, such as Doxil.

Our EC20 companion imaging diagnostic requires the use of the radioisotope technetium-99m, or Tc-99m, and there is currently a limited supply of Tc-99m worldwide. Tc-99m for nuclear medicine purposes is usually extracted from Tc-99m generators, which contain molybdenum-99, or Mo-99, as the usual parent nuclide for Tc-99m. The majority of Mo-99 produced for Tc-99m medical use comes from fission of highly enriched uranium from only five reactors around the world located in Canada, Belgium, South Africa, the Netherlands and France. Although Tc-99m is used in various nuclear medicine diagnostics utilized by healthcare providers, Tc-99m has a very short half-life (6 hours). As a result, healthcare providers extract Tc-99m from generators which use Mo-99. Mo-99 itself has a short half-life (2.75 days) and is sent to the nuclear medicine pharmacy directly from one of the five reactors. Accordingly, Tc-99m diagnostics are made on-site at the clinic, and neither Tc-99m nor Mo-99 can be inventoried. Sources of Tc-99m may be insufficient for our clinical trial site needs due to its limited supply globally. For example, global shortages of Tc-99m emerged in the past few years because aging nuclear reactors in the Netherlands and Canada that provided about two-thirds of the world's supply of Mo-99 were shut down repeatedly for extended maintenance periods and two replacement Canadian reactors constructed in the 1990s were closed before beginning operation for safety reasons.

We use, and plan to continue to use, EC20 or other companion imaging diagnostics that employ Tc-99m in our clinical trials. For example, EC20 is a component of PROCEED and, in the future, if our clinical trial sites are not able to obtain sufficient quantities of Tc-99m for use in EC20, we may not be able to gather sufficient data on EC20 during PROCEED and as a result, the approval of EC20 may be delayed. In addition, to the extent the approval of our product candidates depends on the screening and monitoring of the patient population with a companion imaging diagnostic such as EC20 in our clinical trials, we would experience a corresponding delay in approval and commercialization of these SMDCs if we are not able to obtain sufficient Tc-99m.

In July 2011, the manufacturer of Doxil announced that supplies of the drug are currently limited and new supplies are estimated to ship in late August. If the supplies of Doxil are limited for an extended period of time, our PROCEED trial may be delayed.

If a successful product liability claim or series of claims is brought against us for uninsured liabilities or in excess of insured liabilities, we could be forced to pay substantial damage awards.

The use of any of our product candidates in clinical trials, and the sale of any approved products, may expose us to product liability claims. We currently maintain product liability insurance coverage in an amount which we believe is adequate for our clinical trials currently in progress and those recently completed. We monitor the amount of coverage we maintain as the size and design of our clinical trials evolve and intend to adjust the amount of coverage we maintain accordingly. However, we cannot assure you that such insurance coverage will fully protect us against some or all of the claims to which we might become subject. We might not be able to maintain adequate insurance coverage at a reasonable cost or in sufficient amounts or scope to protect us against potential losses. In the event a claim is brought against us, we might be required to pay legal and other expenses to defend the claim, as well as uncovered damages awards resulting from a claim brought successfully against us. Furthermore, whether or not we are ultimately successful in defending any such claims, we might be required to direct financial and managerial resources to such defense and adverse publicity could result, all of which could harm our business.

Each of our product candidates will remain subject to ongoing regulatory review even if it receives marketing approval. If we or our contractors fail to comply with continuing regulations, we or they may be subject to enforcement action that could adversely affect us.

Even if our product candidates become approved products, we and our contractors will continue to be subject to pervasive regulation by the FDA and other regulatory authorities. We and our contractors will continue to be subject to FDA requirements governing among other things the manufacture, packaging, sale, promotion adverse event reporting, storage and recordkeeping of our approved products. Although we have not received any notice that we are the subject of any FDA enforcement action, it is possible that we may be in the future and that could have a material adverse effect on our business. We may be slow to adapt, or may never adapt, to changes in existing regulatory requirements or adoption of new regulatory requirements. If we or any of our contractors fail to comply with the requirements of the FDA and other applicable U.S. or foreign governmental or regulatory authorities or previously unknown problems with our products, manufacturers or manufacturing processes are discovered, we or the contractor could be subject to administrative or judicially imposed sanctions, including: restrictions on the products, the manufacturers or manufacturing processes we use, warning letters, civil or criminal penalties, fines, injunctions, product seizures or detentions, import bans, voluntary or mandatory product recalls and publicity requirements, suspension or withdrawal of regulatory approvals, total or partial suspension of production, and refusal to approve pending applications for marketing approval of new products to approved applications.

We deal with hazardous materials and must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our activities involve the controlled storage, use, and disposal of hazardous materials, including corrosive, explosive and flammable chemicals, biologic waste and various radioactive compounds. We are subject to federal, state, and local laws and regulations governing the use, manufacture, storage, handling, and disposal of these hazardous materials. Although we believe that our safety procedures for the handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials.

In the event of an accident, state or federal authorities may curtail our use of these materials, and we could be liable for any civil damages, which may exceed our financial resources and may seriously harm our business. We currently maintain insurance covering hazardous waste clean up costs in an amount we believe to be sufficient for typical risks regarding our handling of these materials, however, this amount of coverage may not be sufficient to cover extraordinary or unanticipated events. Additionally, an accident could damage, or force us to temporarily shut down, our operations.

Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.

Under Section 382 of the U.S. Internal Revenue Code, or Code, a corporation that experiences a more-than 50 percent ownership change over a three-year testing period is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. Changes in our stock ownership could result in an ownership change under Section 382 of the Code and limit the future use of our NOLs. We have not determined whether our February 2011 initial public offering or our August 2011 public offering resulted in an ownership change under Section 382 of the Code or the impact that these offerings may have on this issue. If an ownership change were to occur, we may not be able to utilize a material portion of our NOLs.

Risks Related to Intellectual Property

Our proprietary rights may not adequately protect our technologies and product candidates.

Our commercial success will depend in part on our ability to obtain additional patents and protect our existing patent position as well as our ability to maintain adequate protection of other intellectual property for our technologies, product candidates, and any future products in the United States and other countries. If we do not adequately protect our intellectual property, competitors may be able to use our technologies and erode or negate any competitive advantage we may have, which could harm our business and ability to achieve profitability. The laws of some foreign countries do not protect our proprietary rights to the same extent or in the same manner as U.S. laws, and we may encounter significant problems in protecting and defending our proprietary rights in these countries. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies, product candidates and any future products are covered by valid and enforceable patents or are effectively maintained as trade secrets.

We apply for patents covering both our technologies and product candidates, as we deem appropriate. However, we may fail to apply for patents on important technologies or product candidates in a timely fashion, or at all. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products and technologies. We cannot be certain that our patent applications will be approved or that any patents issued will adequately protect our intellectual property. For example, our issued patents do not claim composition of matter protection for the drug payloads connected to the linker system and targeting ligand modules of our SMDCs. In addition, we generally do not control the patent prosecution of subject matter that we license from others, including those licensed from Purdue Research Foundation, a non-profit organization which manages the intellectual property of Purdue University. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we would over our own and would need to involve Purdue Research Foundation in legal proceedings to enforce these intellectual property rights. Moreover, the patent positions of biopharmaceutical companies are highly uncertain and involve complex legal and factual questions for which important legal principles are often evolving and remain unresolved. As a result, the validity and enforceability of patents cannot be predicted with certainty. In addition, we do not know whether:

- we or our licensors were the first to make the inventions covered by each of our issued patents and pending patent applications;
- we or our licensors were the first to file patent applications for these inventions;
- any of our product candidates will be Orange Book eligible;
- others will independently develop similar or alternative technologies or duplicate any of our technologies;
- any of our or our licensors' pending patent applications will result in issued patents;
- any of our or our licensors' patents will be valid or enforceable;
- any patents issued to us or our licensors and collaboration partners will provide us with any competitive advantages, or will be challenged by third parties;
- we will develop additional proprietary technologies that are patentable;
- the U.S. government will exercise any of its statutory rights to our intellectual property that was developed with government funding; or
- our business may infringe the patents or other proprietary rights of others.

The actual protection afforded by a patent varies based on products or processes, from country to country and depends upon many factors, including the type of patent, the scope of its coverage, the availability of regulatory related extensions, the availability of legal remedies in a particular country, the validity and enforceability of the patents and our financial ability to enforce our patents and other intellectual property. Our ability to maintain and solidify our proprietary position for our products will depend on our success in obtaining effective claims and enforcing those claims once granted. Our issued patents and those that may issue in the future, or those licensed to us, may be challenged, narrowed, invalidated or circumvented, and the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages against competitors with similar products. Due to the extensive amount of time required for the development, testing and regulatory review of a potential product, it is possible that, before any of our product candidates can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent.

We also rely on trade secrets to protect some of our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to maintain. While we use reasonable efforts to protect our trade secrets, our or any of our collaboration partners' employees, consultants, contractors or scientific and other advisors may unintentionally or willfully disclose our proprietary information to competitors and we may not have adequate remedies in respect of that disclosure. Enforcement of claims that a third party has illegally obtained and is using trade secrets is expensive, time consuming and uncertain. In addition, non-U.S. courts are sometimes less willing than U.S. courts to protect trade secrets. If our competitors independently develop equivalent knowledge, methods and know-how, we would not be able to assert our trade secrets against them and our business could be harmed.

The intellectual property protection for our product candidates is dependent on third parties.

With respect to patent applications relating to our product candidates that incorporate patents licensed from Purdue Research Foundation, the right and obligation to prosecute and maintain the patents and patent applications covered by these license agreements are retained by Purdue Research Foundation. Generally, we do not have the right to prosecute and maintain such patents in our territories, unless Purdue Research Foundation elects not to file, prosecute or maintain any or all of such patents. We would need to determine, with our other potential partners, who would be responsible for the prosecution of patents relating to any joint inventions. If any of our licensing partners fail to appropriately prosecute and maintain patent protection for any of our product candidates, our ability to develop and commercialize those product candidates may be adversely affected and we may not be able to prevent competitors from making, using and selling competing products.

If we breach any of the agreements under which we license commercialization rights to our product candidates or technology from third parties, we could lose license rights that are important to our business.

We license the use, development and commercialization rights for some of our product candidates, and we expect to enter into similar licenses in the future. For example, we licensed exclusive worldwide rights from Purdue Research Foundation, pursuant to a license agreement, which enables us to use and administer EC145 in the treatment of cancer. Under this license we are subject to commercialization and development, diligence obligations, sublicense revenue sharing requirements, royalty payments and other obligations. If we fail to comply with any of these obligations or otherwise breach this license agreement or any other current or future licenses, our licensing partners may have the right to terminate the license in whole or in part or to terminate the exclusive nature of the license. Generally, the loss of any of current or future licenses or the exclusivity rights provided therein could materially harm our financial condition and operating results.

The patent protection for our product candidates may expire before we are able to maximize their commercial value, which may subject us to increased competition and reduce or eliminate our opportunity to generate product revenue.

The patents for our product candidates have varying expiration dates and, if these patents expire, we may be subject to increased competition and we may not be able to recover our development costs or market any of our approved products profitably. For example, one of our U.S. patents claims compounds encompassing EC145 and is due to expire in 2026, and two of our other U.S. patents claim compounds encompassing EC20 and are due to expire in 2024. In some of the larger potential market territories, such as the United States and Europe, patent term extension or restoration may be available to compensate for time taken during aspects of the product's development and regulatory review. However, we cannot be certain that such an extension will be granted, or if granted, what the applicable time period or the scope of patent protection afforded during any extension period will be. In addition, even though some regulatory authorities may provide some other exclusivity for a product under their own laws and regulations, we may not be able to qualify the product or obtain the exclusive time period. If we are unable to obtain patent term extension/restoration or some other exclusivity, we could be subject to increased competition and our opportunity to establish or maintain product revenue could be substantially reduced or eliminated. Furthermore, we may not have sufficient time to recover our development costs prior to the expiration of our U.S. and non-U.S. patents.

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

Filing, prosecuting and defending patents on all of our product candidates throughout the world would be prohibitively expensive. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our products in jurisdictions where we do not have any issued patents and our patent claims or other intellectual property rights may not be effective or sufficient to prevent them from so competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

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

Our commercial success depends, in part, on our not infringing the patents and proprietary rights of other parties and not breaching any collaboration or other agreements we have entered into with regard to our technologies and product candidates. Numerous third-party U.S. and non-U.S. issued patents and pending applications exist in the areas of targeted therapy and targeted diagnostics, including cytotoxic agents and other active compounds and formulations comprising such compounds.

Because patent applications can take several years to issue, if they are issued at all, there may currently be pending applications, unknown to us, that may result in issued patents that cover our technologies or product candidates. It is uncertain whether the issuance of any third-party patent would require us to alter our products or processes, obtain licenses or cease activities related to the development or commercialization of our product candidates. If we wish to use the technology or compound claimed in issued and unexpired patents owned by others, we may need to obtain a license from the owner, enter into litigation to challenge the validity of the patents or incur the risk of litigation in the event that the owner asserts that any of our product candidates infringe its patents. The failure to obtain a license to technology or the failure to challenge an issued patent that we may require to discover, develop or commercialize our products may have a material adverse impact on us.

There is a substantial amount of litigation involving intellectual property in the biopharmaceutical industry generally. If a third party asserts that our products or technologies infringe its patents or other proprietary rights, we could face a number of risks that could seriously harm our results of operations, financial condition and competitive position, including:

- infringement and other intellectual property claims, which would be costly and time-consuming to defend, whether or not the claims have merit, and which could delay the regulatory approval process and divert management’s attention from our business;
- substantial damages for past infringement, which we may have to pay if a court determines that our product candidates or technologies infringe a competitor’s patent or other proprietary rights;
- a court prohibiting us from selling or licensing our technologies or our product candidates unless the third-party licenses its patents or other proprietary rights to us on commercially reasonable terms, which it is not required to do;
- if a license is available from a third party, we may have to pay substantial royalties or lump sum payments or grant cross-licenses to our patents or other proprietary rights to obtain that license; and
- redesigning our products so they do not infringe, which may not be possible or may require substantial monetary expenditure and time.

Although we are not currently a party to any legal proceedings relating to our intellectual property, in the future, third parties may file claims asserting that our technologies or products infringe on their intellectual property. We cannot predict whether third parties will assert these claims against us or against the current or future licensors of technology licensed to us, or whether those claims will harm our business. If we are forced to defend against these claims, whether they are with or without any merit, whether they are resolved in favor of or against us or our licensors, we may face costly litigation and diversion of management’s attention and resources. As a result of these disputes, we may have to develop costly non-infringing technology, or enter into licensing agreements. These agreements, if necessary, may be unavailable on terms acceptable to us, if at all, which could seriously harm our business or financial condition.

One or more third-party patents or patent applications may conflict with patent applications to which we have rights. Any such conflict may substantially reduce the coverage of any rights that may issue from the patent applications to which we have rights. If third parties file patent applications in technologies that also claim technology to which we have rights, we may have to participate in interference proceedings with the U.S. Patent and Trademark Office, or USPTO, or non-U.S. patent regulatory authorities, as applicable, to determine priority of invention.

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

Competitors may infringe our patents or other intellectual property rights. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming. To the extent such claims relate to patents held by the Purdue Research Foundation, it would have to file such an infringement lawsuit since we do not have the independent right to enforce the Purdue Research Foundation’s intellectual property. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

Interference proceedings brought by the USPTO may be necessary to determine the priority of inventions with respect to our patents and patent applications or those of our current or future collaborators. An unfavorable outcome could require us to cease using the technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if a prevailing party does not offer us a license on terms that are acceptable to us. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distraction of our management and other employees. We may not be able to prevent, alone or with our collaborators, misappropriation of our proprietary rights, particularly in countries where the laws may not protect those rights as fully as in the United States.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential and proprietary information could be compromised by disclosure during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

Risks Related to Ownership of Our Common Stock

The price of our common stock has been volatile and our shares may suffer a decline in value.

We have experienced volatility in the trading price of our common stock which has ranged from $7.00 per share on February 22, 2011 to $14.80 per share on July 7, 2011. Factors that could cause volatility in the market price of our common stock include, but are not limited to the risk factors identified above as well as:

- results from, and any delays in, our current or planned clinical trials, including PROCEED;
- announcements of FDA non-approval of our product candidates, including EC145, or delays in FDA or other non-U.S. regulatory authority review processes;
- FDA or other U.S. or non-U.S. regulatory actions affecting us or our industry;
- litigation or public concern about the safety of our product candidates;
- failure or discontinuation of any of our research or clinical trial programs;
- delays in the commercialization of our product candidates;
- our ability to effectively partner with collaborators to develop or sell our products;
- market conditions in the pharmaceutical, biopharmaceutical and biotechnology sectors and issuance of new or changed securities analysts' reports or recommendations;
- actual and anticipated fluctuations in our quarterly operating results;
- developments or disputes concerning our intellectual property or other proprietary rights;
- introduction of technological innovations or new products by us or our competitors;
- issues in manufacturing our product candidates;

- market acceptance of our product candidates;
- deviations in our operating results from the estimates of securities analysts;
- coverage and reimbursement policies of governments and other third-party payors;
- sales of our common stock by our officers, directors or significant stockholders;
- price and volume fluctuations in the overall stock market from time to time;
- general economic conditions and trends;
- major catastrophic events;
- our ability to expand our operations, domestically and internationally, and the amount and timing of expenditures related to this expansion; and
- additions or departures of key personnel.

In addition, the stock markets in general, and the markets for biopharmaceutical, pharmaceutical and biotechnology stocks in particular, have experienced extreme volatility that has been often unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the trading price or liquidity of our common stock. In the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the issuer. If any of our stockholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the attention of our management would be diverted from the operation of our business, which could result in the delays of our clinical trials or commercialization efforts.

Sales of substantial amounts of our shares could adversely affect the market price of our common stock.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to raise capital by selling equity or equity-related securities in the future at a time and price that we deem appropriate.

As of June 30, 2011, we had 29,724,837 of our common stock outstanding. We issued an additional 5,839,810 shares in the August 2011 public offering which increased the number of outstanding shares to 35,564,647. These numbers assume no exercise of outstanding warrants or stock options or payouts of restricted stock units. Of the outstanding shares, the 21,056,420 shares sold in our public offerings and the 63,223 shares issued upon exercise of stock options since February 9, 2011, are or will be freely transferable without restriction under the Securities Act, unless they are held by our “affiliates” as that term is used under the Securities Act and the rules and regulations promulgated thereunder. The remaining 14,445,004 shares of common stock are restricted shares which, along with other shares held by our affiliates, may be sold in the public market only if registered or if they qualify for the exemption from registration under Rule 144 promulgated under the Securities Act or another exemption from registration.

On August 4, 2011, approximately 1,145,000 of the restricted shares became eligible for resale, subject to the provisions of Rule 144. A total of approximately 13,300,000 of the restricted shares remain subject to the 90-day lockup described below. This lockup period is subject to extension under certain circumstances.

We, all of our directors and executive officers, and certain non-affiliated investors who acquired 25,000 or more shares prior to our initial public offering agreed with the underwriters of the August 2011 public offering that, without the prior written consent of the underwriters, we and they will not, through October 26, 2011:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exercisable or exchangeable for our common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock;

whether any transaction described above is to be settled by delivery of shares of our common stock or such other securities, in cash or otherwise. This agreement is subject to certain exceptions, and is also subject to extension for up to an additional 34 days.

In addition, in the event that we propose to register any of our securities under the Securities Act of 1933, as amended, or the Securities Act, either for our own account or for the account of other securityholders, certain holders of our common stock and other registrable securities are entitled to notice of such registration and are entitled to include their common stock in such registration, subject to certain marketing and other limitations. The holders of at least 50 percent of these registrable securities have the right to require us, on not more than two occasions, to file a registration statement on Form S-1 under the Securities Act in order to register the resale of shares of their common stock, subject to our right, in certain circumstances, to defer such registrations. Further, these holders may require us to register the resale of all or a portion of their shares on a registration statement on Form S-3, subject to certain conditions and limitations. Finally, these holders have certain “piggyback” registration rights. If we propose to register any of our equity securities under the Securities Act other than pursuant to the registration rights noted above or specified excluded registrations, which include the registration of the shares issued and issuable under our equity incentive plans and shares sold in this offering, holders may require us to include all or a portion of their registrable securities in the registration and in any related underwritten offering.

As restrictions on resale end or if these securityholders exercise their registration rights, the market price of our common stock could decline if the holders of the restricted shares sell them or are perceived by the market as intending to sell them.

Our existing stockholders have substantial control of our management and affairs, which could limit your ability to influence the outcome of key transactions, including a change of control.

Our directors, executive officers and each of our stockholders who own greater than five percent of our outstanding common stock and their affiliates, in the aggregate, beneficially own approximately 23.3 percent of the outstanding shares of our common stock after giving effect to the shares sold in the August 2011 public offering. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might affect the market price of our common stock.

Provisions in our certificate of incorporation and bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that our stockholders may deem advantageous. These provisions include:

- establishing a classified board so that not all members of our Board of Directors are elected at one time;
- authorizing “blank check” preferred stock that our Board of Directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- eliminating the ability of stockholders to call a special stockholder meeting;
- eliminating the ability of stockholders to act by written consent;
- being subject to provisions of Section 203 of the Delaware General Corporate Law regulating corporate takeovers;

- providing that our Board of Directors is expressly authorized to make, alter or repeal our bylaws; and
- establishing advance notice requirements for nominations for elections to our Board of Directors or for proposing other matters that can be acted upon by stockholders at stockholder meetings.

If we fail to establish and maintain proper internal controls, our ability to produce accurate financial statements or comply with applicable regulations could be impaired.

We will become subject to Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, beginning with our annual report for the year ending December 31, 2011. Section 404 requires management to assess and report annually on the effectiveness of internal control over financial reporting and identify any material weaknesses in internal control over financial reporting. Compliance with Section 404 of the Sarbanes-Oxley Act also requires our independent registered public accounting firm to issue an attestation report as to management's assessment of the effectiveness of internal control over financial reporting. Prior to becoming a public company, we were not required to comply with Section 404 of the Sarbanes-Oxley Act, and as a result we have not yet evaluated our compliance with these provisions. We anticipate that compliance with Section 404 of the Sarbanes-Oxley Act will increase our legal, accounting and financial compliance costs, may make related activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems and resources.

If we conclude that our internal control over financial reporting is not effective, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or their effect on our operations because there is presently no precedent available by which to measure compliance adequacy. As a consequence, we may not be able to remediate in time to meet our deadline for compliance with Section 404 of the Sarbanes-Oxley Act. Also, there can be no assurance that we will not identify one or more material weaknesses in our internal controls in connection with evaluating our compliance with Section 404 of the Sarbanes-Oxley Act. The presence of material weaknesses could result in financial statement errors which, in turn, could require us to restate our operating results.

If we are unable to conclude that we have effective internal control over financial reporting or if our independent auditors are unwilling or unable to provide us with an attestation report on the effectiveness of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act, investors may lose confidence in our operating results, our stock price could decline and we may be subject to litigation or regulatory enforcement actions. In addition, if we are unable to meet the requirements of Section 404 of the Sarbanes-Oxley Act, we may not be able to remain listed on The NASDAQ Global Market.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Use of Proceeds from Registered Securities

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-166904) that was declared effective by the SEC on February 4, 2011. We registered an aggregate of 14,375,000 shares of our common stock at an aggregate offering price of approximately $86.3 million. On February 9, 2011, we completed the sale of all 14,375,000 shares of our common stock at a price to the public of $6.00 per share, including the sale of 1,875,000 shares of common stock in connection with the underwriters' exercise of their overallotment option, for aggregate gross proceeds of $86.3 million. The offering commenced on February 4, 2011 and terminated upon the sale of all of the registered securities in the offering. RBC Capital Markets, LLC and Leerink Swann LLC acted as joint book-running managers for the offering. Wedbush Securities, Inc. and Robert W. Baird & Co. acted as co-managers. There were no selling stockholders in the offering.

We paid $5.5 million in underwriting discounts and commissions to the underwriters in connection with the offering and incurred additional costs of approximately $2.6 million in connection with the offering, which when added to the underwriting discounts and commissions paid, amounts to total expenses of approximately $8.1 million. Thus, the net offering proceeds to us, after deducting underwriting discounts and offering expenses, were approximately $78.2 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates.

As of June 30, 2011, we have used approximately $15.4 million of the net proceeds from the initial public offering to fund the phase 3 clinical trial of EC145 and EC20 and for working capital expenditures and other general corporate purposes. We have invested the unused proceeds from the offering in short-term interest-bearing, investment grade securities. There has been no material change in our planned use of proceeds from the offering from that described in the final prospectus filed with the SEC pursuant to Rule 424(b) on February 9, 2011 other than our announced plans to prepare marketing authorization applications for filing with the European Medicines Agency.

Item 5. Other Information

During the quarter ended June 30, 2011, the Audit Committee of our Board of Directors did not approve the engagement of Ernst & Young LLP, our independent registered public accounting firm, to perform certain non-audit services and no such services were provided during this period. This disclosure is made pursuant to Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

Item 6. Exhibits

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q.

SIGNATURES

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

	ENDOCYTE, INC.
Date: August 12, 2011	By: **/s/ P. Ron Ellis** **P. Ron Ellis** **President and Chief Executive Officer (Principal Executive Officer)**
Date: August 12, 2011	By: **/s/ Michael A. Sherman** **Michael A. Sherman** **Chief Financial Officer** **(Principal Financial Officer)**
Date: August 12, 2011	By: **/s/ Beth A. Taylor** **Beth A. Taylor** **Corporate Controller** **(Principal Accounting Officer)**

EXHIBIT INDEX

Exhibit Number	Description
10.1*	Form of Endocyte, Inc. 2010 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement (2011 RSU Program) (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 2, 2011).
10.2	Second Loan Modification Agreement dated July 19, 2011 among Endocyte, Inc. and Midcap Funding V, LLC. (incorporated by reference to Exhibit 10.22 to Amendment No. 1 to Form S-1 (Registration Number 333-175573) filed July 21, 2011).
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following materials from Endocyte, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (1) the Balance Sheets, (2) the Statements of Operations, (3) Statements of Convertible Preferred Stock, Stockholders' Equity (Deficit) And Comprehensive Loss (4) the Statements of Cash Flows, and (5) the Notes to Unaudited Financial Statements, tagged as blocks of text.

* Designates management or compensation plans.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, P. Ron Ellis, certify that:

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

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ P. Ron Ellis
P. Ron Ellis
President and Chief Executive Officer

Date: August 12, 2011

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael A. Sherman, certify that:

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

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael A. Sherman

Michael A. Sherman
Chief Financial Officer

Date: August 12, 2011

Exhibit 32.1

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

I, P. Ron Ellis, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Endocyte, Inc. on Form 10-Q for the quarter ended June 30, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Endocyte, Inc. for the periods covered by such Quarterly Report on Form 10-Q.

August 12, 2011	By: /s/ P. Ron Ellis
(Date)	Name: P. Ron Ellis
	Title: *President and Chief Executive Officer*

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

I, Michael A. Sherman, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Endocyte, Inc. on Form 10-Q for the fiscal year ended June 30, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Endocyte, Inc. for the periods covered by such Quarterly Report on Form 10-Q.

August 12, 2011	By: /s/ Michael A. Sherman
(Date)	Name: Michael A. Sherman
	Title: *Chief Financial Officer*