

Shareholder Proposal

Presented to:

Mr. Richard Brewer

Chairman of the Board
Dendreon Corporation

By:

Brad Loncar

February 22, 2011

Office of Brad Loncar

P.O. Box 15072
Lenexa, KS 66285
Phone Number Redacted

February 22, 2011

Mr. Richard B. Brewer
Chairman of the Board
Dendreon Corporation
3005 First Avenue
Seattle, WA 98121
(877) 256-4545

Dear Mr. Brewer:

As a Dendreon shareholder with a keen interest in the fight against cancer, I am very optimistic about the long-term opportunity you currently have within your reach to fundamentally change the way many cancers are treated. Dendreon's innovative approach to fighting cancer is a huge asset, and I believe management has a once-in-a-generation opportunity to grow a great company while improving the lives of a countless number of people.

However, there have been certain events over the last couple of years that have given me pause as a shareholder. Examples of this, which I will expand on in detailed supplements to this letter, include, but are not limited to, the following:

- The company's \$16.5 million settlement of a shareholder lawsuit is concerning.
- Important statements and guidance communicated by management to the investment community have often conflicted with reality or changed significantly throughout time.
- Disclosure of pertinent, and I believe material, information to shareholders has been lacking.
- Many actions by the board and individual company executives have not been shareholder friendly and send the wrong message to long-term investors. These include generous gifts of stock and options to executives, dilutive financings, and significant insider sales.
- Management, in my view, seems unprepared to effectively recognize and answer the public relations challenges facing the company that are outside of the scientific realm.

All of this leads me to conclude that management and the board are too narrowly focused and do not always have shareholder interest in mind. Do not get me wrong,

as the surviving grandson of a prostate cancer victim, I strongly agree with management's "Patients First" approach to business. However, the above points are so egregious that they have caused me to become broadly concerned about the board's oversight of management in general. That is why I think taking action to correct this now is so important. It will not only improve investor confidence, but I believe can put to rest any concerns of larger problems for all stakeholders.

The good news is that, as significant as these things are, I also believe they are easily correctable going forward. The problems, in my view, are a result of a lack of outside shareholder presence and viewpoints on the board. While all of Dendreon's current board members have impressive backgrounds in the biotech/healthcare industries, I think you are in need of one or two new outside board members who come from the ranks of shareholders, or at least are from outside of that specific realm. This will add more diversity to the thinking of the board and its oversight of management. It would also be reassuring to have a couple members of the board who are buyers, and not sellers, of the company's stock.

Therefore, I am writing you today to request that you nominate one or two new outside board members who come from the ranks of shareholders and/or are outside of the biotech industry. This will give investors confidence that a broad-range of viewpoints is being heard on the board and that shareholder interests are being protected. I strongly believe this action is needed and would appreciate hearing your thoughts on the matter. Additionally, as someone who is very knowledgeable about your company and its history, I would also be glad to help you vet any potential board members or even be one myself. Please let me know if that would be helpful.

Lastly, I would like to conclude by saying that I currently view this as a friendly and private matter. My aim is simply to point out to you what I believe is desperately needed to ensure that Dendreon is most effectively positioned to achieve its tremendous potential. I hope my proposal is seriously pursued, because I do strongly believe action is needed. I look forward to working with you to make sure Dendreon's future is maximized for patients, employees, shareholders, and all of its many other stakeholders.

Best Regards,



Brad J. Loncar

Cc: Richard F. Hamm, Jr.
(Dendreon General Counsel)

TABLE OF CONTENTS

Table of Contents

I.	Dendreon’s recent \$16.5 million settlement of a shareholder lawsuit is concerning.	1
II.	Important statements and guidance have often conflicted with reality or changed significantly throughout time.	7
III.	Disclosure of pertinent, and possibly material, information to shareholders has been lacking.	23
IV.	Are the board and company executives being properly incentivized? Significant insider sales, and generous gifts of stock and options send the wrong message to investors.	31
V.	Management seems unprepared to effectively recognize and answer the public relations challenges facing the company that are outside of the scientific realm.	42
VI.	Summary of Recommendations	56
VII.	About the Author	58

Issue #1

THE LAWSUIT SETTLEMENT

ISSUE #1

DENDREON'S RECENT \$16.5 MILLION SETTLEMENT OF A SHAREHOLDER LAWSUIT IS CONCERNING.

On September 16, 2010, Dendreon reached a settlement agreement with class action lawsuit parties in regards to claims against Dendreon, its chief executive officer, and a senior vice president. This lawsuit challenges disclosures related to the FDA's actions regarding the company's BLA for PROVENGE, and the sale of Dendreon stock by its chief executive officer. As part of the settlement, Dendreon agreed to pay \$16.5 million to the class, with no admission of wrongdoing.

Given that the lawsuit's central thesis was about unsatisfactory disclosure by the company, I suppose it is not surprising to see the lawsuit settlement itself was very quietly disclosed. In fact, it only received brief mention in two instances.

First, as is obligatory, an announcement of the settlement was disclosed deep within the company's 10-Q filing on November 3rd, 2010. This disclosure listed the financial terms of the settlement, and does not provide a broader discussion about the details, ramifications, or any other issues associated with the lawsuit as they pertain to Dendreon's current shareholders.

Second, CFO Gregory Schiffman very briefly mentioned the settlement in his prepared remarks about Dendreon's fiscal health during the company's Q3 earnings conference call (also on November 3rd, 2010). His mention only referenced the financial terms of the deal, and he also suggested that insurance is "expected to cover a significant portion of this settlement."ⁱ Other than that, there was no broader discussion about the details, ramifications, or any other issues associated with the lawsuit as they pertain to Dendreon's current shareholders.

Based on the little amount of attention this received, it is clear that Dendreon management does not view the lawsuit settlement as a significant event. In fact, from the tone of the disclosures, and a suggested expectation that insurance might cover the settlement, one could even say that Dendreon management marketed this as a non-event. However, as a current shareholder, I do not view this as a non-event at all. From my view, the settlement potentially calls into question the company's standard of governance and is legitimately concerning for four reasons.

I. A central allegation of the lawsuit gives the impression that executives of the company put their own interests ahead of shareholder's interests.

One of the pillars of what it means to be a publicly traded company is that company executives have a fiduciary duty to put shareholder's interests above all else. If this

is not an absolute given, confidence erodes and a company is never able to achieve its true potential or valuation in the marketplace. That is one reason why this particular settlement is so concerning; it calls into question that central pillar of corporate governance.

In this particular case, one of the central complaints alleges that the company's chief executive officer, while in possession of negative news about the FDA's inspection of its New Jersey manufacturing facility, chose to enrich himself by selling 24% of his holdings in the company ahead of a critical PDUFA date, rather than disclosing this information so that all shareholders could similarly make their own decisions about that information.

This is a particularly serious allegation, and the fact that the company paid out such a significant settlement amount to dissolve the claim is concerning. I hope one can see why it gives current investors pause, which is why I believe the board of directors' corporate governance committee should have specifically commented on it. That would have been the best way to completely restore investor confidence going forward. While I understand this is difficult to do with great specificity while under the environment of a lawsuit, the board could have at least assured investors that they thoroughly investigated the claims.

Additionally, it is important to note that even if those specific allegations are not true at face value, the fact that the company had to spend so much of its resources in time and treasure, largely because of the personal actions of one employee, is very disappointing. Dendreon's shareholders deserve better consideration in the future.

II. It appears that Dendreon might not have disclosed material information to its shareholders.

Even if you set aside the above idea that a company executive might have placed his own interests ahead of shareholders, in this case you are still left with the serious concern that Dendreon management did not disclose material information to its shareholders in a timely manner. This is particularly disappointing because, as I have mentioned in other sections of this report, there seems to be a pattern of substandard disclosure taking place at Dendreon over the last few years.

In this instance, the complaint alleges that Dendreon received a Form 483 from the FDA after its February 2007 inspection of the company's manufacturing plant in New Jersey, and that the company failed to disclose this information to investors. Given that Form 483s are typically only issued when there are significant violationsⁱⁱ, and also given that one of the two reasons the FDA ultimately gave for issuing its CRL (non-approval) was in fact manufacturing deficienciesⁱⁱⁱ, one can make a strong case that this Form 483 was indeed material information.

Unfortunately, as is typically the case, investors still have not been given the full details of the Form 483, so it is hard for one to come to their own definitive conclusions. This erodes confidence in the company. That is why I believe, once again, the corporate governance committee of the board of directors should have definitively commented on this issue. As noted before, while I understand the board can only say so much while under the environment of a lawsuit, just a confirmation that they had independently investigated the claim and found no violation would have gone a long way.

III. \$16.5 Million is not a negligible amount.

As a shareholder, I have to say one of the more frustrating aspects of Dendreon's dismissive stance towards this settlement is the size of the cash award, \$16.5 million. While Dendreon expects most of this amount will be covered by insurance, that argument does not entirely cut it for me as a shareholder in the company.

To put this number in greater perspective, consider that Dendreon's revenue for the entire third quarter of 2010, which they ironically announced on the same day as the settlement, was only \$20.2 million. Therefore, the settlement amount equals over three fourths of all revenue for that quarter...hardly an inconsequential amount.

Furthermore, this settlement amount is especially frustrating when you consider that (1) it technically comes out of the pocket of current shareholders through insurance premiums paid and any funds not covered by the insurance while (2) a significant cause of the lawsuit in the first place was the dealings of one individual who allegedly acted in his own self interest. Therefore, it is as if shareholders were wronged by management, and then asked to pay the legal bills to clear this up. Does that sound appealing? It is hardly a way to keep long-term shareholders interested in a company, especially when the board of directors is silent on the issue.

IV. As far as one can tell, no punitive action or change in company policy resulted from the lawsuit.

Another deep concern of mine, subsequent to this settlement, is that it appears there has been no consequence of it other than the financial burden being carried by shareholders. I can find no evidence that the executives responsible have in any way been admonished or that Dendreon has changed corporate policy going forward so that something like this will not happen again. In other words, it is business as usual going forward at Dendreon. As a shareholder, I find that to be objectionable and a little reckless.

In terms of the chief executive officer whose actions were a central piece of the lawsuit, clearly there were no ramifications to him. On December 7th, 2010, it was

announced that his salary was being increased to \$785,000 from \$550,000, that he was receiving an undisclosed cash bonus amount based on 2010 performance, that he was receiving equity awards with a target value of \$4,000,000, that his target bonus for 2011 is being set at 100%, and that he would be receiving a performance-based restricted stock award for 2011 of 35,000 shares^{iv}. Frankly, I agree with many of these awards because the chief executive officer has created significant shareholder value by navigating Dendreon through PROVENGE's approval. However it would have at least been nice to hear the board comment in some way about his role in this significant settlement amount.

More alarmingly, Dendreon has given no indication there has been any changes in corporate policies to ensure that something like this will not happen again. To give Dendreon the benefit of the doubt, perhaps some internal change in policy or new form of oversight has been initiated, but has not been publicly announced. However, even if that were true, I believe this at least deserves to be mentioned to shareholders since they have the most to lose when lawsuits like this arise.

On the other hand, if no change has indeed taken place, I strongly suggest that the board of directors take action immediately. Even if the settlement amount is covered by insurance in this instance, as Dendreon suggests it might be, certainly the terms of insurance coverage going forward will not be as friendly. This increases financial and other risk factors going forward. I think it also underscores a need for better board oversight and a more accommodative disclosure policy going forward as well.

Conclusion

While it is clear that Dendreon and its board view the recent lawsuit conclusion as a non-event and the settlement amount as insignificant, shareholders see things differently. At the end of the day, I believe the reason for this discrepancy in opinions is due to the board's overwhelming silence on the issue. Since shareholders ultimately have the most to lose when lawsuits like this happen, they deserve to hear more from the board when they do. Perhaps if the board had communicated to shareholders in more detail how they view this lawsuit or what changes they have made as a result of it going forward, shareholders might agree with management's sentiment that it is a non-event. However, seeking shareholder input like this seems to have not been considered. Therefore, this adds further conviction to my conclusion that I believe it is important to have more shareholder representation on the board.

Notes:

ⁱ Dendreon '10 Q3 Conference Call Transcript. Available at www.morningstar.com.

ⁱⁱ http://en.wikipedia.org/wiki/Form_FDA_483

ⁱⁱⁱ <http://files.shareholder.com/downloads/DNDN/699653678x0xS891020%2D07%2D138/1107332/filing.pdf>

^{iv} <http://files.shareholder.com/downloads/DNDN/699653678x0xS1107332%2D10%2D45/1107332/filing.pdf>

Issue #2

MANAGEMENT'S GUIDANCE

ISSUE #2

IMPORTANT STATEMENTS AND GUIDANCE COMMUNICATED BY MANAGEMENT TO THE INVESTMENT COMMUNITY HAVE OFTEN CONFLICTED WITH REALITY OR CHANGED SIGNIFICANTLY THROUGHOUT TIME.

One of the most important things a public company's management can do to maximize long-term shareholder support is set realistic and conservative guidance to help the investment community understand its operating prospects. This creates a two-fold benefit. First, conservative guidance allows management the opportunity to meet or exceed expectations, which in turn builds confidence in the investment community. Second, that confidence further allows the investment community to price the company at its maximum intrinsic value, which also allows the company to take advantage of various efficiencies.

However, when management overpromises or does not meet guidance, the opposite is true. In that case, investors start to lose confidence in management and therefore do not value a company at its maximum potential. In essence, investors have to price in a discount to account for uncertainties associated with bad guidance. This leads to many problems including higher financing costs, depressed stock prices, above average volatility, and a lack of long-term investor support.

Unfortunately, I have noticed a pattern of Dendreon falling into this trap over the last couple of years. Important statements and guidance communicated by management have materially conflicted with reality or changed significantly throughout time. Alarming, many of these statements revolve around some of the company's most important features such as financing plans, revenue guidance, and plans for future growth overseas.

Being the first company of its kind to use such a novel approach to treat cancer, Dendreon has faced many uncertainties over the last couple years and it is certainly understandable that predicting future growth is not easy. However, this is all the more reason for management and the board to have proceeded with caution and issue conservative guidance. Being new to large-scale manufacturing, Dendreon is just now establishing its reputation with the investment community, and getting off on the right foot with good guidance is a very important test.

Unfortunately, I believe Dendreon has in many respects failed that first test. To illustrate what I mean, I will outline below three major topics on which Dendreon has already severely overpromised and under-delivered. I will also outline why I think the board bears a large responsibility for these missteps and why I believe better oversight is vital going forward.

Example 1: Dendreon misled investors about a significant equity financing.

What Dendreon Said

On August 11, 2009, during the company's 2nd quarter conference call, Dendreon CFO Gregory Schiffman said the following about future financing plans.

*"...cash balances we are holding at year end, \$200 million at year end, will certainly enable us to buildout the majority of the (manufacturing) facilities. We do not have a need to access the capital markets certainly ahead of any positive news from the FDA...at this point we feel really good with the position we are at and the cash we are holding to be able to buildout these facilities."*ⁱ

What Actually Happened

Four months after this statement, and four months before the FDA decision, Dendreon accessed the capital markets by issuing 17,250,000 new shares and raising \$409,500,000 net of fees. This substantial issuance represented a significant 14.9% increase in the number of shares outstanding.ⁱⁱ

The reason given for the dilution was that the company "...intends to use the net proceeds of the offering to fund expenditures in connection with the investment in its manufacturing facilities..."ⁱⁱⁱ

Analysis And Why This Is Concerning

From my point of view, this turn of events was particularly disappointing for three reasons.

First, it shows that shareholder interests are not always held paramount by Dendreon management. In my experience as a shareholder, I can say that there are few things as frustrating as being hit with a surprise dilution. Dilutions in general are rarely a good thing, but even in cases where they are necessary, it is always more advisable to let investors know they might be on the horizon. This is especially true for large-scale dilutions. However, in this case, based on Mr. Schiffman's public guidance, you can see that the dilution unfortunately did come as complete surprise.

That is unacceptable because I believe management's actions not only hurt shareholders directly (by diluting their investment and eroding their confidence), but it was also bad for the company in a broader sense. For example, one must consider that in order for a company to maintain stable equity ownership and reduce volatility, it is critical that they are able to attract and maintain a solid base of long-term shareholders. Unfortunately, surprise dilutions like this are how you lose long-term investors, not how you gain them.

Second, this case shows a startling lack of planning by management. Even if you give Mr. Schiffman the benefit of the doubt and assume that plans change, it is hard to reconcile how such a large shift in strategy could have taken place over such a short period of time, to the complete surprise of management. If you take Mr. Schiffman's words at face value, Dendreon clearly had a plan in August. I find it a little worrisome that their plan was so far off the mark four short months later and that Dendreon's management did not have the foresight to see this as a potential option.

Remember, this was a very significant dilution, not a small change in strategy. At the time, it represented a substantial 14.9% increase in shares. Therefore, it is hard for me to see how something so significant could have been off the table at one moment, and then be seen as necessary so quickly. Could management really have been unaware that this was potentially necessary at the time Mr. Schiffman gave his previous guidance? If so, it shows very poor short-term planning on the company's part. Shareholders deserve better.

Lastly, one could view this dilution as disappointing because a strong case can be made that it perhaps might have been the wrong strategy. While I can understand the reasons for doing it both ways, when one looks back at this transaction, you can make a strong argument that Dendreon might have been better off if it would have stuck with Mr. Schiffman's original plan to do the financing in April or May.

First, look at the stated benefit. At the time of the dilution, management said a major factor for doing the financing was that it would allow them to move up the timeline when the Atlanta and Orange County manufacturing facilities come online from "second half 2011" to "mid-2011."^{iv} However, when you contrast that with Mr. Schiffman's earlier statement in August that "*we feel really good with the position we are at and the cash we are holding to be able to buildout these facilities*" there does not seem to be such a huge difference gained between the two.

On the other hand, if the company had waited until after the FDA decision to raise addition funds, the price of the stock at which they could have raised the money would have been nearly twice as high. This would have allowed Dendreon to raise nearly twice as much money with the same amount of dilution. Or to look at it another way, Dendreon could have raised enough money at that time to nearly fund both U.S. and European operations, thereby eliminating the need to go back to the market and raise an additional \$607 million like they did in January of 2011.

In conclusion, this seems like an unfortunate set of occurrences to me. Shareholders need to know they are being told the truth, company management is constantly planning for all possible contingencies, and that shareholder value is always trying to be maximized. In this case, it is unfortunately unclear which, if any, of these statements are true.

Example 2: Dendreon has been significantly off the mark in issuing early revenue guidance for its U.S. manufacturing operations.

Probably the most important guidance a company can give to the shareholder community is good sales and revenue guidance. This is especially true for a company like Dendreon, which is establishing a new reputation for itself as it transitions into a manufacturing company from a research organization. Starting off with accurate and achievable sales numbers is critical to achieving a good relationship with shareholders.

However, as I have mentioned before, in Dendreon's case coming up with accurate guidance is certainly easier said than done. After all, Dendreon's approach to fighting cancer is novel, and the company is largely operating in uncharted waters. Therefore, I do have a certain amount of sympathy for a management team who must come up with guidance under these conditions. Nevertheless, after following how Dendreon's management has approached this problem over the years, I have been less than impressed and that sympathy is running short.

In my view, the responsible way to approach guidance when there are so many uncertainties is to start out by giving scaled-back, and absolutely achievable benchmarks. Then, as the company has more experience under its belt, it can revise its guidance upward to match what is actually realistic.

Unfortunately, Dendreon's management seems to have done the opposite. Rather than starting out with conservative guidance, they began by telling a story to investors that was aggressive. Afterwards, as reality set in, management delicately ratcheted back this guidance to a more sustainable level. This is not a great way to establish your reputation as a manufacturing concern.

To understand what I am talking about, take for example the number of patients Dendreon said they would be able to treat and the resulting revenue guidance in their first year of operation.

Up until at least June 23, 2010, Dendreon is clearly on record as giving guidance for treating 2,000 patients and earning revenues of \$125 million to \$250 million in its first 12 months of operation. However, more important than the actual numbers was the explanation of how easily they could get there. In multiple instances, Dendreon claimed these figures were initially achievable even with only 25% capacity of the New Jersey manufacturing plant online for the year.

In a very short period of time, these statements have been proven to be spectacularly false. The actual results have turned out to be below what was even the low-end of Dendreon's guidance, and less than half of the rosy, high-end guidance. To prove this, I will illustrate three cases of Dendreon's management giving misleading guidance to investors and will show how this ultimately turned out to be wrong.

Misrepresentation A:

What COO Hans Bishop Said When Establishing The 2,000 Patients Figure.

“Over the next 12 months, we’ll provide PROVENGE to approximately 2,000 patients.”^v
- April 29th, 2010, during a conference call with investors.

“I’d like to reiterate our guidance of treating approximately 2,000 patients over the first 12 months of launch.”^{vi}

- August 3rd, 2010 earnings call with investors.

What Actually Happened

The 2,000 patients treated over the first 12 months figure has been changed to 2,000 patients treated by “mid year” 2011.^{vii}

-November 3rd, 2010 earnings call with investors.

Analysis And Why This Is Concerning

At first blush, the modification from “first 12 months” to “mid year” 2011 might seem to be a minor change in guidance. After all, a reasonable explanation was given as to why this is being pushed out to a later time. The explanation is that the first couple months of operations were merely startups and should not count towards the 12 months figure.

I was initially willing to write it off as being insignificant. However, I then coupled that with important guidance Mitchell Gold gave during an investor conference in London on June 23rd, 2010. Any leniency one might be willing to give the company on the timeline change, in my view, is thrown out the window when you recall his comments below. Dr. Gold was asked specifically “what gave him confidence in the 2,000 patients” number, and he went on to explain how the guidance was conservative and that they could easily achieve the 2,000 patient figure, even at 25% capacity.

Misrepresentation B:

What CEO Mitchell Gold Said When Asked By An Investor What Makes Him So Sure Dendreon Can Achieve The 2,000 Patients Figure In The First 12 Months:

“We’ve already given guidance that the New Jersey facility can support somewhere between [\$500 million and \$1 billion dollars] in annual revenue. If you break that down into just the 25% capacity that is currently available, it’s \$125 to \$250 (million) which translates into roughly 1,800 to 2,600 patients. So we have the capacity to be able to supply this into the marketplace.”

“We tend to be very conservative in the type of guidance we give in terms of utilization of the plants. But even on that low end you are in the range of meeting the 2,000 patients.”^{viii}

- June 23rd, 2010 investor presentation at the NASDAQ OMX 24th Investor Program.

What Actually Happened

The guidance has been changed significantly to say that 2,000 patients treated in the first 12 months would only be achievable with considerable help from the additional 75% capacity of New Jersey coming online in 2011.^{ix}

- August 3rd, 2010 earnings conference call with investors.

Peak capacity for the 25% of the New Jersey facility has been reduced to only \$9 to \$10 million per month.^x

- November 3rd, 2010 earnings call with investors.

Analysis And Why This Is Concerning

It is surprising, and pretty alarming, how this guidance was so far off the mark. The bottom line is that the shift in guidance from 2,000 patients in the “first 12 months” to “mid-year” 2011 is not just a shift in time. It is also a significant shift in substance. The undisputable fact remains that Dendreon originally claimed it could conservatively get to the 2,000 figure with only 25% of New Jersey online for 12 months.

However, that claim has been subsequently changed, and they now are saying that the overwhelming majority of the 2,000 patients will only be treated once capacity is increased fourfold and all of New Jersey is online. In other words, Dendreon might still get to the 2,000 number, but only with the help of capacity that is much greater than what they originally thought they needed to get the job done.

To be fair, management would counter this argument by saying a reason why capacity utilization has been so low compared to the original guidance is because there are inefficiencies involved with producing for the whole country out of one manufacturing facility. In other words, once all three plants are up and running, utilization will increase because it is more efficient to manufacture only a regional product. However, I am not buying that excuse for two reasons.

First, even if that is true (and I agree it is true to a certain extent), management should have realized this and factored it into their original guidance. The bottom line is that such an excuse still does not change the fact that the original guidance was wrong. It also shows poor planning on their part. After all, were they surprised to learn these inefficiencies would exist?

Second, the inefficiencies alone, in my view, do not make up for the fact that the guidance was so substantially wrong. If you look at what management is currently

saying, max revenue for the 25% of capacity for New Jersey appears to be \$10 million per month. That works out to approximately 107 patients per month. Furthermore, 107 patients per month works out to be an annualized number of about 1,284, which is nowhere near the 1,800 to 2,600 range that Dr. Gold gave in June. Therefore, I do not think this difference can be explained by inefficiencies alone. Frankly, the guidance was just wrong.

This is especially concerning because it seriously calls into question future guidance as well. My question is: If the \$125 to \$250 million figure for the 25% of capacity for New Jersey was so wrong, does that mean the \$500 million to \$1 billion guidance for the 100% of New Jersey is also wrong as well? Also, what does that mean about the guidance given for Atlanta and Orange County? Shareholders deserve to know the answers to these questions.

As an added note, given the importance and magnitude of this miscalculation, I think it is important to point out that I am not just bringing up a case where one executive misspoke or was taken out of context. In fact, the guidance Dr. Gold gave in June was the same guidance the company had always given up to that point. As proof of this, consider what Mr. Schiffman and Dr. Gold said on February 22nd, 2010 in regards to 2010 revenue.

Misrepresentation C:

What CFO Gregory Schiffman Said When Establishing New Jersey's Revenue Capacity For The First Six Months

"When we said it's \$500 million to \$1 billion fully built out, that gets you to about \$125 million to \$250 million at a quarter of the facility. If you look at the PDUFA clock, you have about six months revenue, which is somewhere between around \$60 million to \$120 million, if you're at full volume the entire six months."

To which Mitchell Gold added, *"For 2010."*^{xi}

- February 22nd, 2010 earnings call with investors.

What Actually Happened

Total revenues for the eight months of 2010 operations after approval are now estimated to be only \$46 to \$47 million.^{xii}

- November 3rd, 2010 earnings call with investors.

Analysis And Why This Is Concerning

Once again, the \$46 to \$47 million reality is spectacularly lower than Mr. Schiffman's \$60 to \$120 million guidance. This difference is especially stark when you consider

Dendreon technically has operated for 2 more months than they expected, albeit at a minimal rate during those months.

Also, it is important to note that Dendreon is now conceding that the maximum revenue for New Jersey at 25% capacity is only \$9 to \$10 million per month, which gets you to \$108 to \$120 million on an annualized basis, nowhere near the \$125 to \$250 million suggested on the call. This significant gap is further proof that the difference between reality and the guidance that was provided cannot simply be due to inefficiencies.

Unfortunately, all of this leads me to conclude that Dendreon's guidance for U.S. operations up to this point has been materially wrong. Even in a best-case scenario, revenue has been less than even the lowest end of their original guidance. Therefore, they have done exactly what you do not want to do as a young manufacturing company, overstate your sales and revenue guidance. Sadly, this has hurt shareholders and eroded confidence in the company.

Example 3: Dendreon has overpromised on the scale of its European opportunity, and misled investors about the extent and source of funds needed to finance those operations.

Just as I have clearly documented that Dendreon has given poor guidance when it comes to sales and revenues in the United States, I believe the company has also given poor guidance about the extent of its future operations in Europe. Furthermore, I also believe management has once again materially misled investors about financing activities by significantly raising more money than they said they would need for Europe.

I will illustrate this by showing multiple occasions where Dendreon management gave misleading guidance to investors about their European plans and will show how this ultimately turned out to be wrong.

European Misrepresentation A:

What Dendreon Has Said About Potential Scale Of Its European Opportunity

CEO Mitchell Gold:

"You will need a minimum, obviously, of one facility there, but likely you will need, just like the U.S., several facilities to support commercialization of the product in Europe."^{xiii}

- September 13th, 2010 investor presentation at the Morgan Stanley Global Healthcare Conference.

"...the logistics in Europe are very similar to what would occur in the U.S. In other words, you would have a number of facilities that would serve the markets there."^{xiv}
- February 22, 2010 Q4 earnings conference call.

CFO Gregory Schiffman:

"We believe the European opportunity is at least as large (as the U.S.), actually the prevalence is larger than that."^{xv}

- September 16, 2010 investor presentation at the Bank of America Merrill Lynch Global Healthcare Conference

COO Hans Bishop:

"It's important to remember for Provenge that the opportunity outside of North America is probably three times bigger than the opportunity in North America.... Total Europe has about 150,000 to 200,000 [patients with prostate cancer that has spread, and no longer responds to hormone-deprivation therapy]."^{xvi}
- January 19th, 2010 interview with xconomy.com

What Actually Happened

Dendreon will initially build one facility in Europe with 37 workstations.^{xvii} This compares to three facilities in the United States with a total of 120 workstations.
- January 10th, 2011 investor presentation at the J.P. Morgan Healthcare Conference.

Analysis And Why This Is Concerning

As you can imagine from the quotes above, shareholders have been waiting with much anticipation to hear Dendreon's final plans on how they intended to move forward in Europe. After all, for a year, investors had received a steady stream of guidance suggesting that the market opportunity in Europe was at least equal to, and probably greater than the U.S. It seemed like a significant source of revenue growth and an exciting opportunity.

In the meantime, Dendreon announced that if European regulators gave them a nod that their current data would be sufficient to file for regulatory approval, it seemed like everything would be full steam ahead. Thankfully, Dendreon announced in January of 2011 that it had received that nod. However, when the company ultimately announced the extent of what initial operations would be there, it seemed like they had once again overpromised and under-delivered a significant piece of guidance to the investment community.

Take for example the size of the market opportunity in Europe. Throughout 2010, during conference calls and investor presentations, Dendreon management typically described the market by saying how they believed the prevalence of metastatic prostate cancer in Europe was 1.5 to 2 times the size of the U.S. Gregory Schiffman's quote above is a perfect example of that. What they did not mention at the time

though is that the reimbursable market in Europe is probably substantially lower. However, since this is pretty much a known quantity to everyone, I am willing to give them a pass on that one. Perhaps they did not want to give a more drilled-down figure until they had finished talks with key opinion leaders.

Now that those talks are over, what the company is saying today is that the size of the reimbursable opportunity is probably equal in size to the U.S. However, actions speak louder than words and I think one must wonder if shareholders are actually getting the full story on this as well.

For example, look at the guidance they gave about how many manufacturing facilities the company would build there. As the above quotes show, at first this guidance started out as being similar to the U.S., with multiple manufacturing facilities spread throughout the region. However, that has since changed, and the company officially announced in January of 2011 that they would initially build only one manufacturing facility in Europe with 37 hoods.

Therefore, given that they are building out capacity that is less than one-third of the U.S., I think one has to wonder if the company truly believes the market opportunity is equal in size. That is quite a difference to reconcile.

If you see a pattern here, it is that guidance was originally quite robust, but has since been walked down significantly, and might ultimately turn out to be even smaller in the future. This, of course, is exactly the opposite of what you want to do as a company. Shareholders deserve better, more conservative talk going forward.

European Misrepresentation B:

What Dendreon Said About The Funding Needs For Europe

CFO Gregory Schiffman:

"The capital intensity of it (Europe) is low, buildout out the total infrastructure in the U.S., in terms of the facilities is \$200 million dollars. I don't know if it would run us more in Europe, if I put a 50% premium, it would be \$300 million."^{xviii}

- September 16, 2010 investor presentation at the Bank of America Merrill Lynch Global Healthcare Conference

"We feel that we have adequate cash to be able to commercialize the products and be cash flow breakeven in the U.S. Certainly if there is positive news in Europe, where we want to move forward quickly....we would need to have capital to be able to do that. Otherwise, we are well positioned."^{xix}

- August 3rd, 2010 Q2 earnings conference call.

"...what we said is that we look at all our options in terms of how we fund Europe...and that would include cash flow from the U.S. as well as potential additional sources of capital."^{xx}

- November 3rd, 2010 Q3 earnings conference call.

"In addition, we will begin the process of establishing our capabilities in Europe. The Company plans to spend about \$125 million in 2011 to support these activities."^{xxi}

- January 7, 2011 conference call with investors.

What Actually Happened

Dendreon ultimately raised \$607.6 million through a convertible bond offering.^{xxii}

- February 3, 2011 press release.

Analysis And Why This Is Concerning

In this case, let's start with the good news. To be fair to Mr. Schiffman, the company has been very forthright in letting shareholders know that Dendreon would need to access the capital markets in order to finance a European strategy. Investors have been told that going back as far as last spring.

However, where the guidance has turned out to be materially false, in my opinion, is what was suggested as the size of the financing needs. The above quotes give you a good idea of what Mr. Schiffman had been saying to investors all throughout 2010 about what to expect for Europe. As you can see, he suggested it would be similar in cost to Dendreon's U.S. operations, which were somewhere in the neighborhood of \$60 million per facility with a total of about three facilities. That gets you to a \$200 million range for a full buildout in Europe. Even if you add a 50% cost premium to that number, as he suggested in September, you end up at maybe \$300 million.

When you contrast those numbers with what actually happened, you can understand why shareholders are left with more than a little sticker shock. Dendreon ultimately announced it has decided to build just one European facility (not three), while at the same time raising over \$607 million dollars. In my view, this sharply conflicts in both substance and spirit with all of the company's previous financial guidance. To be fair, Dendreon will argue this number includes other necessary things for Europe beyond just the facility buildout, and may also include money to for U.S. operations, but I do not accept these arguments.

First, even if you allow for a significant buffer to pay for non-buildout expenses in Europe such as hiring personnel, paying a contract manufacturer during the application period, and running early-stage clinical trials in support of their activities, that nevertheless does not get you to the extra \$517 to \$537 million above the cost of the facility. It is still wildly excessive. Therefore, that argument does not seem entirely valid.

Also, I do not agree with the U.S. expansion argument because Dendreon has been consistent in saying more money for the U.S. was not needed, nor was it on the table as an option. As you can see from Mr. Schiffman's August 3rd, 2010 quote, the company had been strongly on the record as saying they felt good about their current cash flow being able to cover U.S. operations. Therefore, if extra money was indeed raised for the U.S. and included in that financing, I would find that to be very disappointing because it is in stark contrast with Dendreon's previous guidance.

The bottom line, in my opinion, is that Dendreon has definitely raised more money than what they guided for, and probably raised more money than what they ultimately need. This is disappointing to shareholders for two reasons. First, the deceptive guidance further erodes investor confidence going forward. Second, while having extra cash is not always a bad thing, in this case it might actually be wasteful and harmful to shareholders because the money was raised through a security that is potentially dilutive. Either way, this was not a very shareholder-friendly move.

Conclusions: Why better board oversight is needed going forward.

As I have mentioned before, I actually do have a large degree of admiration for Dendreon's management, and sympathize with the difficult job they have of coming up with guidance for something that is so groundbreaking. However, though any one of these particular missteps is certainly forgivable, the board of directors should be aware that these things are starting to have a cumulative negative effect on the company. Here are just a few examples of what I mean.

First, shareholders are starting to lose confidence in the company. When reality differs to such a large degree with a company's original guidance, shareholders are left with no choice but to heavily discount future expectations going forward. That is one reason why I believe Dendreon's stock is significantly undervalued, and has been under pressure for quite some time. If the board had protected shareholder interests more stringently, perhaps Dendreon would be valued closer to its true promise.

Second, the board of directors should also consider that bad guidance is clouding what is otherwise a great story. Though these things have disappointed me, make no mistake, I am a big supporter of Dendreon and a true believer in its long term potential. Therefore, it has been disappointing, in my view, to watch as the excitement of a great launch (the type of launch one really should have expected) has been undermined by unrealistic guidance. Novel therapies like this take time to get off the ground, and I wish management would have set expectations accordingly.

Third, and on a more serious note, one cannot overlook the fact that some might view this guidance in a questionable light. For example, at the time when guidance was at its peak, Dendreon management and various members of the board were

significant sellers of Dendreon stock. Some sold up to 75% of their holdings. While I personally view this as a coincidence and being without merit, I do think it lends credence to the need for more stringent board oversight going forward, especially in light of the recent shareholder lawsuit settlement.

For all of these reasons, I strongly believe that greater board participation and oversight in the company is warranted, and could greatly benefit all of Dendreon's various stakeholders.

Conclusions. Why the board of directors is uniquely positioned to correct these problems.

As one reads through this paper, I have no doubt that from a different viewpoint, one can isolate each one of these examples I have given and make strong counterarguments to my conclusions. However, remember that I am approaching this problem from the viewpoint of a shareholder. More than any other arm of the company, it is ultimately the responsibility of the board of directors to protect shareholder interests. They are uniquely positioned to do so.

Take for example the case of what I argue has been poor guidance and execution when it comes to financings. I almost cannot blame management for those because financings are broadly aligned with their interests. As a manager of a company, I can certainly understand the appeal of having as much money as possible, whenever it becomes available. That, of course, gives management a margin of safety from an operating perspective.

However, such a strategy is not always in the best interest of shareholders because they usually end up paying the bill through dilution. That is why the board of directors is uniquely positioned to make sure financings are being handled appropriately and efficiently. As the direct representatives of shareholders, they can weigh both sides of the argument and make sure shareholder value is being maximized.

In this case, I think a strong argument can be made that shareholder value is not being maximized. I say that because, in my view, the best way to tell if financings are being carried out in the most efficient and constructive way possible is to see if the company has a long-term plan and is sticking to it. Based on the poor guidance I have outlined, I think the answer to that question is clearly, no. Management seems to be grabbing for money whenever they can get it, and I think that calls for much more board oversight.

This is also the case when it comes to other types of guidance as well. Whether it is revenue guidance or setting expectations for overseas expansion, shareholders are best served by a company that sets conservative expectations and then exceeds those expectations. The board, therefore, is best positioned to be able to tamp down

management's excitement and make sure the company is operating in the most constructive way possible for shareholders.

Final Conclusion

All of this has added to my conviction that Dendreon would be well served by inviting one or two new members to the board who come from the ranks of shareholders. Shareholders add a unique perspective to boards, and based on Dendreon's recent history of providing unattainable and deceptive guidance, it appears this perspective is not being heard at the company. While management and the board have done an outstanding job navigating Dendreon through the important FDA approval process, perhaps the company would be well served by including a couple of new viewpoints now that this benchmark has been achieved.

Notes:

- ⁱ Dendreon 2009 Q2 conference call transcript. Available at www.alacrastore.com.
- ⁱⁱ <http://files.shareholder.com/downloads/DNDN/699653678x0xS950123%2D09%2D69999/1107332/filing.pdf>
- ⁱⁱⁱ http://files.shareholder.com/downloads/DNDN/699653678x0x337557/1cce36f6-e05f-4e47-b2ec-dd2307b3e276/DNDN_News_2009_12_8_General.pdf
- ^{iv} <http://investor.dendreon.com/releasedetail.cfm?ReleaseID=428936>
- ^v Dendreon April 29, 2010 FDA approval announcement call. Available at www.alacrastore.com.
- ^{vi} Dendreon 2010 Q2 conference call transcript. Available at www.morningstar.com
- ^{vii} Dendreon 2010 Q3 conference call transcript. Available at www.morningstar.com.
- ^{viii} June 23rd, 2010 investor presentation at the NASDAQ OMX 24th Investor Program. Available at <http://investor.dendreon.com/eventdetail.cfm?eventid=82138>
- ^{ix} Dendreon 2010 Q2 conference call transcript. Available at www.morningstar.com.
- ^x Dendreon 2010 Q3 conference call transcript. Available at www.morningstar.com.
- ^{xi} Dendreon 2009 Q4 conference call transcript. Available at www.alacrastore.com.
- ^{xii} Dendreon 2010 Q3 conference call transcript. Available at www.morningstar.com.
- ^{xiii} http://web.servicebureau.net/conf/meta?i=1113194785&c=2343&m=was&u=/w_ccbn.xsl&date_ticker=DNDN
- ^{xiv} Dendreon 2009 Q4 conference call transcript. Available at www.alacrastore.com
- ^{xv} http://web.servicebureau.net/conf/meta?i=1113193759&c=2343&m=was&u=/w_ccbn.xsl&date_ticker=DNDN
- ^{xvi} <http://www.xconomy.com/seattle/2010/01/19/dendreons-new-operations-man-hans-bishop-aims-to-keep-provence-trains-running-on-time/>
- ^{xvii} <http://jpmorgan.metameetings.com/webcasts/healthcare11/directlink.php?ticker=DNDN>
- ^{xviii} http://web.servicebureau.net/conf/meta?i=1113193759&c=2343&m=was&u=/w_ccbn.xsl&date_ticker=DNDN
- ^{xix} Dendreon 2020 Q2 conference call transcript. Available at www.morningstar.com
- ^{xx} Dendreon 2010 Q3 conference call transcript. Available at www.morningstar.com.
- ^{xxi} January 7, 2001 European conference call transcript. Available at www.alacrastore.com.
- ^{xxii} <http://investor.dendreon.com/releasedetail.cfm?ReleaseID=547350>

Issue #3

NONDISCLOSURE OF MATERIAL INFORMATION

ISSUE #3

DISCLOSURE OF PERTINENT, AND I BELIEVE MATERIAL, INFORMATION TO SHAREHOLDERS HAS BEEN LACKING.

The relationship between a company and its shareholders is based to a large degree on trust. While this trust is made up of many different factors, a key component revolves around how and when material information about the business is being disclosed. Because shareholders give management flexibility to run the day-to-day business as they see fit, they expect in return to be notified when material information occurs.

However, this is not just an issue of fairness. It is an important process because the more trust shareholders have that they are being informed of the facts, the more comfort they have in backing a company and helping it reach its true potential. It is an essential ingredient to creating stability, value, and growth. When shareholders are in command of all the facts, they are most effectively positioned to help a company reach its true potential.

When I look back at Dendreon's recent history, I am concerned that this particular component of its relationship with shareholders is starting to show cracks. Regrettably, I can think of many instances where the company has failed to disclose pertinent information in a timely manner. This is especially concerning because, in Dendreon's case, these are critical years for the company. The trust factor must be at an all-time high.

To illustrate what I am talking about, I will list three examples of what I believe to be unacceptable disclosures about significant events at the company. In each instance, Dendreon management appears to have severely missed the mark of good corporate governance. This is eroding investor confidence and making shareholders feel excluded from the company.

Furthermore, I will also outline cases that have caused me to be concerned that information is not being distributed to all investors in a fair and consistent manner. This is unacceptable because it makes the company seem unfriendly and unfair to certain groups of investors. In addition, it is making Dendreon appear to be a riskier investment than it really is, which is hurting the company's value.

Finally, let me be clear, I fully recognize that management might view some of these things as being unimportant. After all, they are in possession of all the facts which may support an alternate opinion. This is why I hope management and the board will now see these things through the eyes of shareholders. By not having the full

facts and details, we are left to assume the worst. I hope these examples will illustrate the need for much better disclosure going forward.

Example 1: Dendreon has failed to explain to investors the circumstances around the departure of a senior executive.

As far back as August of 2009, Dendreon management talked about the importance of hiring someone as the head of sales and marketing. “That is a position that we think is very important and we are actively recruiting...It’s important we get the highest quality individual on board we can find out there right now.” said CEO Mitchell Gold during the company’s 2nd quarter conference call.ⁱ

Then, on April 8th, 2010, after what apparently seemed to be a search of at least seven months, Dendreon finally announced that it had hired Varun Nanda as its Senior Vice President of Global Commercial Operations. The company marketed this as a major coup and described the position itself as a very important one.

A press release proudly explained, “Mr. Nanda will play a critical role in leading the commercial team and will be responsible for several functions, including sales and marketing.” COO Hans Bishop then went on to add, “With more than twenty years of commercial experience, Varun will help guide our team as we move closer to realizing our mission of transforming the lives of cancer patients.”ⁱⁱ

Given the significance placed on this hire, you can understand why investors were left a little more than confused when it was quietly disclosed in an SEC filing on November 18th, 2010, that Mr. Nanda had already left the company.ⁱⁱⁱ To be clear, there was no press release explaining this and, as far as I am aware, Dendreon management never once publicly mentioned the departure. A reporter asked the company about it, and no explanation was offered.^{iv}

This is a perfect example of how Dendreon significantly missed the mark when it comes to disclosure. In this case, shareholders clearly deserve to know more about the circumstances of why Mr. Nanda left (or was asked to leave). Perhaps there is a simple explanation, but without being told anything, I think investors have to assume the worst. This is disappointing, and I believe material, for a couple of reasons.

First, Mr. Nanda was a senior executive of the company. If the hire of such an individual warranted a press release, then his departure warrants some sort of explanation as well. It is concerning to see that Dendreon’s approach to disclosing good news and bad news is uneven. The company must understand that even if things are negative or embarrassing, they still must be fully disclosed. In this case, a quiet SEC filing is completely unacceptable.

Second, given that Mr. Nanda was the head of sales and marketing, shareholders deserve to know if this was a personal matter or an operational matter. Again, without being told anything, we have to assume the worst and suppose it might be a reflection on the prospects of the company. After all, as I have pointed out, Dendreon's revenue projections for both the U.S. and Europe have changed substantially since Mr. Nanda has been hired, so it is not an outlandish thought. Therefore, it is in Dendreon's clear interest to shed light on the cause of his sudden departure.

Third, shareholders also deserve to know what Dendreon's plan is going forward. As outlined above, the company clearly placed a high importance on this position, and it apparently took them seven months to fill the job. So where does that leave the company now? Given that sales are expected to significantly ramp up soon, when does the company anticipate the position will again be filled? These are legitimate concerns that the company should address.

The bottom line is that Dendreon's lack of disclosure on this issue is entirely unacceptable. Even months later, shareholders are still completely in the dark, left only to guess what might have happened and what that means for the company. This is not a good way to establish trust in a company.

Example 2: Dendreon failed to inform investors about a significant plant closure in July of 2010.

On August 8th, 2010, COO Hans Bishop disclosed during a quarterly conference call that Dendreon's lone manufacturing plant was closed for nearly two weeks in July because of construction related issues associated with the expansion of that plant.^v

While I do not want to blow this one out of proportion, because it was done at a time when Dendreon was just getting production off the ground, I do think it shows a lack of understanding about what should be disclosed. Investors should have clearly been told about this in advance.

First, this was Dendreon's only manufacturing facility at the time. Naturally, when it goes dark, company revenues will be zero. That alone makes this material information. Manufacturing is now the key activity at Dendreon, so management should have recognized that a halt in production is an important piece of news.

Second, it should have been disclosed because a construction shutdown is not something that shareholders can presume or plan for on their own. Unlike a weather delay (which one can assume subsequently effected operations this winter) or some other general issue, only management knew the construction was going to take place. Since they had fair warning of the closure in advance, the company should have disclosed it.

In short, while I view this as a minor indiscretion, I do hope that company management will learn from it going forward. Dendreon has now transformed itself into a manufacturing organization, so the company needs to have a different tone in regards to disclosure. Keeping investors abreast of manufacturing activities, such as the scheduled closures of plants, should be seen as important issues.

Example 3: Dendreon failed to inform investors about a material regulatory event.

As I have discussed in the lawsuit settlement section on this report, Dendreon management showed questionable judgment in the spring of 2007 in regards to the disclosure of important regulatory information to shareholders. In this instance, the lack of disclosure not only cost the company a good deal of shareholder confidence, but it also cost them \$16.5 million dollars.

Early in 2007, the FDA performed an inspection of the company's New Jersey manufacturing facility and in turn issued what is called a Form 483 to Dendreon. Form 483s are used to communicate concerns investigators have with a company's manufacturing facilities. The FDA will typically only include in them significant observations that can be directly linked to a violation of regulations.^{vi}

The issue of judgment arises because Dendreon did not disclose the existence of this Form 483 until after they received a Complete Response Letter (CRL) in April notifying them that their submission could not be approved. In fact, this decision to not disclose earlier was so dubious that it became the central subject of a class-action lawsuit brought about by shareholders. Dendreon has since settled that lawsuit out of court for \$16.5 million, without admitting fault.

While shareholders still do not know the exact details of this particular Form 483, I think one can rightly assume that it was indeed material information. A piece of evidence strongly pointing in that direction is the fact that "manufacturing deficiencies" were one of the reasons listed by the FDA in issuing the CRL.^{vii} In other words, even if the FDA had accepted Dendreon's clinical data as being sufficient for approval, the company would have still likely experienced a significant delay beyond April as it tried to correct the manufacturing deficiencies outlined in the Form 483.

The bottom line is that this case, and the resulting lawsuit it produced, is a perfect example of why it is better to disclose something whenever there is doubt. While shareholders do not need to know every minute detail about what is going on with a company, they certainly do deserve to know about something that could potentially be a significant regulatory setback. Even if Dendreon thought the issues listed in the Form 483 were resolvable, the fact remains that regulation is unpredictable. Therefore, and especially given the stakes involved, they should have gone ahead and disclosed it.

Example 4: Certain events potentially make one wonder about the fairness of Dendreon's disclosure practices and the veracity of its internal controls.

Another important factor regarding the disclosure of information by a public company is that it should be done in a way that is fair to all investors.

Unfortunately, certain events over the last few years have called into question how Dendreon is scoring in this regard as well. Though I have 100% confidence in the integrity of management and personally think most of these things are out of their hands, it is worth mentioning a few of them because they potentially do raise concerns about the veracity of the company's internal controls.

- On April 13th, 2009, shares of Dendreon closed up 16% on very heavy volume. Coincidentally, later that afternoon the company announced it would release the results of its IMPACT trial the following morning, a pivotal report that showed PROVENGE was found to significantly prolong survival. This trading activity was so unusual that it even caused CNBC anchor Mike Huckman to ask Mitchell Gold during a television interview the next day if there had been a leak.^{viii}
- During a February 22, 2010 conference call, Cowen and Company Analyst Eric Schmidt asked the company "...could you talk about the recent FDA inspection of New Jersey and anything you can share with us about how that went?"^{ix} However, up until that point the company never publicly said an inspection had taken place (a key piece of information which indicates the regulatory timeline was on track). In this case, I am willing to give Dendreon the benefit of the doubt and assume the analyst was just guessing or using semantics, but it is a little concerning.
- On April 29th, 2010, shares of Dendreon rocketed nearly 15% on extremely heavy volume, well before trading in the company's stock was halted for an announcement that the FDA had approved PROVENGE. To be fair, this could be due to many factors, including media leaks that are outside of Dendreon's control. However, it was also the second time something like this had happened, so I believe it is worth noting.

These are just a few examples to give you a flavor of why it is sometimes frustrating to be a Dendreon shareholder. I am also certain that anyone who closely follows the company can give you additional anecdotes of odd stock price behavior ahead of key events.

While I understand that oftentimes these things are out of the company's control, I believe at the very least they call for a tightening of corporate governance, and more oversight by the board. Such actions will leave no doubt that Dendreon values the importance of fair and timely disclosure of information to all shareholders.

Conclusions:

All of these examples of poor disclosure, or an outright lack of disclosure, further solidify my view that Dendreon would be well served by nominating one or two new members to the board of directors who come from the ranks of shareholders. In my view, this would be the most effective way to solve this problem for three reasons.

First, given the examples I have outlined, I truly believe there is a real problem here and that management does not appreciate the value of good disclosure. Therefore, I think the board of directors is an appropriate place to initiate change. Having broad oversight of management and access to all the facts, the board has both the authority and capacity to keep things in check.

Second, the slate of current board members seems not to be getting the job done. While all the members of the board have impressive backgrounds and industry experience, the facts suggest they might not be sensitive to shareholder issues. Maybe it would be helpful to add a couple of different viewpoints into the mix. After all, it is outside shareholders who would most be impacted by this problem. Perhaps adding their perspective to the board is the most effective way to solve it.

Lastly, this is the most efficient way to send a strong message to the investment community and restore shareholder trust. Disclosure is an issue that largely revolves around trust. While the company might think that it has always acted suitably, one thing I am certain of is that the mere appearance of these things from the investor side of the equation is leading to an erosion of trust.

That, of course, is a big problem for everyone. No matter how good Dendreon's record of disclosure practices might be in the future, if there is a lack of trust to begin with, that record will be obscured. Adding new shareholders to the board could be the most useful way to proceed. This will restore confidence and directly lend more credibility to corporate actions going forward. The signal it sends alone has the potential to instantly solve the problem.

Therefore, I strongly urge the board of directors to consider this course of action.

Notes:

- ⁱ Dendreon Q2 2009 conference call transcript. Available at www.alacrastore.com
- ⁱⁱ http://files.shareholder.com/downloads/DNDN/699653678x0x423262/7b65467e-8853-4ffa-a1c1-b540ed1efa3e/DNDN_News_2010_4_8_General.pdf
- ⁱⁱⁱ <http://files.shareholder.com/downloads/DNDN/699653678x0xS950123%2D10%2D107046/1107332/filing.pdf>
- ^{iv} <http://www.xconomy.com/seattle/2010/11/18/dendreons-commercial-point-man-exits-in-year-one-of-provenge-launch/>
- ^v Dendreon Q2 2010 conference call transcript. Available at www.morningstar.com
- ^{vi} http://en.wikipedia.org/wiki/Form_FDA_483
- ^{vii} <http://files.shareholder.com/downloads/DNDN/699653678x0xS891020%2D07%2D138/1107332/filing.pdf>
- ^{viii} <http://www.cnbc.com/id/15840232/?video=1092383569&play=1>
- ^{ix} Dendreon Q4 2009 conference call transcript. Available at www.alacrastore.com.

Issue #4

SIGNIFICANT INSIDER SELLING

ISSUE #4

SIGNIFICANT INSIDER SALES, AND GENEROUS GIFTS OF STOCK AND OPTIONS SEND THE WRONG MESSAGE TO SHAREHOLDERS.

Since shareholders in publicly traded companies are typically passive investors, they place a high importance on knowing that management's interests are closely aligned with their own. This is a central element in the overall confidence factor that is key to investing. In that regard, there are two questions constantly on the minds of shareholders as they try to gauge this.

First, does management share my conviction in the future value of the company? It is always comforting to see when company executives are buyers and holders of a company's stock, just as you are as a shareholder. More than anything else, this sends a loud message that management believes in the business and has a clear vision of its true potential. It is the ultimate confidence booster.

Second, is management incentivized in a way that promotes the creation of shareholder value? If management is not buying their own stock, the next best thing to know is that their incentives are largely tied to its value. This can be accomplished through a variety of actions, such as pay for performance measures and giving stock and options as a component of compensation. However, a company must be careful in how they structure these things, because they can also easily lead to abuse.

In Dendreon's case as of late, the answers to these questions are a little more complicated to decipher than usual. This stems from the fact that the company has reached an inflection point with its recent FDA approval. While there is no doubt this was a momentous achievement, one must also recognize that it has turned a page in its operational mode. Before approval, the company's aim was primarily research, while now the focus is on manufacturing. These are two vastly different scenarios, with two vastly different goals.

Therefore, as Dendreon embarks on this new stage in its history, I think it is an appropriate time to reset expectations and start anew. This is why the company should be aware that shareholders lately have been reexamining those two important questions. Does management share my conviction in the company, and are they incentivized in a way that creates shareholder value? Results were certainly good in the past, but what is the case going forward?

I will illustrate below why I think, for Dendreon, the answers to these questions are becoming ever more uncertain.

I. Does management share investor conviction in the future value of the company?

From the outset, let me say that with my thorough knowledge of this company, I personally have no doubt about this one. I am largely a fan of the current management team and know that their commitment to this venture lies deep. I would not want anyone else running the show.

However, this does not change the fact that the recent signals insiders have been sending do not paint a very convincing picture. Take, for example, the number of insider purchases of the stock since FDA approval.

Total Insider Purchases Since April 29, 2010 ⁱ					
Name	Title	Date	Shares	Purchase Price	Total Cost
1. None	None	None	Nil	None	Nil

As you can see, there has not been a single company insider who has purchased Dendreon stock since the FDA approval of PROVENGE in April. Now contrast that figure with the number of insider sales over the same time period.

Total Insider Sales Since April 29, 2010					
Name	Title	Date	Shares	Price Sold For	Total Proceeds
1. Mitchell Gold	Officer/Director	4/29/10	400,000	51.01	\$20,404,000
2. Mitchell Gold	Officer/Director	4/30/10	154,887	54.71	\$8,473,868
3. Gregory Schiffman	Officer	4/29/10	12,302	50.18	\$617,314
4. Gregory Schiffman	Officer	4/30/10	54,125	56.20	\$3,041,825
5. Susan Bayh	Director	4/29/10	56,550	53.00	\$2,997,150
6. Richard Hamm, Jr.	Officer	4/29/10	109,683	50.88	\$5,580,671
7. Richard Hamm, Jr.	Officer	4/30/10	174,960	55.69	\$9,743,522
8. Mark Frohlich	Officer	4/30/10	43,599	54.44	\$2,373,530
9. David Urdal	Officer/Director	4/30/10	40,000	53.93	\$2,157,200
10. Douglas Watson	Director	4/30/10	36,171	56.56	\$2,045,832
11. Greg Cox	Officer	5/3/10	22,889	55.15	\$1,262,328
12. Ian Clark	Director	5/3/10	8,744	54.61	\$477,510
13. Richard Brewer	Director	5/3/10	4,000	53.16	\$212,640
14. Bogdan Dziurzynski	Director	5/24/10	30,000	44.34	\$1,330,200
15. Gerardo Canet	Director	5/26/10	4,000	43.54	\$174,160
16. Bogdan Dziurzynski	Director	6/14/10	16,250	39.05	\$634,563
17. Mark Frohlich	Officer	7/19/10	2,855	31.32	\$89,419
18. Mark Frohlich	Officer	8/4/10	4,283	40.00	\$171,320

Sales Continued					
Name	Title	Date	Shares	Price Sold For	Total Proceeds
19. David Urdal	Officer/Director	8/4/10	40,000	39.21	\$1,568,400
20. Ian Clark	Director	8/20/10	7,500	37.46	\$280,950
21. David Urdal	Officer/Director	8/25/10	7,369	35.93	\$264,768
22. David Urdal	Officer/Director	8/30/10	7,369	36.45	\$268,600
23. David Urdal	Officer/Director	9/2/10	5,000	40.00	\$200,000
24. David Urdal	Officer/Director	9/3/10	5,000	41.00	\$205,000
25. David Urdal	Officer/Director	9/7/10	12,369	40.56	\$501,687
26. David Urdal	Officer/Director	9/8/10	10,000	41.19	\$411,900
27. David Urdal	Officer/Director	9/9/10	10,000	42.55	\$425,500
28. David Urdal	Officer/Director	9/10/10	4,000	41.61	\$166,440
29. Richard Hamm, Jr.	Officer	9/16/10	16,828	41.87	\$704,588
30. Mark Frohlich	Officer	10/18/10	2,855	37.68	\$107,576
31. Gregory Schiffman	Officer	11/19/10	27,000	37.84	\$1,021,680
32. Mark Frohlich	Officer	12/3/10	7,896	38.44	\$303,522
33. Gerardo Canet	Director	12/14/10	4,456	36.32	\$161,842
34. Mark Frohlich	Officer	1/18/11	2,855	36.78	\$105,007
					\$68,514,212

In addition, there are four insiders who have entered into long-term agreements to sell Dendreon stock over time.

Dendreon Insiders With Long-Term Sales Plans				
Name	Title	Date Signed	Shares to be Sold	Date Range of Plan
1. Susan Bayh	Director	6/8/2010	45,171	May 3, 2010 – May 3, 2011
2. Mark Frohlich	Officer	6/8/2010	90,948	July 1, 2010 – Dec. 31, 2012
3. Mitchell Gold	Officer/Director	12/10/2010	286,764	Mar. 3, 2011 – Jan 31, 2012
4. David Urdal	Officer/Driector	12/17/2010	160,000	Mar. 3 2011 – Oct. 31, 2011

As you can clearly see, ever since the FDA approval of PROVENGE, there has been a substantial amount of sales, or plans to sell the stock by Dendreon insiders. Some of these represent a considerable portion of the insider's overall holding in the stock.

Analysis And Why This is Concerning

This is obviously a pretty easy one to analyze. Without a single recent insider purchase of the company stock to hang their hat on, and significant selling to boot, shareholders can only be left to feel a little nervous that management does not have the same conviction in the company as they once had. It is a confidence crusher.

Of course, to be fair, this is largely due to a logical reason. Most of these insiders have persevered at Dendreon for years, so you really cannot blame anyone for taking some money off the table after a great success like the approval of PROVENGE. After all, people should not be expected to hold onto their shares forever. However, I think in this case it is genuinely concerning for two reasons.

First, in some of these instances, the extent of their sales has been significant. Take for example the Chief Executive Officer. He sold over half a million shares during the April 29-April 30 timeline, which represented well over half of his holdings in the company at the time. Given that he is the CEO and the message this sends, it is no wonder his sales were at prices the stock has never since seen. Granted, many other things have happened since then, most notably the CMS review, but nevertheless that does not do much for shareholder confidence.

Second, even if you give company insiders the full extent of the benefit of the doubt and accept that selling like this is simply to be expected, it still does not do much for confidence going forward. That is a problem. As I mentioned, the FDA approval of PROVENGE was an inflection point at Dendreon, and it is now a much different company going forward than it was before. Therefore, it would be comforting to see at least a few signs from insiders that this new future is bright.

Frustratingly, the problem is only likely to continue to get worse. For example, as I have pointed out above, a handful of insiders have long-term sales plans that are already known. It is hard to be a loyal long-term holder while knowing they are selling. Also, since almost every insider has sold some stock, and their cost basis is so low, shareholders can probably expect only a steady stream of more sales to come. Given this history, the likelihood of purchases, at almost any price, is low.

Therefore, it is clear to me that no matter how well intentioned these sales might be, they are a confidence crusher now, and will continue to be a confidence crusher in future. I believe some sort of change is warranted to counteract that problem, and adding new shareholders to the board just might be the solution.

II. Is management incentivized in a way that promotes the creation of shareholder value?

Below is a list of all the stock and options that have been distributed to insiders for free by the company since the FDA approval of PROVENGE in April.

Gifts Of Stock And Options To Employees Since April 29, 2010					
Name	Title	Date	Type	Shares or Options	Strike Price (If Applicable)
1. Richard Ranieri	Officer	4/30/10	Options	50,000	54.06
2. Richard Ranieri	Officer	4/30/10	Stock	35,000	N/A

Gifts Continued					
Name	Title	Date	Type	Shares or Options	Strike Price (If Applicable)
3. David Stump	Director	6/2/10	Options	7,080	\$43.16
4. David Stump	Director	6/2/10	Stock	3,540	N/A
5. Bogdan Dziurzynski	Director	12/7/10	Options	6,692	\$37.36
6. David Stump	Director	12/7/10	Options	6,692	\$37.36
7. David Urdal	Officer/Director	12/7/10	Options	26,767	\$37.36
8. Douglas Watson	Director	12/7/10	Options	6,692	\$37.36
9. Gerardo Canet	Director	12/7/10	Options	6,692	\$37.36
10. Gregory Schiffman	Officer	12/7/10	Options	40,150	\$37.36
11. Hans Bishop	Officer	12/7/10	Options	53,533	\$37.36
12. Mark Frohlich	Officer	12/7/10	Options	40,150	\$37.36
13. Mitchell Gold	Officer/Director	12/7/10	Options	107,066	\$37.36
14. Pedro Granadillo	Director	12/7/10	Options	6,692	\$37.36
15. Richard Brewer	Director	12/7/10	Options	6,692	\$37.36
16. Richard Hamm, Jr.	Officer	12/7/10	Options	33,458	\$37.36
17. Richard Ranieri	Officer	12/7/10	Options	40,150	\$37.36
18. Susan Bayh	Director	12/7/10	Options	6,692	\$37.36
19. Bogdan Dziurzynski	Director	1/20/11	Stock	3,507	N/A
20. David Stump	Director	1/20/11	Stock	3,507	N/A
21. David Urdal	Officer/Director	1/20/11	Stock	14,026	N/A
22. Douglas Watson	Director	1/20/11	Stock	3,507	N/A
23. Greg Cox	Officer	1/20/11	Stock	9,500	N/A
24. Gregory Schiffman	Officer	1/20/11	Stock	21,038	N/A
25. Hans Bishop	Officer	1/20/11	Stock	28,051	N/A
26. Mark Frohlich	Officer	1/20/11	Stock	21,038	N/A
27. Mitchell Gold	Officer	1/20/11	Stock	56,101	N/A
28. Pedro Granadillo	Director	1/20/11	Stock	3,507	N/A
29. Richard Brewer	Director	1/20/11	Stock	3,507	N/A
30. Richard Hamm, Jr.	Officer	1/20/11	Stock	17,532	N/A
31. Richard Ranieri	Officer	1/20/11	Stock	21,038	N/A
32. Susan Bayh	Director	1/20/11	Stock	3,507	N/A
				693,104	

As you can clearly see, gifts of stock and options by the company have been generous.

Analysis And Why This Is Concerning

In short, I do not believe these awards are necessarily being structured in a way that is best for creating shareholder value. It all seems a little excessive to me for the following reasons.

First, you have to remember that insiders are currently significant sellers of the stock and will probably continue to do so in the future. Therefore, I am not sure that

generous stock and options grants are the most appropriate form of management compensation. Though it is just a theory of mine, what I believe is really going on here is that most insiders, having experienced the stock run from \$2 per share to where it is today, have now become somewhat complacent about the stock price. The big money has been made, so they are happy to collect more shares and then turn around and sell them. Given that a handful of insiders have already established long-term sales agreements, it is not an outlandish thought.

Under that environment, the stock really is not much of an incentive booster, which does nothing for shareholders. It is simply now akin to any other form of compensation. Technically, that even becomes a negative for shareholders because giving out all this stock has a slightly dilutive effect (it also erodes confidence). In the last year alone, approximately 700,000 shares have been given out just to this group, so it is not entirely a negligible amount. Perhaps when Dendreon starts bringing in more revenue this year, they can use some of the cash to buy back shares and cancel that out, as many companies do.

Second, I do not think this is an appropriate time to have such an aggressive stock program because you also have to remember that Dendreon's stock price is currently depressed from its peak levels. The stock is trading at about a 40% discount from its high. While one might argue it was unreasonably lofty at that time, you also have to remember that most of these insiders sold significant portions of their holdings at those higher prices. Therefore, I do not see how it is in shareholders interests to reward them so handsomely when prices are lower...especially if they are likely to just turn around and sell it.

Likewise, it would be nice to see options strike prices that are higher than the current level. By only setting them at the stock price on the date of issuance, management does not have to increase shareholder value very much to profit on the options. As you know, many companies give out options with strikes that are much higher than the current stock price. This gives management a goal to strive for and is more in line with shareholder interest.

In summary, I have no problem with giving out stock and option gifts, but the company must remember the purpose for them. It is so that management shares with investors the goal of maximizing shareholder value. However, in Dendreon's case, the plan seems structured in a way that insiders will be rewarded no matter what happens. These are significant awards even if the stock stays flat or goes down. In my view, that is not what plans like this are meant to do.

Finally, as a matter of clarification, it is important for me to say that I recognize many of these stock grants are restricted and have a vesting component. However, since Dendreon does not disclose the terms of those, it is impossible to determine how rigorous they are and what targets must be met to receive them. Therefore, I do not view that as a legitimate answer to the concerns I have set forth.

III. How do these questions apply to the board of directors?

Everything I have said about management in the previous two sections is largely true about the board as well. However, I would like to add a couple of additional points about the board's incentives. First, here is a summary of the board's pay:

On December 7th, 2010, the compensation structure for the board of directors was amended. In short, the annual cash salary for non-employee directors was increased to \$60,000 from \$40,000 (with a small bonus for chairing or participating on a committee), and annual equity awards were granted at a targeted value of \$250,000. Furthermore, the board also updated the company's director stock ownership guideline to a target of 3x the annual cash retainer.ⁱⁱ

Analysis And Why This Is Concerning

Just as I am not convinced that management's activities in the stock are sending shareholders the right signals, neither am I convinced that the board's activities are either. One of my biggest concerns with the board is their incentives.

Ironically, I disagree with the cash/stock mix of the board's pay and do not think it will work in achieving its goal of increasing shareholder value and confidence. Ordinarily, you would think that paying directors a significant chunk of their compensation in stock would be a shareholder-friendly move, but in this case I actually do not think so for a couple of reasons.

First, it does not stop what I believe will be a continuous cycle of board members selling shares. Just as I argued in the case of management, I suspect that many board members will be using their shares as a quasi-salary. That is unhelpful to shareholders because it sends the wrong message every time they sell. There is no point in forcing the stock on someone if they are not going to use it as a proper incentive.

Second, the pay structure does not provide a glimpse into who is there for the sole purpose of creating shareholder value. As you know, there are many reasons why people are asked to join boards, join them, and stay on them for as long as they do. Given this, I want to make sure that Dendreon's board is as robust as possible, and that shareholder interests are strongly being protected. This is especially true as Dendreon embarks on this next chapter in its history.

Therefore, I think it would actually be quite interesting if board members were paid a higher percentage in cash because it would show us who is truly committed to Dendreon's future in its new form. Presumably, those who have confidence in Dendreon and are here to create shareholder value would put a large portion of their salary back into the company. As a shareholder, I would like to know who is truly dedicated for round two.

Frankly, I understand that will probably never happen. Therefore, I would like to make an alternate suggestion if Dendreon chooses to continue paying its board members with so much stock. I do not think the 3x annual cash retainer requirement the board recently introduced is significant enough and should be raised. The fact is that most board members could sell 90% of their current holdings and still meet that minimum. To look at it another way, if the annual equity awards given out reached their target value for just one year, a board member would already be well over that 3x limit. In my view, this seems like a token move. If Dendreon's board is truly serious in showing they stand with long-term shareholders, I think the limit should be substantially raised.

In summary, I am not sure that the board, like management, is sending shareholders all the right signals. Though I think their decisions are well intentioned, I am not sure they are ultimately what is most needed for shareholders at this time.

IV. Conclusions

All of this leads me to revert back to those two important questions that shareholders are currently asking themselves about Dendreon. Does management share my conviction in the company, and are they incentivized in a way that creates shareholder value? As I have illustrated, clearly the message being sent in regards to the first question is overwhelmingly poor. I don't think anyone can argue with that. In terms of the second, the record is mixed at best. These are serious problems that are hurting investor confidence.

Therefore, the question at hand is what can be done to reinforce that confidence? As I have pointed out, clearly the problem is not going to get any better on its own. Almost every insider has been a seller of the company's stock over the last year, so it is doubtful that trend will reverse anytime soon. While the reasons for this might be understandable, it gives little solace for investors going forward. That is why I think some sort of outside change needs to take place, something that will brighten the current environment.

This is all the more reason why I think it would be beneficial if Dendreon added one or two new board members who come from the ranks of outside shareholders. At a minimum, this will be a confidence booster. Consider what it will say about the two questions above.

First, it will counteract the negative concern caused by the insider selling and leave no doubt that management shares investor conviction in the company. Not only will their mere presence on the board send the first positive signal in a while, but those directors will probably even be net buyers of the stock. Imagine what that will say to shareholders. Second, regarding the question of whether management is being incentivized correctly, this action will leave no doubt about that one as well. Having independent, outside shareholders on the board will instantly lend more credibility

to management's compensation structure and will put to rest any shareholder skepticism in that regard. It is a win-win for everyone that will allow the company to move forward with confidence.

Therefore, I think this topic adds further credence to my view that Dendreon would be well served by considering adding a new member or two to its board of directors.

Notes:

ⁱ All of the figures in this document have been compiled from Dendreon's SEC filings. They are available at www.dendreon.com.

ⁱⁱ <http://investor.dendreon.com/secfiling.cfm?filingID=1107332-10-45&CIK=1107332>

Issue #5

PUBLIC RELATIONS CHALLENGES

ISSUE #5

MANAGEMENT SEEMS UNPREPARED TO EFFECTIVELY RECOGNIZE AND ANSWER THE CHALLENGES FACING THE COMPANY THAT ARE OUTSIDE OF THE SCIENTIFIC REALM.

Having a diverse board of directors and management team is an important asset for any company. Diverse viewpoints help ensure that every strategy is considered and every risk well understood. That is why many companies typically include on their boards a couple of directors who are completely outside of the company's traditional mix. If everyone is from the same background, you are likely to suffer from groupthink, and the company's focus will be too narrow.

This topic is all the more relevant in the biotech and healthcare industries because companies in those fields tend to especially over-weigh their boards. This gives them a scientific slant, which on some levels is certainly necessary, but on other levels not robust enough. Biotech and healthcare companies face a variety of issues throughout their lifetime, and not all of them are best handled by an industry mindset.

Take, for example, the case of the American Cancer Society. You might be aware of its interesting history. Up until the 1940's, it was a sleepy (and ineffective) medical society exclusively made up of doctors and scientists. It was not until 1945, when Albert and Mary Lasker famously took control of the organization and installed general business people on its board that it really took off to become what it is now.ⁱ Even today, the board of the ACS is split evenly between "laypersons" and those who come from the medical profession. This gives it a well-balanced keel.

Other biotech and healthcare organizations can learn a lot from that. While you certainly need people on your board who have good industry experience, you also have a lot to gain from including other viewpoints as well. In my view, this is especially true at Dendreon today. While I think a company like Dendreon can always use a few independent thinkers, I believe the time for change is particularly ripe. This is because the issues facing the company are now more diverse than they once were, and many key challenges are not necessarily of the scientific realm.

One of these key challenges is that Dendreon is starting to lose ground on the serious public relations issues it faces on many fronts. Whether it is the medical cost debate or misinformation being spread about the company's main product, Dendreon finds itself tackling problems that I believe go well beyond research and science. Importantly, these things are happening at a key time when the company is just now establishing its reputation with the general public. Therefore, I think a robust response is required, one that the company has not yet found its footing on.

To illustrate what I am talking about, I will provide three examples of how I believe Dendreon has miscalculated on a few of these important issues. The question to keep in mind is: Why are these things happening? As I will explain, I believe it has a lot to do with Dendreon's narrow focus and its sole reliance on a scientific train of thought. Ultimately, I think these examples will show that adding a couple new viewpoints into the mix might do the company a lot of good.

Example 1: Dendreon has not stood up for itself and protected its reputation in the press.

To put it kindly, the initial press reports about PROVENGE have been pretty unfair. In almost every article I have read, there has been a journalistic slant towards making PROVENGE appear to be too costly and not very effective. It is a common occurrence to see one or two key facts typically misreported, and many journalists completely omit the quality of life issues that are so beneficial with this product. If I had to guess, I would say that inaccurate or bad press has outnumbered the good press nearly 10 to 1.

While I can provide numerous examples of this, I will stick to just one because I think it paints a clear picture of the problem. On September 27, 2010, Associated Press writer Marilynn Marchione wrote a piece entitled "Costly Cancer Drug Raises Tough Choices." This particular article was significant for two reasons. First, the article was widely distributed and even made the front page of many regional newspapers like the Denver Post.ⁱⁱ Second, it was decidedly negative about the drug. I have provided a copy of the article on page 54 of this report so you can get a feel for what I am talking about.

As you can see, the article mistakenly implies PROVENGE costs \$93,000 per year, calls the treatment "a gamble," and even quotes a patient as saying he "would not spend that money on it." It also says nothing of the quality of life benefits seen from the drug. In short, the article could not be much worse as an introduction to PROVENGE. While I wish I could say this was a one-time event, the truth is that articles like this one seem to be par for the course. As a shareholder and Dendreon advocate, that is very concerning to me for a few reasons.

First, it is concerning because PROVENGE's reputation is just now being established and the public is not getting a fair understanding of what it is all about. This is a groundbreaking technology, and like all new things that go against the grain, it is currently in a very fragile state. Therefore, it is important that the public is told the whole truth about what PROVENGE is and why it is so significant. First impressions make a big difference, and Dendreon should be very concerned that all these misstatements might be irreparably tarnishing the image of its product.

Second, I am concerned that Dendreon's participation in these things seems to be minimal, and its response to them has been lacking. From the looks of these press

reports, it is hard to tell if the company even has a PR department or a spokesperson. While it is not fair to place blame on the company for any one particular article (certainly journalists are not always cooperative or friendly), the fact that these errors have been so consistent and widespread have me concerned that Dendreon is not effectively doing anything about them. Management's silence has been deafening.

In the case of this particular article, I am assuming that Dr. Logothetis from the M.D. Anderson Center was probably referred by Dendreon to the author to speak in defense of PROVENGE, but for me that does not go far enough. While affiliates like this are great, they should be seen as support, and never as a complete substitute for hearing directly from the company. An outside physician, no matter how well intentioned, will never be able to defend the company or its products with the same veracity as Dendreon would on its own.

The bottom line is that other companies defend their brands, and I believe Dendreon should too. Take for example the recent case of Taco Bell. While it might sound funny to compare tacos to PROVENGE, the reality is that they both represent brands, all companies do. When Taco Bell was recently challenged by a group that said they did not use enough meat in their product, the company immediately took to both print and the airways and vigorously defended their brand. They understood that reputation means everything. Dendreon should take a queue from this and vigorously defend its brand and the quality of its product.

Lastly, I am concerned about why this might be happening. In my view, Dendreon's focus and thinking has been too narrow, and it is causing them to miss the significance and scale of this issue. It is perplexing to me how any company would be willing to stand by as such inaccuracies are said about its sole product. Do not get me wrong, I have no doubt that Dendreon management is not pleased to be reading these things either, but I do not believe they have a clear and robust strategy about how to counteract them.

Perhaps the company is nervous about rocking the boat while the CMS issue is still active. That is the only reason I can think of for such a quiet media presence. However, if that is true, I think it is a flawed strategy because, in the meantime, they are losing serious ground to all this misinformation. At the very least, I would like to see Dendreon make a better effort to increase its participation in articles like these.

When I look at Dendreon's approach, I do not believe that every strategy is being considered, and every risk well understood. This is why I think adding more viewpoints to the board might be a good course of action. Many business people would have certainly caught on to the importance of the branding issue, and shareholders definitely get it, because they are the ones who own the asset. PROVENGE's reputation is just being established; the company should defend it.

Example 2: Dendreon’s decision not to advertise directly to patients or the public is misguided.

What CEO Mitchell Gold Said In Regards to Direct To Patient Advertising

“...I think we’ve done a remarkable job at educating the patient community and the physician community. I don’t see this as a type of product that’s going to require direct to patient type marketing.”ⁱⁱⁱ

- November 3rd, 2010, during a conference call with investors.

What COO Hans Bishop Said In Regards to Direct To Patient Advertising

“We’ll make information available to patients through the standard channels, but...we don’t see that as an important part of our mix.”^{iv}

- November 3rd, 2010, during a conference call with investors.

Analysis And Why This Is Concerning

As you can see from the above quotes, Dendreon management has been clear that it does not intend to advertise PROVENGE directly to patients. In my view, this is a very misguided strategy for many reasons.

First, as I have mentioned in the previous example, the press coverage of PROVENGE up to this point has been so negative and misleading that something needs to be done to set the record straight. While it is true that prostate cancer patients are very adept at doing their own research and finding out about new treatments, most everything I have read in the public sphere about PROVENGE either smacks of controversy or has key facts that are wrong. Therefore, I think it would be in Dendreon’s best interest to spend at least a little money advertising the true facts and benefits of PROVENGE so that patients are not misled.

Second, advertising now would be smart because there are currently higher stakes involved than just drumming up demand for the product. After CMS launched its unusual review of PROVENGE, the product has been placed front and center of a much larger national debate. That changed the game because it is causing not just patients to form an opinion about PROVENGE, but the general public as well. Therefore, the company would be smart to protect its reputation and reach out to them too. At such a critical juncture in the product’s history, it only makes sense that Dendreon would want to do everything possible to make sure a fair story is being told.

Third, advertising is appropriate because PROVENGE is more than just a new drug; it is a completely new way of treating cancer. This is exciting news and I think it would be in Dendreon’s best interest to share it with as many people as possible. That will grow more enthusiasm behind this approach to treating cancer and enhance Dendreon’s brand. As you know, the company is not just about PROVENGE

and prostate cancer, it is about the antigen delivery cassette and autologous cellular immunotherapy in general. I think the company would be well served by advertising what tremendous assets these are. They did this the day after the FDA approved PROVENGE, and I believe the company should continue to do it as a general awareness campaign going forward.

This entire issue leads me again to conclude that Dendreon management is thinking too narrowly. Adding a couple more opinions into the mix would create a lot of value.

The current management team has simply chosen to do what traditionally has been done in the past: going through the normal channels of drumming up physician and industry support. In my view, PROVENGE deserves much more than that because it is unique and groundbreaking, and the issues it currently faces are largely unprecedented. It would be a shame to see such an innovative product be held back by such an uninspiring plan. Therefore, I would like to see the company think outside the box a little more and advertise directly to patients and the public.

Finally, and to be fair, let me say that I do understand to a degree why Dendreon would be hesitant to advertise at this time when they are so capacity constrained. While that certainly is a good point under normal circumstances, I do not believe it holds much weight given the current issues. Plus, as the above quotes show, management clearly intends to keep to this strategy even when the constraints lift. In my view, that is incredibly misguided. Dendreon needs a different strategy, and a broader way of thinking going forward.

Example 3: Dendreon's response to the Medicare review was too one-dimensional.

One thing I think we can all agree on was that the Centers for Medicare and Medicaid Services (CMS) decision to launch a National Coverage Assessment of PROVENGE was very disappointing. Clearly, after the landmark decision handed down by the FDA in April, this was about the last thing the company needed and deserved. It was unfortunate, unprecedented, and more than a little confusing all at the same time.

While it is difficult to be too hard on the company, because the CMS decision was so perplexing, I must say that I have not been entirely pleased with Dendreon's response. In my view, the company's approach was a little lethargic and uninspiring. It should have played a little offense, when all it did was play defense. This has placed PROVENGE's future entirely in the hands of an unpredictable agency. While we still do not know the outcome, and hopefully everything will turn out okay, we do know this was quite a risk. Given the stakes involved, I would like to have seen a strategy that was a little more robust and a more rigorous defense of the company's product. There are two things that I did not like about it.

First, Dendreon should have done a better job of managing expectations and commenting on the MEDCAC process once it was over. Having worked on the last three presidential campaigns, one thing I know well is that going into a debate, you want to be in control of the situation to the greatest extent possible. A big part of that means that you should be the one who sets expectations, defines what a positive outcome would be, and then articulates to the public after it is over why you believe you have achieved that. Dendreon has done none of this. Instead, they have chosen to be a participant, rather than a driver in the process, and I believe that is risky.

In fact, the only thing the company really said in terms of expectations ahead of the MEDCAC meeting was that there should be no expectations. On a November 3rd conference call with analysts, COO Hans Bishop cautioned “...the outcome of these MEDCAC meetings is usually not definitive.” He later went on to say “You don’t come out of the MEDCAC with a definitive position...I want to make sure everyone understands that, and they have their expectations managed in advance.”^v

While those statements certainly are true, I think the company should have shown a little more courage by giving a conservative estimate of what they thought a positive outcome would be. This would have given those analysts, and more importantly the press, a measuring stick of success that the company controlled. Perhaps they did this in private, and if so I applaud them, but given how the meeting’s results were reported with such mixed reaction, I have to assume it was not done. Instead, the company just added to the uncertainty of the process and put themselves at the mercy of others’ opinions.

The company’s official response once the meeting was over was equally uninspiring. To my knowledge, the only action Dendreon took afterwards was putting out a press release that basically announced a meeting had indeed taken place.^{vi} It said nothing about how the company felt the meeting went and did not include even a hint of confidence. While I understand you do not want to overplay your hand and upset regulators, this truly accomplished nothing. It might go down as the most generic press release I have ever seen.

In addition, as far as I am aware, the company did no interviews or follow-up work with the press. With no statement, guidance, or interviews, this left the outcome of the results strictly up to the interpretation of the journalists covering the event. Given the negative slant most journalists have historically taken with PROVENGE, I think that was an unwise strategy. While many ultimately did in fact report that the meeting was a victory for the company and PROVENGE had passed the test, many others also described the results as lackluster and lukewarm. In my view, this leaves the door open for CMS to act irrationally. The company should have recognized that there are really two debates held around meetings like these: one inside the room and another outside the room. Unfortunately, Dendreon seems to have only participated in one.

This is all the more reason why I think it would have been wise for Dendreon to have a more robust public relations and advertising presence throughout the CMS process. You cannot underestimate how important the public and media attention is in things like these. Therefore, I do not think it would have hurt to give the PROVENGE brand a little more visibility while it was taking place. Public perception is important, and Dendreon should have cultivated that more to its advantage.

The second thing I disagree with in terms of Dendreon's approach to this meeting was the substance of their defense. I wish the company would have continued with many of the arguments they originally made in Hans Bishop's July 28th letter to CMS^{vii} asking them to drop the review. The letter was excellent. In it, Mr. Bishop mentioned the strong endorsements PROVENGE has received from well-recognized organizations and publications such as the FDA, the New England Journal of Medicine, and the National Comprehensive Cancer Network. Ultimately, this seems to have fallen on deaf ears, so I think it would have been useful to bring up some of those same arguments again in a more public manner. In a few instances they did, but it was not given much priority.

The bottom line is that clearly the coverage assessment has some elements included in it that go beyond science (I do not think anyone would disagree with that), so I think the company's response should have been based accordingly. Instead, they chose to proceed with a vanilla, scientific approach, talking only about the data and the intricacies of the science. While this obviously is an important piece of the puzzle (the most important piece), I also think a broader discussion about why this process was so unusual and how it is detrimental to health outcomes was warranted as well. In other words, talk about something the public can actually understand.

As I said earlier, I do not want to be too hard on the company, because the whole CMS process has been very unfair to Dendreon in the first place, but this does lend further credence to my view that Dendreon's thinking is a little narrow. The company approached this issue just as you would expect from a scientific organization. They have played a one-dimensional game, hoping that others see the data in the same light as the company does. However, I believe the problem was much more dynamic than that, and called for a much more robust response. Perhaps if there was more diversity on the board, alternate thinking like that would be recognized.

How these issues relate to the board of directors.

Many of these things I have talked about in this section involve the broad strategy of the company. Whether it was the CMS approach or a decision not to advertise, these are things that the board of directors clearly should be involved in. While the board, of course, cannot be expected to get involved in the day-to-day minutia of running the company, it is fundamentally responsible for Dendreon's ultimate well-being.

As I have made clear, I believe Dendreon’s management has a narrow focus. However, in their case, this is almost to be expected. If there was ever a place you would want to be overloaded with industry experience, it is in the company’s front office. The board of directors, on the other hand, is a different story in my view.

While you certainly want the board to have a large swath of industry experience as well, their mandate goes far beyond that. The board is responsible for looking at the big picture, and making sure all options and risks are considered. Therefore, a variety of backgrounds, and a diversity of opinions, is much more important on the board.

With that in mind, I have decided to analyze the background of Dendreon’s board. All of the below data has been taken directly from Dendreon’s website.^{viii} While clearly this does not encompass all of the impressive experiences of these talented individuals, I think it does paint a telling picture of the relative uniformity of the board.

DENDREON BOARD OF DIRECTORS		
Name	Industry Experience	Other Experience
Richard B. Brewer (Chairman)	<ul style="list-style-type: none"> Chairman of the Board – Arca Bio Pharma (a) CEO & President – Scios, Inc. COO – Heartpoint Senior VP – Genentech Board Member – SRI International (a) 	<ul style="list-style-type: none"> Founding Partner – Crest Asset Management (a) Advisory Board Member – Kellogg Graduate School of Management (a)
Susan B. Bayh	<ul style="list-style-type: none"> Director – Corvas Attorney – Eli Lilly & Co. Board Member – Wellpoint, Inc. (a) Board Member – Dyax Corp. (a) Board Member – Curis, Inc. (a) Board Member – MDRNA, Inc. 	<ul style="list-style-type: none"> Distinguished Visiting Professor – Butler University Commissioner – International Commission Between the United States & Canada Board Member – Emmis Communications (a)
Gerardo Canet	<ul style="list-style-type: none"> Chairman – IntegraMed America (a) 	
Bogdan Dziurzynski, D.P.A.	<ul style="list-style-type: none"> Board Member – Allosteria Pharma, Inc. (a) Board Member – Biologics Consulting Group, Inc. (a) Fellow – Regulatory Affairs Professional Society Advisory Board Member – Integratedbiotherapeutics, Inc. (a) Sr. VP – MedImmune, Inc. VP – Immunex Corporation 	
Mitchell Gold, M.D.	<ul style="list-style-type: none"> CEO – Dendreon Corporation (a) Physician – University of Washington Board Member - University of Washington/Fred Hutchinson Cancer Research Center Prostate Cancer Institute (a) Board Member - Washington Biotechnology and BioMedical Association (a) Governing Board Member - Biotechnology Industry Org (a) 	<ul style="list-style-type: none"> VP – Data Critical Corporation (Medical Information Systems) CEO – Exilis Corporation (Medical Information Systems)

Name	Industry Experience	Other Experience
Pedro Granadillo	<ul style="list-style-type: none"> • Sr. VP – Eli Lilly & Co. • Board Member - Haemonetics Corporation (a) • Board Member – Nile Therapeutics, Inc. (a) • Board Member - Tigris Pharmaceuticals, Inc (a) • Board Member - Noven Pharmaceuticals, Inc. 	<ul style="list-style-type: none"> • Board Member – First Indiana Bank
David C. Stump, M.D.	<ul style="list-style-type: none"> • Executive VP – Human Genome Sciences, Inc. (a) • VP Genentech • Associate Professor of Medicine and Biochemistry – University of Vermont • Board Member - Sunesis Pharmaceuticals, Inc (a) • Board of Trustees - Adventist HealthCare, Inc. (a) 	<ul style="list-style-type: none"> • Board of Trustees – Earlham College (a)
Davd L. Urdal, Ph.D.	<ul style="list-style-type: none"> • Chief Scientific Officer – Dendreon Corporation (a) • President – Immunex Corporation • Board Member – VLST (a) • Board Member - ORE Pharmaceuticals, Inc. (a) 	
Douglas G. Watson	<ul style="list-style-type: none"> • CEO – Novartis Corporation • CEO - Ciba-Geigy Corporation • Chairman - OraSure Technologies, Inc. (a) • Board Member - Delcath Systems, Inc. (a) • Board Member - BioMimetic Therapeutics, Inc. • Board Member - Genta Incorporated • Board Member - Javelin Pharmaceuticals, Inc. • Board Member – BioElectronics, Inc. • Board Member - InforMedix Inc. (Medical Compliance Monitors) 	<ul style="list-style-type: none"> • CEO - Pittencrieff Glen Associates (a) • Board Member – Engelhard Corporation (Surface Material Sciences)

(a) = Active

These are impressive backgrounds to say the least. One thing you definitely cannot say about the board is that it does not have industry experience. It is loaded with that. I have tremendous respect for the credentials of each one of these individuals. However, in my view, what is missing is one or two people who come from a different walk of life.

As impressive as the board is, it appears that every single member has primarily spent their life in the biotech/healthcare world. I am concerned that this is too uniform, and adding to the narrowness of Dendreon’s thinking. As the company continues to transition into a major manufacturing concern, I think a broader perspective might be a good thing. The range of issues that Dendreon is about to face will be expanding, so I think the timing is right to add a couple of new perspectives.

Another thing I am concerned about is that all of these individuals currently have many things on their plate (I have listed an (a) next to all active commitments).

Each of the non-employee directors either sits on multiple boards and/or is currently actively managing another company. While that is not surprising, because demand for their impressive credentials must be high, it also might not be what is best for Dendreon right now. I say that for two reasons. First, Dendreon is going through an explosive period of growth. On that basis alone, substantial participation may be needed; I am not sure to what degree these directors have the time. Second, as I have described throughout this report, I do not think the board has done a good enough job in their oversight of management's guidance, disclosures, and other general practices. Therefore, perhaps adding one or two new people who can increase that focus would be useful.

In summary, given both the uniformity and time constraint factors, I think it is fair to say that the board of directors might on some levels be contributing to the issues I have described. While the current board has very impressive experience, I believe it would be wise to supplement that experience with something more diverse.

Conclusions

All of this leads me to conclude once again that Dendreon would be well served to add one or two new members to its board who come from the ranks of shareholders. As I have pointed out, I believe both management and the board suffer to a certain degree from a narrowness of opinions, and I think shareholders might be a unique answer to that problem. I say this for a couple of reasons.

First, as the true owners of the company and its assets, they are most uniquely positioned to be aware of all the risks facing the company and how they are affecting its ultimate value. I have pointed out how Dendreon does not seem to be defending its brand very rigorously. This is an issue which is very important to shareholders, and the fact that management is missing it is concerning. This points towards a need for more shareholder presence.

Second, shareholders are likely to come from outside of Dendreon's specific industry, and given their financial interest, will probably be able to offer a significant piece of their focus to the company. I have outlined how Dendreon's approach to many decisions has been uninspiring. I have also shown how the board appears to be narrow in background, and in many cases overburdened. Adding shareholders to the board will correct both of these problems.

In conclusion, many large companies, even in the biotech industry, choose to have a couple members of their board who come from a different walk of life. This creates diversity, greater awareness, and the broader perspective needed to compete in today's dynamic environment. In my view, Dendreon is starting to fall short in a couple key areas that are outside of the scientific realm. Therefore, and especially at this important time in its history, I strongly recommend that the company diversifies the board.

Notes:

- ⁱ Siddhartha Mukherjee, *The Emperor of all Maladies* (Scribner, 2010), 112-113.
- ⁱⁱ http://www.denverpost.com/frontpage/ci_16182491
- ⁱⁱⁱ Dendreon 2010 Q3 conference call transcript. Available at www.morningstar.com.
- ^{iv} Dendreon 2010 Q3 conference call transcript. Available at www.morningstar.com.
- ^v Dendreon 2010 Q3 conference call transcript. Available at www.morningstar.com.
- ^{vi} <http://investor.dendreon.com/releasedetail.cfm?ReleaseID=533474>
- ^{vii} <https://www.cms.gov/medicare-coverage-database/staticpages/public-comment.aspx?commentID=21547&ReportType=nca>
- ^{viii} <http://www.dendreon.com/about/>

http://www.denverpost.com/frontpage/ci_16182491

Costly cancer drugs raise tough questions

By **Marilynn Marchione**

The Associated Press

Posted 9/27/2010

BOSTON — Cancer patients, brace yourselves. Many new drug treatments cost nearly \$100,000 a year, sparking fresh debate about how much a few months more of life is worth.

The latest is Provenge, a first-of-a-kind therapy approved in April. It costs \$93,000 and adds four months' survival, on average, for men with incurable prostate tumors. Bob Svensson is honest about why he got it: Insurance paid.

"I would not spend that money" because the benefit doesn't seem worth it, said Svensson, 80, a former corporate finance officer from Bedford, Mass.

His supplemental Medicare plan is paying while the government decides whether basic Medicare will cover Provenge and for whom. The tab for taxpayers could be huge — prostate cancer is the most common cancer in American men. Most of those who have it will be eligible for Medicare, and Provenge will be an option for many late-stage cases. A meeting to consider Medicare coverage is set for Nov. 17.

"I don't know how they're going to deal with that kind of issue," said Svensson, who was treated at the Lahey Clinic Medical Center in suburban Boston. "I feel very lucky."

For the past decade, new cancer-fighting drugs have been topping \$5,000 a month. Only a few of these keep cancer in remission so long that they are, in effect, cures. For most people, the drugs may buy a few months or years. Insurers usually pay if Medicare pays. But some people have lifetime caps, and more people are uninsured because of job layoffs in the recession. The nation's new health care law eliminates these lifetime limits for plans that were issued or renewed Sept. 23 or later.

Celgene Corp.'s Revlimid pill for multiple myeloma, a type of blood cancer, can run as much as \$10,000 a month; so can Genentech's Avastin for certain cancers. Now, the cost of Dendreon Corp.'s Provenge rockets into a new orbit.

Unlike drugs that people can try for a month or two and keep using only if they keep responding, Provenge is an all-or-nothing \$93,000 gamble. It's a one-time treatment to train the immune system to fight prostate tumors, the first so-called cancer vaccine. Part of why it costs so much is that it's not a pill cranked out in a lab but a treatment that is individually prepared, using each patient's cells and a protein found on most prostate-cancer cells. It is expensive and time-consuming to make.

It's also in short supply, forcing the first rationing of a cancer drug since Taxol and Taxotere were approved 15 years ago. At the University of Texas M.D. Anderson Cancer Center in Houston, doctors plan a modified lottery to decide which of its 150 or so eligible patients will be among the two a month it can treat with Provenge. An insurance pre-check is part of the process to ensure they financially qualify for treatment.

"I'm fearful that this will become a drug for people with more resources and less available for people with less resources," said M.D. Anderson's prostate-cancer research chief, Dr. Christopher Logothetis.

For other patients on other drugs, money already is affecting care:

- Job losses have led some people to stop taking Gleevec, a \$4,500-a-month drug by Novartis AG that keeps certain leukemias and stomach cancers in remission. Three such cases were recently described in the New England Journal of Medicine, and all those patients suffered relapses.

- Retirements are being delayed to preserve insurance coverage of cancer drugs. Holly Reid, 58, an accountant in Novato, Calif., hoped to retire early until she tried cutting back on Gleevec and her cancer recurred. "I'm convinced now I have to take this drug for the rest of my life" and will have to work until eligible for Medicare, she said.

- Lifetime caps on insurance benefits are hitting many patients, and laws are being pushed in dozens of states to get wider coverage of cancer drugs. In Quincy, Mass., 30-year-old grad student Thea Showstack testified for one such law after pharmacists said her first cancer prescription exceeded her student insurance limit.

"They said 'OK, that will be \$1,900,' " she said. "I was absolutely panicked."

- Tens of thousands of people are seeking help from drug companies and charities that provide free medicines or cover co-pays for low-income patients. Genentech's aid to patients has risen in each of the past three years, and the company says nearly 85 percent of Americans earn less than \$100,000, making them potentially eligible for help if no other programs such as Medicaid will pay.

- Doctors and insurers increasingly are doing the cruel math that many cancer patients want to avoid and questioning how much small improvements in survival are worth. A recent editorial in a medical journal asked whether the extra 11 weeks that Genentech's Herceptin buys for stomach-cancer patients justified the \$21,500 cost.

SUMMARY OF RECOMMENDATIONS

SUMMARY OF RECOMMENDATIONS

1. Dendreon should add one or two new members to its board of directors who come from the ranks of outside shareholders.
2. The board should become more active in the company and increase its oversight of management's guidance and disclosures.
3. Dendreon and its board should recognize that the disclosure of bad or negative news is just as important as the disclosure of good news.
4. Dendreon and the board should more vigorously defend the PROVENGE brand in the media and should consider doing direct-to-patient advertising.
5. Dendreon and its board should present shareholders with a long-term plan in regards to how it intends to use its cash and how it plans to manage its financing activities.
6. The board should decrease the volume of stock handed out to insiders and increase the strike price of option incentives to a higher level than the price on the date of issuance.
7. Dendreon should review its internal controls and make sure that information is always distributed in a way that is fair to every investor.
8. Dendreon should take lawsuit settlements seriously, especially when they are brought about by shareholders.

ABOUT THE AUTHOR

ABOUT THE AUTHOR

After receiving this proposal, I am sure you are probably wondering who I am and what are my intentions. As I stated in my letter, my aim is simply to point out to you what I believe is needed to ensure that Dendreon is most effectively positioned to achieve its tremendous potential. Though the company has taken historic steps and achieved great things, its execution has not always been perfect. The road ahead is going to be difficult, so this is an appropriate time to reevaluate. I believe my suggestions will not only enhance shareholder value, but are in the interest of all of Dendreon's many stakeholders.

Here are a few things about me which can help you better understand who I am and why I have chosen to do this:

I AM A DENDREON SHAREHOLDER

I directly own shares of Dendreon and have followed the company extensively for many years.

I AM A DENDREON SUPPORTER

You may know that I independently spoke in support of Dendreon at the November 17th, 2010 MEDCAC Panel meeting. This should leave no doubt that my intentions are good and my stance is friendly.

I HAVE BEEN TOUCHED BY PROSTATE CANCER

My grandfather, Michael Loncar, passed away from late-stage prostate cancer in 2006. I personally experienced how this disease affects the lives of men and their families. I think a company should always put patients first.

I AM A FULL-TIME INVESTOR

I currently make a living by investing for my family and myself. I have managed my own money my entire life. Professionally, I served as Budget Manager and Director of Investments on President George W. Bush's reelection campaign and completed the Management Training Program at Franklin Templeton Investments.

I HAVE GOVERNMENT EXPERIENCE

I was appointed by the Bush administration as Senior Advisor at the U.S. Department of the Treasury. I served in this role from 2005-2006. I have also been a staff member of the last three Republican presidential campaigns. This is why the CMS issue, as it relates to good government, is one in which I have a great interest.

I AGREE THAT DENDREON SHOULD REMAIN INDEPENDENT

I do not think it would be wise for Dendreon to merge with or be acquired by another company. I represent no other fund or organization. I am not making this proposal to disrupt control of the company. My aim is simply to point out to you what I think is needed.

I CURRENTLY VIEW THIS IS A PRIVATE AND FRIENDLY MATTER

I currently view this proposal as confidential. I have not reached out to any other parties at this point. As an investor, I think it is appropriate to submit for consideration an alternative plan when you think change is needed at a company. I think constructive change is needed at Dendreon. My plan is in the interest of all shareholders.

I AM LARGELY SUPPORTIVE OF DENDREON'S CURRENT MANAGEMENT TEAM

Some of the things I have brought up might come across as harsh. Although I have not always been pleased with the company's decisions, I am largely supportive of Dendreon's management team. Their perseverance, knowhow, and the things they have accomplished up to this point are all very impressive. I think they are the right people to lead this company forward. I am not suggesting through my proposal that they should be replaced. However, I do believe that: 1) nobody is perfect, 2) the road ahead for Dendreon is going to be increasingly challenging, and 3) better oversight of management by a more diverse board is desperately needed.