

CytomX Therapeutics, Inc.  
Form 10-Q  
November 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2015

OR

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

Commission File Number 001-37587

CytomX Therapeutics, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	27-3521219
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

343 Oyster Point Boulevard, Suite 100

South San Francisco, California	94080
(Address of principal executive offices)	(Zip Code)

(650) 515-3185

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 19, 2015, 36,024,292 shares of the registrant's common stock were outstanding.

CYTOMX THERAPEUTICS, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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## PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements  
CYTOMX THERAPEUTICS, INC.

## CONDENSED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	September 30, 2015	December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 36,191	\$ 64,396
Restricted cash	100	100
Short-term investments	77,495	—
Accounts receivable	406	1,875
Prepaid expenses and other current assets	878	482
Total current assets	115,070	66,853
Property and equipment, net	3,667	3,018
Intangible assets	1,750	1,750
Goodwill	949	949
Other assets	3,343	492
Total assets	\$ 124,779	\$ 73,062
<b>Liabilities, Redeemable Convertible Preferred Stock, Convertible Preferred Stock and</b>		
<b>Stockholders' Deficit</b>		
Current liabilities:		
Accounts payable	\$ 2,700	\$ 1,919
Accrued liabilities	5,143	1,695
Deferred revenues, current portion	6,130	6,130
Long-term debt, current portion	—	1,419
Total current liabilities	13,973	11,163
Long-term debt, net of current portion	—	1,568
Deferred revenue, net of current portion	56,236	60,833
Convertible preferred stock warrant liability	788	186
Convertible preferred stock liability	—	395
Deferred tax liability	507	499
Other long-term liabilities	244	249
Total liabilities	71,748	74,893
Commitments and contingencies (Note 11)		
Redeemable convertible preferred stock, \$0.00001 par value – 26,972,316 and	158,605	76,236

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21,759,654 shares authorized at September 30, 2015 and December 31, 2014, respectively; 26,890,671 and 18,458,289 shares issued and outstanding at September 30, 2015

and December 31, 2014, respectively;

Convertible preferred stock, \$0.00001 par value – 244,782 authorized at September 30, 2015 and December 31, 2014, respectively; 244,782 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively

474 474

Stockholders' deficit

Common stock, \$0.00001 par value; 36,200,000 and 28,572,789 shares authorized at September 30, 2015 and December 31, 2014, respectively; 1,094,649 and 996,520

shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively

1 1

Stockholders notes receivable (78 ) (404 )

Additional paid-in capital — —

Accumulated other comprehensive income 8 —

Accumulated deficit (105,979 ) (78,138 )

Total stockholders' deficit (106,048 ) (78,541 )

Total liabilities, redeemable convertible preferred stock, convertible preferred stock and

stockholders' deficit \$ 124,779 \$ 73,062

See accompanying notes to condensed financial statements.

## CYTOMX THERAPEUTICS, INC.

## CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:	\$1,939	\$1,915	\$5,724	\$3,216
Operating expenses:				
Research and development	9,157	3,916	18,854	23,963
General and administrative	4,051	1,463	8,549	4,359
Total operating expenses	13,208	5,379	27,403	28,322
Loss from operations	(11,269 )	(3,464 )	(21,679 )	(25,106 )
Interest income	407	2	874	5
Interest expense	(718 )	(117 )	(1,356 )	(378 )
Other income (expense), net	(287 )	(10 )	(1,718 )	(44 )
Loss before provision for income taxes	(11,867 )	(3,589 )	(23,879 )	(25,523 )
Provision for income taxes	3	—	8	—
Net loss	(11,870 )	(3,589 )	(23,887 )	(25,523 )
Accretion to redemption value and cumulative dividends on				
preferred stock	(2,958 )	(1,169 )	(6,147 )	(3,370 )
Net loss attributable to common stockholders	\$(14,828 )	\$(4,758 )	\$(30,034 )	\$(28,893 )
Net loss per share attributable to common stockholders, basic and				
diluted	\$(14.26 )	\$(4.86 )	\$(29.66 )	\$(30.04 )
Shares used to compute net loss per share attributable to common				
stockholders, basic and diluted	1,039,567	979,134	1,012,534	961,745
Other comprehensive loss:				
Changes in unrealized losses on short-term investments	(7 )	—	(8 )	—
Total other comprehensive loss	(7 )	—	(8 )	—
Comprehensive loss	\$(11,877 )	\$(3,589 )	\$(23,895 )	\$(25,523 )

See accompanying notes to condensed financial statements.



## CYTOMX THERAPEUTICS, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

Nine Months Ended  
September 30,  
2015      2014

Cash flows from operating activities:		
Net loss	\$(23,887 )	\$(25,523 )
Adjustments to reconcile net loss to net cash (used) provided by operating activities:		
Depreciation and amortization	877	562
Amortization of debt discount	80	30
Accretion of discount on short-term investments	816	—
Stock-based compensation expense	2,065	409
Change in fair value of convertible preferred stock liability	1,114	13
Change in fair value of convertible preferred stock warrant liability	602	31
Deferred income taxes	8	—
Changes in operating assets and liabilities		
Accounts receivable	1,469	(317 )
Prepaid expenses and other current assets	(396 )	(877 )
Other assets	121	(355 )
Accounts payable	749	444
Accrued liabilities	1,733	333
Deferred revenue	(4,597 )	61,450
Net cash (used in)/provided by operating activities	(19,246 )	36,200
Cash flows from investing activities:		
Purchases of property and equipment	(1,412 )	(999 )
Purchases of short-term investments	(129,553 )	—
Maturities of short-term investments	51,250	—
Net cash used in investing activities	(79,715 )	(999 )
Cash flows from financing activities:		
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs		
	74,430	10,316
Proceeds from exercise of stock options	128	8
Proceeds from stockholder notes	326	—
Repayment of notes payable	(3,027 )	(917 )
Payment of deferred offering costs	(1,101 )	—
Net cash provided by financing activities	70,756	9,407
Net increase/(decrease) in cash and cash equivalents	(28,205 )	44,608
Cash and cash equivalents, beginning of period	64,396	8,703
Cash and cash equivalents, end of period	\$36,191	\$53,311



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Supplemental disclosures of noncash investing and financing items:

Purchases of property and equipment in accounts payable and accrued liabilities	\$ 114	\$—
Accretion to redemption value and cumulative dividends on preferred stock	6,147	3,370
Convertible preferred stock liability recorded in connection with redeemable convertible preferred stock, net	1,509	1,303
Issuance costs in accounts payable and accrued liabilities	283	—
Deferred offering costs in accounts payable and accrued liabilities	1,862	—

See accompanying notes to condensed financial statements.

CytomX Therapeutics, Inc.

Notes to Condensed Financial Statements (Unaudited)

## 1. Description of the Business

CytomX Therapeutics, Inc. (the “Company”) is an oncology-focused biopharmaceutical company focused on developing Probody therapeutics for the treatment of cancer. Probody therapeutics are masked antibodies that remain inert in healthy tissue but are activated specifically in the disease microenvironment. The Company is located in South San Francisco, California and was incorporated in the state of Delaware in September 2010.

### Initial Public Offering

On October 7, 2015, the Company’s registration statement on Form S-1 (File No. 333-206658) relating to its initial public offering (“IPO”) of its common stock was declared effective by the Securities and Exchange Commission (“SEC”) and the shares of its common stock began trading on the NASDAQ Global Select Market on October 8, 2015. The public offering price of the shares sold in the IPO was \$12.00 per share. The IPO closed on October 14, 2015, pursuant to which the Company sold 7,666,667 shares of common stock, including the sale of 1,000,000 shares of common stock to the underwriters upon their exercise of their option to purchase additional shares. The Company received net proceeds of approximately \$82.4 million, after underwriting discounts, commissions and estimated offering expenses. Immediately prior to the consummation of the IPO, all outstanding shares of convertible preferred stock and redeemable convertible preferred stock converted into common stock.

## 2. Liquidity

The accompanying financial statements have been prepared on a going concern basis that contemplates the realization of assets and discharge of liabilities in the normal course of business. Since inception, the Company has incurred recurring net operating losses. As December 31, 2014 and September 30, 2015, the Company had an accumulated deficit of \$78.1 million and \$106.0 million, respectively, and expects to incur losses for the next several years. Since its inception, the Company has funded its operations primarily with the net proceeds from private placements of convertible preferred stock and proceeds from borrowings. As of December 31, 2014 and September 30, 2015, the Company had cash, cash equivalents and short-term investments of \$64.4 million and \$113.7 million, respectively. In May and June 2015, the Company received aggregate net proceeds of \$73.2 million from the issuance of its Series C and Series D redeemable convertible preferred stock. In October 2015, the Company consummated its IPO and raised net proceeds of approximately \$82.4 million, after deducting underwriting discounts and commissions and offering expenses. The Company believes its current available cash, cash equivalents and short-term investments together with cash received from the IPO will be sufficient to fund its planned expenditures and meet the Company’s obligations through at least the next twelve months.

### 3. Summary of Significant Accounting Policies

#### Basis of Presentation

The accompanying condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company's functional and reporting currency is the U.S. dollar.

#### Unaudited Interim Financial Information

The accompanying interim condensed financial statements and related disclosures are unaudited, have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the results of operations for the periods presented.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The condensed results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year or for any other future year or interim period. The accompanying condensed financial statements should be read in conjunction with the audited financial statements and the related notes for the year ended December 31, 2014 included in the Company's Prospectus dated October 7, 2015 filed pursuant to Rule 424(b)(4) with the SEC.

#### Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial

## CYTOMX THERAPEUTICS, INC.

## Notes to Condensed Financial Statements (unaudited)—(Continued)

statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

## Concentration of Credit Risk and Other Risks and Uncertainties

The Company is subject to a number of risks similar to other biopharmaceutical companies in the early stage, including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical testing or clinical trials, the need to obtain marketing approval for its product candidates, competitors developing new technological innovations, the need to successfully commercialize and gain market acceptance of the Company's products, and protection of proprietary technology. If the Company does not successfully obtain regulatory approval, commercialize or partner any of its product candidates, it will be unable to generate revenue from product sales or achieve profitability.

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, short term investments and accounts receivable. Substantially all the Company's cash is held by one financial institution that management believes is of high credit quality. Such deposits may, at times, exceed federally insured limits. The Company invests its cash equivalents in highly rated money market funds and its short-term investments in U.S. Government Bonds.

Customers who represent 10% or more of the Company's total revenue during each period presented or net accounts receivable balance at each respective balance sheet date are as follows:

	Revenue		Revenue		Accounts Receivable, net	
	Three Months Ended September 30,		Nine Months Ended September 30,		September 30, December 31,	
	2015	2014	2015	2014	2015	2014
Customer A	76 %	71 %	77 %	42 %	55 %	*
Customer B	24 %	29 %	23 %	58 %	45 %	92 %

\*Less than 10%.

All of the Company's customers are located in the United States of America.

## Deferred Offering Costs

Deferred offering costs consisted primarily of direct incremental costs related to the Company's initial public offering of its common stock. Approximately \$3.0 million of deferred offering costs are included in other assets on the Company's condensed balance sheet as of September 30, 2015. Upon consummation of the initial public offering in October 2015, these amounts were offset against the proceeds of the IPO.

## Segments

Management has determined that it has one business activity and operates as one operating segment as it only reports financial information on an aggregate basis to its chief executive officer, who is the Company's chief operating decision maker. All long-lived assets are maintained in the United States of America.

## Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less at the date of purchase to be cash equivalents.

## Restricted Cash

Restricted cash represents amounts related to the security deposit for the Company's credit card accounts.

## Short-term Investments

All investments have been classified as "available-for-sale" and are carried at fair value as determined based upon quoted market prices or pricing models for similar securities at period end. Those investments with contractual maturities greater than 12 months at the date of purchase are considered long-term investments. Unrealized gains and losses, deemed temporary in nature, are reported as a

## CYTOMX THERAPEUTICS, INC.

## Notes to Condensed Financial Statements (unaudited)—(Continued)

component of accumulated other comprehensive income (loss), net of tax. The Company did not have any investments as of December 31, 2014.

A decline in the fair value of any security below cost that is deemed other than temporary results in a charge to earnings and the corresponding establishment of a new cost basis for the security. Premiums (discounts) are amortized (accrued) over the life of the related security as an adjustment to yield using the straight-line interest method. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

## Property and Equipment, net

Property and equipment are recorded at cost net of accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. The useful lives of property and equipment are as follows:

Machinery and equipment	5 years
Computer equipment and software	3 years
Furniture and fixtures	3 years
Leasehold improvements	Shorter of remaining lease term or estimated life of the assets

Maintenance and repairs that do not extend the life or improve the asset are expensed when incurred.

## Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of tangible and identifiable intangible assets acquired in business combinations. Goodwill and other intangible assets with indefinite lives are not amortized, but are assigned to reporting units and tested for impairment annually, or whenever there is an impairment indicator. Intangible assets are comprised of in-process research and development (“IPR&D”). The Company assesses impairment indicators annually or more frequently, if a change in circumstances or the occurrence of events suggests the remaining value may not be recoverable. Intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives. There was no impairment of goodwill or intangible assets identified during the nine months ended September 30, 2015 and the year ended December 31, 2014.

## Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable and prior to any goodwill impairment test. An impairment loss is recognized when the total of estimated undiscounted future cash flows expected to result from the use of the asset (or asset group) and its eventual disposition is less than its carrying amount. Impairment, if any, would be assessed using discounted cash flows or other appropriate measures of fair value. There was no impairment of long-lived assets during the periods presented in these condensed financial statements.

Convertible Preferred Stock Warrant Liability

Freestanding warrants for shares that are contingently redeemable are classified as liabilities on the balance sheet at their estimated fair value because the shares underlying the warrants may obligate the Company to transfer assets to the holders at a future date under certain circumstances such as a deemed liquidation event. The warrants are subject to re-measurement at each balance sheet date and the change in fair value, if any, is included in other income (expense), net. The Company will continue to adjust the liability for changes in fair value until immediately prior to the consummation of its IPO in October 2015, at which time all convertible preferred stock warrants were net exercised into shares of common stock and the related convertible preferred stock warrant liability was reclassified to additional paid-in capital.

Immediately prior to the consummation of the Company's IPO in October 2015, all of the warrants outstanding as of September 30, 2015 were net exercised, resulting in issuance of an aggregate of 60,640 shares of our common stock.

CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

### Convertible Preferred Stock Liability

The obligation to issue additional shares of Series B-1 and Series C redeemable convertible preferred stock at a future date was determined to be a freestanding instrument that should be accounted for as a liability. At initial recognition, the Company recorded the convertible preferred stock liability on the balance sheets at its estimated fair value. The liability is subject to remeasurement at each balance sheet date, with changes in fair value recognized as a component of other income (expense), net. At the time of each funding, the Company remeasures the liability, with the change in fair value recognized as a component of other income (expense), net and then reclassifies the fair value associated with the convertible preferred stock liability to the applicable series of redeemable convertible preferred stock. Immediately prior to the consummation of the Company's IPO in October 2015, the convertible preferred stock converted to 27,135,453 shares of common stock.

### Comprehensive Loss

Comprehensive loss represents all changes in stockholders' deficit except those resulting from distributions to stockholders. The Company's unrealized losses on short-term investments represent the only component of other comprehensive loss that is excluded from the reported net loss.

### Revenue Recognition

The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; transfer of technology has been completed or services have been rendered; the price to the customer is fixed or determinable and collectability is reasonably assured.

The Company's revenues are primarily derived through its license, research, development and commercialization agreements. The terms of these types of agreements may include (i) licenses to the Company's technology, (ii) research and development services, and (iii) services or obligations in connection with participation in research or steering committees. Payments to the Company under these arrangements typically include one or more of the following: nonrefundable upfront and license fees, research funding, milestone and other contingent payments to the Company for the achievement of defined collaboration objectives and certain preclinical, clinical, regulatory and sales-based events, as well as royalties on sales of any commercialized products.

In arrangements involving the delivery of more than one element, each required deliverable is evaluated to determine whether it qualifies as a separate unit of accounting. The determination is based on whether the deliverable has "standalone value" to the customer. If a deliverable does not qualify as a separate unit of accounting, it is combined with the other applicable undelivered item(s) within the arrangement and these combined deliverables are treated as a single unit of accounting.

The arrangement's consideration that is fixed or determinable is allocated to each separate unit of accounting based on the relative selling price methodology in accordance with the selling price hierarchy, which includes vendor-specific objective evidence ("VSOE") of selling price, if available, or third-party evidence of selling price if VSOE is not available, or the best estimate of selling price, if neither VSOE nor third-party evidence is available.

Payments or reimbursements for the Company's research and development efforts for the arrangements where such efforts are considered as deliverables are recognized as the services are performed and are presented on a gross basis.



When upfront payments are received and if there is no discernible pattern of performance and/or objectively measurable performance measures do not exist, the Company recognizes revenue ratably over the associated period of performance.

The Company's collaboration and license agreements may include contingent payments related to specified research, development and regulatory milestones and sales-based milestones. Such payments are typically payable under the collaborations when the collaboration partner claims or selects a target, or initiates or advances a covered product candidate in preclinical or clinical development, upon submission for marketing approval of a covered product with regulatory authorities, upon receipt of actual marketing approvals of a covered product or for additional indications, or upon the first commercial sale of a covered product. Sales-based milestones are typically payable when annual sales of a covered product reach specified levels. Each contingent and milestone payment is evaluated to determine whether it is substantive and at risk to both parties. The Company recognizes any payment that is contingent upon the achievement of a substantive milestone entirely in the period in which the milestone is achieved. Any payments that are contingent upon achievement of a non-substantive milestone are recognized as revenue prospectively, when such payments become due and collectible, over the remaining expected performance period under the arrangement, which is generally the remaining period over which the research and development services are expected to be provided.

CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

Research and Development Expenses

Research and development expenses include costs directly attributable to the conduct of research and development programs, including the cost of salaries, payroll taxes, employee benefits, materials, supplies, depreciation on and maintenance of research equipment, the cost of services provided by outside contractors, and the allocated portions of facility costs, such as rent, utilities, insurance, repairs and maintenance, depreciation, and general support services. All costs associated with research and development are expensed as incurred.

Stock-Based Compensation

The Company measures its stock-based awards made to employees based on the fair values of the awards as of the grant date using the Black-Scholes option-pricing model. Stock-based compensation expense is recognized over the requisite service period using the straight-line method and is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. As such, the Company's stock-based compensation is reduced for the estimated forfeitures at the date of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

Stock-based compensation expense for options granted to non-employees as consideration for services received is measured on the date of performance at the fair value of the consideration received or the fair value of the equity instruments issued, using the Black-Scholes option-pricing model, whichever can be more reliably measured. Compensation expense for options granted to non-employees is periodically remeasured as the underlying options vest.

Income Taxes

The Company accounts for income taxes under the liability method which requires, among other things, that deferred income taxes be provided for temporary differences between the tax basis of the Company's assets and liabilities and their financial statement reported amounts. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses and research and development credit carryforwards. A valuation allowance is provided against deferred tax assets unless it is more likely than not that they will be realized.

The Company recognizes benefits of uncertain tax positions if it is more likely than not that such positions will be sustained upon examination based solely on their technical merits, as the largest amount of benefit that is more likely than not to be realized upon the ultimate settlement. The Company's policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense or benefit. To date, there have been no interest or penalties charged in relation to the unrecognized tax benefits.

Net Loss per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, without consideration of potentially dilutive securities. Diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders since the effect of potentially dilutive securities is anti-dilutive.

### Reverse Stock Split

On October 2, 2015, the Company effected a one-for-62.997 reverse stock split of the Company's issued and outstanding shares of common stock, redeemable convertible preferred stock and convertible preferred stock. The par values of the common stock, redeemable convertible preferred stock and convertible preferred stock were not adjusted as a result of the reverse split. All authorized and issued and outstanding shares of common stock, redeemable convertible preferred stock and convertible preferred stock and per share amounts contained in the accompanying condensed financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective.

CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

The new standard will be effective for the Company on January 1, 2018, which is the effective date for public companies. Early application is permitted as of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. This standard update provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance is effective for all annual and interim periods ending after December 15, 2016. The Company does not believe that adopting ASU 2014-15 will have a material impact on its financial statements.

#### 4. Fair Value Measurements and Short-Term Investments

The Company records its financial assets and liabilities at fair value. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level I: Inputs which include quoted prices in active markets for identical assets and liabilities.
- Level II: Inputs other than Level I that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level III: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of the Company's financial instruments, including restricted cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities. Based on the borrowing rates available to the Company for debt with similar terms and consideration of default and credit risk using Level II inputs, the carrying value of the Company's long-term debt as of December 31, 2014 approximates its fair value. The Company's financial instruments consist of Level I and II assets and Level III liabilities. Level I assets consist primarily of highly liquid money market funds that are included in restricted cash. The Company's Level II assets consist of U.S. government bonds that are included in short-term investments. The Company's Level III liabilities include the convertible preferred stock warrant liability and the convertible preferred stock liability. The determination of the fair value of the convertible preferred stock warrant liability is discussed in Note 10. The determination of the fair value of the convertible preferred stock liability is discussed in Note 12.

The following tables set forth the fair value of the Company's financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements (in thousands):

	December 31, 2014			
	Level	Level	Level	Total
	I	II	III	
<b>Assets</b>				
Money market funds	\$100	\$ —	\$—	\$100
	\$100	\$ —	\$—	\$100
<b>Liabilities</b>				
Convertible preferred stock warrant liability	\$—	\$ —	\$186	\$186
Convertible preferred stock liability	—	—	395	395
	\$—	\$ —	\$581	\$581

## CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

	September 30, 2015			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Money market funds	\$33,267	\$—	\$—	\$33,267
U.S. Government bonds	—	77,495	—	77,495
	\$33,267	\$77,495	\$-	\$110,762
<b>Liabilities</b>				
Convertible preferred stock warrant liability	\$—	\$—	\$788	\$788
	\$—	\$—	\$788	\$788

The following table sets forth the changes in the fair value of Level III liabilities (in thousands):

	Convertible Preferred Stock Warrant Liability	Convertible Preferred Stock Liability
Fair value at December 31, 2014	\$ 186	\$ 395
Change in fair value	602	1,114
Recognition of fair value upon issuance of redeemable convertible preferred stock	—	(1,509 )
Fair value at September 30, 2015	\$ 788	\$ —

The following is a summary of the gross unrealized gains on the Company's short-term investments (in thousands):

	September 30, 2015			Aggregate Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>Investment Securities</b>				
U.S. Government bonds	77,487	10	(2 )	77,495
Total securities	\$77,487	\$ 10	\$ (2 )	\$77,495

The contractual maturities of securities classified as available-for-sale as of September 30, 2015 were as follows (in thousands):

	September 30, 2015
Due within one year	77,495
Total	\$ 77,495

## CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

## 5. Property and Equipment

Property and equipment, net consisted of the following (in thousands):

	September 30, 2015	December 31, 2014
Machinery and equipment	\$ 5,068	\$ 4,059
Computer equipment and software	540	315
Furniture and fixtures	54	54
Leasehold improvements	720	183
Construction in progress	153	399
	6,535	5,010
Less: accumulated depreciation and amortization	(2,868 )	(1,992 )
	\$ 3,667	\$ 3,018

Depreciation and amortization expense was \$877,000 and \$562,000 for the nine months ended September 30, 2015 and 2014, respectively.

## 6. Goodwill and Intangible Assets

Goodwill and in-process research and development assets result from a series of integrated financing transactions in 2010 that was accounted for as a business combination. The in-process research and development relates to the Company's proprietary Probody technology platform and is accounted for as an indefinite-lived intangible asset until the underlying project is completed or abandoned.

Goodwill and intangible assets consisted of the following (in thousands):

	September 30, 2015	December 31, 2014
Goodwill	\$ 949	\$ 949
In-process research and development	1,750	1,750



## 7. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2015	December 31, 2014
Deferred offering costs	\$ 1,658	\$ —
Payroll and related expenses	1,464	859
Research and clinical expenses	1,391	276
Legal and professional expenses	530	418
Other accrued expenses	100	142
Total	\$ 5,143	\$ 1,695

## 8. Research and Collaboration Agreements

Pfizer Inc.

In May 2013, the Company and Pfizer Inc. (“Pfizer”) entered into a Research Collaboration, Option and License Agreement (the “Pfizer Agreement”) to collaborate on the discovery and preclinical research activities related to Probody therapeutics, and Probody drug conjugates (“PDCs”) for research project targets nominated by Pfizer. Pfizer nominated two research targets in 2013 and had the option of nominating two additional research targets. In December 2014, Pfizer selected an additional research target.

CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

The Pfizer Agreement provides Pfizer with an option to acquire an exclusive development and commercialization license for each research project target. Upon exercise of the option, Pfizer (1) will receive an exclusive development and commercialization license for use of the Probody therapeutic during the development, manufacturing and commercialization of the potential product, and (2) will be responsible for the development, manufacturing and commercialization of such potential products.

Pursuant to the Pfizer Agreement, the Company received an upfront payment of \$6 million and is entitled to contingent payments of up to an aggregate of \$626.5 million as follows: (i) \$1.5 million for each of the two additional targets; (ii) up to \$12.0 million upon exercise of the license options, (iii) up to \$25.0 million from the achievement of development milestones for each research target program, or up to \$82.0 million if the maximum of four research targets are selected by Pfizer; and (iv) up to \$98.0 million in milestone payments for the first commercial sale in various territories for up to three indications per research target program or up to \$249.5 million if the maximum of four research targets are selected and (v) up to \$100.0 million in sales milestones payments per research target program, or up to \$280.0 million if the maximum of four research targets are selected by Pfizer. The Company is entitled to receive royalties in the mid-single digits to low teens on initial targets and mid-single digit royalties on additional targets from potential future sales of product candidates. The Company will also receive research and development service fees based on a prescribed full-time employee (“FTE”) rate per year that is capped.

In accordance with ASC 605-25, the Company identified the following deliverables at the inception of the Pfizer Agreement: (1) the research license, (2) the research services and (3) the obligation to participate in the joint research committee. The Company determined that the research license does not have stand-alone value to Pfizer due to specialized nature of the research services to be provided by the Company, and accordingly, this deliverable was combined with the research services and participation in the joint research committee as a single unit of accounting. The Company concluded that, at the inception of the agreement, Pfizer’s options to obtain an exclusive development and commercialization license for each research project target do not represent deliverables of the agreement because they are substantive options and do not contain a significant or incremental discount.

The upfront payment of \$6.0 million was recorded as deferred revenue and is being recognized on a ratable basis over the estimated performance period of seven years. In December 2014, Pfizer selected an additional target and paid \$1.5 million, which was recorded as deferred revenue and will be recognized over the remaining performance period.

During the three months ended September 30, 2015 and 2014, the Company recognized revenue of \$0.5 million and \$0.6 million respectively. During the nine months ended September 30, 2015 and 2014, the Company recognized revenue of \$1.3 million and \$1.9 million, respectively. As of September 30, 2015 and December 31, 2014, deferred revenue relating to the Pfizer Agreement was \$5.3 million and \$6.1 million, respectively. The amount due from Pfizer under the Agreement was \$0.2 million and \$1.7 million as of September 30, 2015 and December 31, 2014, respectively.

ImmunoGen, Inc.

In January 2014, the Company and ImmunoGen, Inc. (“ImmunoGen”) entered into the Research Collaboration Agreement (the “ImmunoGen Agreement”). The ImmunoGen Agreement provides the Company with the right to use ImmunoGen’s Antibody Drug Conjugate (“ADC”) technology in combination with the Company’s Probody technology to create Probody Drug Conjugates (“PDC”) directed at one specified target under a research license, and to subsequently obtain an exclusive, worldwide development and commercialization license to use ImmunoGen’s ADC technology to

develop and commercialize such PDCs. The Company made no upfront cash payment in connection with the execution of the agreement. Instead, the Company provided ImmunoGen with the rights to CytomX's Probody technology to create PDCs directed at two targets under the research license and to subsequently obtain exclusive, worldwide development and commercialization licenses to develop and commercialize such PDCs. Under the research licenses, the parties have one replacement right for each target, which needs to be made before the third anniversary of the agreement execution.

Under the terms of the agreement, both the Company and ImmunoGen are required to perform research activities on behalf of the other party for no monetary consideration. The research activities for a particular target will last until January 2018 unless they are terminated by one of the parties or when a development and commercialization license is obtained with respect to that target. Each party is solely responsible for the development, manufacturing and commercialization of any products resulting from the exclusive development and commercialization license obtained by such party under the agreement. Each party may be liable to pay annual maintenance fees to the other party if the licensed product candidate covered under each development and commercialization license has not progressed to the clinical stage of development within six years of the exercise of the development and commercialization license.

CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

In consideration for the exclusive development and commercialization license that may be obtained by ImmunoGen, the Company is entitled to receive up to \$30.0 million in development and regulatory milestone payments per the research program target, up to \$50.0 million in sales milestone payments per target and royalties in the mid-single digits on the commercial sales of any resulting product. For the development and commercialization license that may be obtained by the Company, ImmunoGen is entitled to receive up to \$60.0 million in development and regulatory milestone payments, up to \$100.0 million in sales milestone payments and royalties in the mid to high single digits on the commercial sales of any resulting product.

The Company accounted for the ImmunoGen Agreement based on the fair value of the assets and services exchanged. The Company identified the following significant deliverables at the inception of the ImmunoGen Agreement: (1) the research license, (2) the research services, (3) the obligation to participate in the joint research committee, (4) the exclusive research, development and commercialization license and (5) the obligation to provide future technology improvements, when available. The Company determined that the research license, participation in the joint steering committee and the research services do not have stand-alone value from the development and commercialization license and therefore those deliverables were combined into one unit of accounting. The Company considered factors such the limited economic benefits to ImmunoGen if development and commercialization license is not obtained and the lack of sublicensing rights in the research license.

The estimated total fair value of the consideration of \$13.2 million was recorded as deferred revenue, of which \$13.0 million was allocated to the unit of accounting comprised of the research license, research services, participation in the joint research committee and the development and commercialization license, and \$0.2 million was allocated to the future technological improvements. The Company will recognize \$13.0 million upon delivery of development and commercialization licenses and will recognize amount allocated to the future technology improvements over the term of the license.

The estimated fair value of assets and services received was also \$13.2 million, of which \$12.7 million was allocated to the licenses received and was charged to research and development expense, with the remaining amount of \$0.5 million was allocated to the research services, joint research committee participation and technology improvements, which will be expensed over the period of services to be provided.

#### Bristol-Myers Squibb Company

On May 23, 2014, the Company and Bristol-Myers Squibb Company (“BMS”) entered into a Collaboration and License Agreement (the “BMS Agreement”) to discover and develop compounds for use in human therapeutics aimed at multiple immuno- oncology targets using the Company’s Probody technology. The effective date of the BMS Agreement was July 7, 2014.

Under the terms of the BMS Agreement, the Company granted BMS exclusive worldwide rights to develop and commercialize Probody therapeutics for up to four oncology targets. BMS will have additional rights to substitute up to two collaboration targets. Each collaboration target has a two year research term and the two additional targets must be nominated by BMS within five years of the effective date of the BMS Agreement. The research term for each collaboration target can be extended in one year increments up to three times.

Pursuant to the BMS Agreement, the financial consideration from BMS was comprised of an upfront payment of \$50.0 million and contingent payments of up to an aggregate of \$1,217.0 million as follows: (i) up to \$25.0 million for

additional targets; (ii) up to \$114.0 million in development milestone payments per research target program or up to \$456.0 million if the maximum of four research targets are selected; (iii) up to \$124.0 million in milestone payments for the first commercial sale in various territories for up to three indications per research target program or up to \$496.0 million if the maximum of four research targets are selected, and (iv) up to \$60.0 million in sales milestones payments per research target program or up to \$240.0 million if maximum of four research targets are selected. The Company is entitled to royalty payments in the mid to high single digits to low teens from potential future sales. The Company will also receive research and development service fees based on a prescribed FTE rate that is capped.

The BMS Agreement also provides the Company to sell to BMS the Company's common stock upon an IPO. In connection with the IPO in October 2015, BMS purchased 833,333 shares of the Company's common stock at the initial public offering price and on the same terms as other purchasers in the offering.

The Company identified the following deliverables at the inception of the BMS Agreement: (1) the exclusive research, development and commercialization license ("license"), (2) the research and development services and (3) the obligation to participate in the joint research committee. The Company determined that the license does not have stand-alone value to BMS without the Company's research services and expertise related to the development of the product candidates, and accordingly, it was combined with the research services and participation in the joint research committee as a single unit of accounting.

CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

The Company received an upfront payment of \$50.0 million from BMS in July 2014. The upfront payment was recorded as deferred revenue and being recognized on a ratable basis over the estimated performance period of ten years. The Company determined that the remaining contingent payments under the Agreement do not constitute substantive milestones and will not be accounted for under the milestone method of revenue recognition. The events leading to these payments do not meet the definition of a substantive milestone because the achievement of these events solely depends on BMS's performance. Accordingly, any revenue from these contingent payments would be subject to an allocation of arrangement consideration and would be recognized over any remaining period of performance obligations, if any, relating to this arrangement. If there are no remaining performance obligations under the arrangement at the time the contingent payment is triggered, the contingent payment will be recognized as revenue in full upon triggering the event.

During the three months ended September 30, 2015 and 2014, the Company recognized revenue of \$1.5 million and \$1.4 million, respectively. During the nine months ended September 30, 2015 and 2014, the Company recognized revenue of \$4.4 million and \$1.4 million, respectively, under the BMS Agreement. As of September 30, 2015 and December 31, 2014, deferred revenue relating to the BMS Agreement was \$43.9 million and \$47.6 million, respectively.

#### 9. License Agreement

The Company has an exclusive, worldwide license agreement (the "UC Agreement") with the Regents of the University of California (the "UC Regents") relating to the use of certain patents and technology relating to its core technology, including its therapeutic antibodies. Pursuant to the UC Agreement, the Company is obligated to (i) make royalty payments to the UC Regents on net sales of its products covered under the agreement, subject to annual minimum amounts, (ii) make milestone payments to the UC Regents upon the occurrence of certain events, (iii) make a milestone payment to the UC Regents upon occurrence of an IPO or change of control, and (iv) reimburse the UC Regents for prosecution and maintenance of the licensed patents. If the Company sublicenses its rights under the UC Agreement, it is obligated to pay the UC Regents a percentage of the total gross proceeds received in consideration of the grant of the sublicense, which total amount would be first reduced by the aggregate amount of certain research and development related expenses incurred by the Company.

In 2013, the Company amended the UC Agreement to reduce the amounts due the UC Regents upon receipt by the Company of upfront payments, milestone payments and royalties from sublicensees. In exchange for this amendment, the Company issued to the UC Regents 157,332 shares of common stock. The UC Agreement, as amended, will remain in effect until the expiration or abandonment of the last to expire of the licensed patents.

In the nine months ended September 30, 2015 and 2014, the Company paid \$225,000 and \$500,000 respectively, to the UC Regents under the milestone and minimum annual royalty provisions of the agreement.

#### Royalty obligations

The Company has future minimum royalty obligations due under the terms of certain exclusive licensed patent rights. These minimum future obligations are as follows (in thousands):

Year ended December 31,	
2015 (3 months remaining)	\$—
2016	150
2017	150
Total minimum royalty obligations	\$300

#### 10. Long-term Debt

In May 2012, the Company entered into a Master Loan and Security Agreement (the “Debt Facility”). Under the terms of the agreement, an aggregate of \$2.0 million could be drawn down during the initial basic loan term of 42 months. In January and December 2013, the Company amended the Debt Facility to borrow an additional \$0.3 million and \$3.0 million, respectively, with similar terms. Borrowings under the debt facility bear interest at 11.74% per annum.

CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

The Company's obligations under the Debt Facility are collateralized by a security interest in substantially all of its assets, excluding its intellectual property and certain other assets. The Debt Facility also contains customary conditions related to borrowing, events of default, and covenants, including covenants limiting the Company's ability to dispose of assets, undergo a change in control, merge with or acquire other entities, incur debt, incur liens, pay dividends or other distributions to holders of its capital stock, repurchase stock and make investments, in each case subject to certain exceptions. The agreement also allows the lender to call the debt in the event there is a material adverse change in the Company's business or financial condition.

In connection with the execution and the amendment of the Debt Facility, the Company issued warrants to the lender to purchase an aggregate of 81,620 shares of the Company's Series B-1 redeemable convertible preferred stock. The warrants expire at the earlier of (i) the tenth anniversary of issuance, (ii) upon the consummation of an IPO of the Company's common stock, or (iii) the consummation of certain change of control events. The warrants are exercisable in cash at an exercise price of \$3.084396 per share or through a cashless exercise provision. Under the cashless exercise provision, the holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the Company's Series B-1 redeemable convertible preferred stock at the time of exercise of the warrant after deducting the aggregate exercise price. If the warrant has not been previously exercised, the cashless exercise provision is automatically triggered upon expiration if the fair value of the Series B-1 redeemable convertible preferred stock is higher than the exercise price of the warrants. In the event that all of the Company's Series B-1 redeemable convertible preferred stock have been converted into common stock, the warrants will be exercisable for the same number of shares of common stock at the same exercise price.

In connection with the consummation of the IPO in October 2015, all of the warrants outstanding as of September 30, 2015 were net exercised, resulting in issuance of an aggregate of 60,640 shares of our common stock.

Upon issuance of the warrants, the Company recorded a preferred stock warrant liability based on its initial fair value estimated using the Black-Scholes model with an offset to debt discount. The debt discount is amortized to interest expense using the effective interest method over the term of the Debt Facility. The warrant liability is subject to remeasurement to fair value at each balance sheet date until the earliest of the exercise or expiration of the convertible preferred stock warrant, and any change in fair value is recognized in other income (expense), net. As of September 30, 2015 and December 31, 2014, the warrants remained outstanding.

In September 2015, the Company repaid and terminated the Debt Facility.

## 11. Commitments and Contingencies

### Operating Lease

The Company leases office and laboratory facilities at its headquarters in South San Francisco, California under a lease agreement that expires in 2019. Rent expense is recognized on a straight-line basis over the term of the lease and



accordingly the Company records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability.

The minimum lease payments under this lease are as follows (in thousands):

Year Ending December 31:	
2015 (three months remaining)	\$245
2016	926
2017	864
2018	894
2019	76
Total	\$3,005

Rent expense during the nine months ended September 30, 2015 and 2014 was \$705,000 and \$602,000, respectively.

#### Legal Proceedings

The Company is subject to claims and assessments from time to time in the ordinary course of business but do not believe that any such matters, individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

## CYTOMX THERAPEUTICS, INC.

## Notes to Condensed Financial Statements (unaudited)—(Continued)

## Indemnifications

In the ordinary course of business, the Company enters into agreements that may include indemnification provisions.

Pursuant to such agreements, the Company may indemnify, hold harmless and defend an indemnified party for losses suffered or incurred by the indemnified party. Some of the provisions will limit losses to those arising from third party actions. In some cases, the indemnification will continue after the termination of the agreement. The maximum potential amount of future payments the Company could be required to make under these provisions is not determinable. The Company has never incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. The Company has also entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers to the fullest extent permitted by Delaware corporate law. The Company currently has directors' and officers' insurance.

## 12. Convertible Preferred Stock

In December 2014, the Company granted a second tranche option ("Second Tranche Option") to one of its investors to purchase 41,528,239 shares of its Series C redeemable convertible preferred stock upon the achievement of certain milestones. At initial recognition, the Company recorded the Second Tranche Option as a derivative liability on the balance sheet at its estimated fair value of \$395,000. In May 2015, the Company achieved the relevant milestones and the investor exercised their right to purchase 41,528,239 shares of Series C convertible redeemable preferred stock for net proceeds of \$3.5 million. Immediately prior to the closing of this tranche, the Company remeasured the preferred stock liability to its then fair value and recorded a loss from remeasurement of \$1.1 million in other income (expense), net. The fair value of the preferred stock liability in the amount of \$1.5 million was reclassified to redeemable convertible preferred stock.

As of September 30, 2015 and December 31, 2014, the outstanding convertible preferred stock was as follows (in thousands, except share amounts):

	September 30, 2015		
	Shares		Net
	Shares	Issued and	Carrying
	Authorized	Outstanding	Value
Series A-1	33,101	33,101	\$49
Series A-2	211,681	211,681	425
Series B-1	14,569,803	14,488,176	60,664
Series B-2	862,412	862,412	2,949
Series C	4,049,546	4,049,543	23,569
Series D	7,490,555	7,490,540	71,423

Total	27,217,098	27,135,453	\$ 159,079
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	December 31, 2014		Net
	Shares	Issued and	Carrying
	Authorized	Outstanding	Value
Series A-1	33,101	33,101	\$49
Series A-2	211,681	211,681	425
Series B-1	14,944,578	14,488,176	57,695
Series B-2	862,412	862,412	2,698
Series C	5,952,664	3,107,701	15,843
Total	22,004,436	18,703,071	\$76,710

In connection with the consummation of the IPO in October 2015, all outstanding shares of Series A-1, Series A-2, Series B-1, Series B-2, Series C and Series D were converted into 27,135,453 shares of common stock on a one-for-one basis.

## CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

## 13. Common Stock

Common stockholders are entitled to dividends if and when declared by the Board of Directors subject to the prior rights of the preferred stockholders. As of September 30, 2015 and December 31, 2014, no dividends on common stock had been declared by the Board of Directors.

The Company had reserved shares of common stock for issuance, on an as-converted basis, as follows:

	September 30, 2015	December 31, 2014
Convertible preferred stock outstanding	27,135,453	18,703,071
Options issued and outstanding	5,303,211	2,147,872
Convertible preferred stock warrants	81,620	81,620
Shares available for future stock option grants	627,250	1,896,617
	33,147,534	22,829,180

In connection with the consummation of the IPO in October 2015, all outstanding shares of convertible preferred stock were converted into 27,135,453 shares of common stock on a one-for-one basis. In addition, all of the convertible preferred stock warrants were net exercised, resulting in issuance of an aggregate of 60,640 shares of our common stock.

## 14. Stock Option Plans

In 2010, the Company adopted its 2010 Stock Incentive Plan (the “2010 Plan”) which provided for the granting of stock options to employees, directors and consultants of the Company. Options granted under the 2010 Plan were either incentive stock options (“ISOs”) or nonqualified stock options (“NSOs”).

In February 2012, the Company adopted its 2011 Stock Incentive Plan (the “2011 Plan”). The 2011 Plan is divided into two separate equity programs, an option and stock appreciation rights grant program and a stock award program. In conjunction with adopting the 2011 Plan, the Company discontinued the 2010 Plan and released the shares reserved and still available under that plan.

In connection with the consummation of the IPO in October 2015, the board of directors adopted the Company’s 2015 Equity Incentive Plan (the “2015 Plan”). In conjunction with adopting the 2015 Plan, the Company discontinued the 2011 Plan with respect to new equity awards.

Options under the 2015 Plan may be granted for periods of up to ten years. All options issued to date have had a 10-year life. Under the terms of the 2011 Plan, options may be granted at an exercise price not less than the estimated fair value of the shares on the date of grant, as determined by the Company’s board of directors. For employees holding more than 10% of the voting rights of all classes of stock, the exercise price of ISOs and NSOs may not be

less than 110% of the estimated fair value of the shares on the date of grant, as determined by the board of directors. To date, options granted generally vest over four years and vest at a rate of 25% upon the first anniversary of the issuance date and 1/48th per month thereafter.

Activity under the Company's stock option plans is set forth below:

	Options Outstanding	
	Number of	Weighted-Average Exercise Price
	Options	Per Share
Balances at December 31, 2014	2,147,872	\$ 1.197
Options granted	3,266,379	\$ 5.036
Options exercised	(98,129 )	\$ 1.293
Option forfeited	(12,911 )	\$ 1.405
Balances at September 30, 2015	5,303,211	\$ 3.569
Options exercisable at September 30, 2015	1,730,619	\$ 1.431

## CYTOMX THERAPEUTICS, INC.

Notes to Condensed Financial Statements (unaudited)—(Continued)

## 15. Stock Based Compensation

Total stock-based compensation recorded related to option granted to employees and nonemployees was as follows (in thousands):

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Stock-based compensation expense:				
Research and development	\$570	\$75	\$923	\$139
General and administrative	774	89	1,142	270
Total stock-based compensation expense	\$1,344	\$164	\$2,065	\$409

## 16. Related Party Transactions

Certain employees of Third Rock Ventures, a stockholder of the Company, provides consulting services to the Company. General and administrative expense for these services of \$0 and \$13,000 were recorded for the three months ended September 30, 2015 and 2014, and \$32,000 and \$29,000 were recorded for the nine months ended September 30, 2015 and 2014, respectively. The amounts outstanding and included in accounts payable were \$0 and \$17,600 as of September 30, 2015 and December 31, 2014, respectively.

The Company entered into full recourse loans (“stockholder notes” or “loans”) with current and former executive officers. Principal and interest under these loans are due at the earliest of (i) the fifth anniversary of the related note, (ii) the sale of the shares securing the notes, or (iii) thirty days after the termination of services. The principal loan amount and the accrued interest are reported as a deduction from stockholders’ deficit on the Company’s balance sheets. Loans made to two of the Company’s current and former executive officers were repaid and terminated as of September 30, 2015.

The remaining balance of these loans was approximately \$0.1 million and \$0.4 million at September 30, 2015 and December 31, 2014, respectively. Interest income of \$4,000 and \$6,000 was recorded in the nine months ended September 30, 2015 and 2014, respectively. Interest income earned on the loans was insignificant during the three months ended September 30, 2015 and 2014.

## 17. Defined Contribution Plan

The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering substantially all full-time U.S. employees. Employee contributions are voluntary and are determined on an individual basis subject to the maximum allowable under federal tax regulations. During the nine months ended September 30, 2015 and 2014, the Company made contributions to the plan of \$22,000 and \$11,000, respectively.

#### 18. Net Loss Per Share Attributable to Common Stockholders

The following weighted-average outstanding shares of potentially dilutive securities were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented, because including them would have been anti-dilutive:

	Three months Ended		Nine months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Redeemable convertible preferred stock (on an as-converted basis)	26,890,698	15,350,595	22,028,838	14,831,605
Convertible preferred stock (on an as-converted basis)	244,782	244,782	244,782	244,782
Options to purchase common stock	4,359,322	1,944,241	3,393,513	1,933,481
Convertible preferred stock warrants	81,620	81,620	81,620	81,620
<b>Total</b>	<b>31,576,422</b>	<b>17,621,238</b>	<b>25,748,753</b>	<b>17,091,488</b>

## CYTOMX THERAPEUTICS, INC.

## Notes to Condensed Financial Statements (unaudited)—(Continued)

A reconciliation of the numerator and denominator used in the calculation of the basic and diluted net loss per share attributable to common stockholders is as follows (in thousands except share and per share amounts):

	Three months ended		Nine months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
<b>Numerator:</b>				
Net loss	\$(11,870 )	\$(3,589 )	\$(23,887 )	\$(25,523 )
Add: accretion to redemption value and cumulative				
dividends on preferred stock	(2,958 )	(1,169 )	(6,147 )	(3,370 )
Net loss attributable to common stockholders	(14,828 )	(4,758 )	(30,034 )	(28,893 )
<b>Denominator:</b>				
Weighted-average common shares outstanding used to				
calculate net loss per share attributable to common				
stockholders, basic and diluted	1,039,567	979,134	1,012,534	961,745
Net loss per share attributable to common stockholders,				
basic and diluted	\$(14.26 )	\$(4.86 )	\$(29.66 )	\$(30.04 )

## 19. Subsequent Events

## Reverse Stock Split

On October 2, 2015, the Company effected a one-for-62.997 reverse stock split of the Company's issued and outstanding shares of common stock, redeemable convertible preferred stock and convertible preferred stock. The par values of the common stock, redeemable convertible preferred stock and convertible preferred stock were not adjusted as a result of the reverse split. All authorized and issued and outstanding shares of common stock, redeemable convertible preferred stock and convertible preferred stock and per share amounts contained in the accompanying condensed financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

## 2015 Equity Incentive Plan



In connection with the consummation of the IPO in October 2015, the board of directors adopted the Company's 2015 Equity Incentive Plan (the "2015 Plan"). In conjunction with adopting the 2015 Plan, the Company discontinued the 2011 Plan and released the shares reserved and still available under the plan.

#### Initial Public Offering

On October 14, 2015, the Company consummated its IPO and sold 7,666,667 shares of its common stock at a public offering price of \$12.00 per share, which included the exercise of the underwriters' option to purchase 1,000,000 shares of common stock. The Company received net proceeds of approximately \$82.4 million, after deducting underwriting discounts, commissions and estimated offering expenses. Immediately prior to the consummation of the IPO, all outstanding shares of the Company's convertible preferred stock and redeemable convertible preferred stock converted into common stock.

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

You should read the following management's discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and notes thereto for the year ended December 31, 2014, included in our prospectus dated October 7, 2015, filed with the U.S. Securities and Exchange Commission (SEC) pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (the "Prospectus").

Overview

We are an oncology-focused biopharmaceutical company pioneering a novel class of antibody therapeutics based on our Probody technology platform. We are using our platform to create proprietary cancer immunotherapies against clinically-validated targets as well as to develop first-in-class cancer therapeutics against novel targets. We believe that our Probody platform will allow us to improve the combined efficacy and safety profile, or therapeutic window, of monoclonal antibody modalities including cancer immunotherapies, antibody drug conjugates ("ADCs") and T-cell-recruiting bispecific antibodies. Our Probody therapeutics are designed to take advantage of unique conditions in the tumor microenvironment to enhance the tumor-targeting features of an antibody and reduce drug activity in healthy tissues. We are currently developing Probody therapeutics that address clinically-validated cancer targets in immuno-oncology, such as PD-L1, as well as novel targets, such as CD-166, that are difficult to drug and lead to concerns about damage to healthy tissues, or toxicities. In addition to our proprietary programs, we are collaborating with strategic partners including Bristol-Myers Squibb Company ("BMS"), Pfizer Inc. ("Pfizer") and ImmunoGen, Inc. ("ImmunoGen") to develop selected Probody therapeutics. Our broad technology platform and lead product candidates are supported by a decade of thorough scientific research and strong intellectual property, and we are advancing these candidates toward clinical trials. Our vision is to transform lives with safer, more effective therapies. To realize this vision we are executing on our mission of changing the treatment of cancer by urgently advancing our Probody pipeline.

We do not currently have any product candidates in clinical trials or approved for sale, and we continue to incur significant research and development and general administrative expenses related to our operations. We are not profitable and have incurred losses in each year since our founding in 2008. Our net loss for the nine months ended September 30, 2015 was \$23.9 million. As of September 30, 2015, we had an accumulated deficit of \$106.0 million. We expect to continue to incur significant losses for the foreseeable future.

We have three pipeline strategies that we are pursuing with our Probody platform: (i) developing a novel class of immuno-oncology therapies directed against clinically-validated targets, (ii) developing first-in-class therapeutics directed against difficult-to-drug targets and (iii) collaborating with leading pharmaceutical companies to discover and develop Probody therapeutics against selected targets.

Regulatory agencies, including the FDA, regulate many aspects of a product candidate's life cycle, including research and development and preclinical and clinical testing. We have product candidates that are still in research and preclinical development, which means that they have not yet been tested on humans. We will need to commit significant time and resources to develop these and additional product candidates. Many product candidates in human clinical trials fail to demonstrate the desired safety and efficacy characteristics. We are unable to provide the nature, timing, and estimated costs of the efforts necessary to complete the development of our product candidates because, among other reasons, we cannot predict with any certainty the pace of enrollment of our clinical trials, which is a function of many factors, including the availability and proximity of patients with the relevant condition.

We currently have no manufacturing capabilities and do not intend to establish any such capabilities. We have no commercial manufacturing facilities for our product candidates. As such, we are dependent on third parties to supply our product candidates according to our specifications, in sufficient quantities, on time, in compliance with appropriate regulatory standards and at competitive prices.

## Components of Results of Operations

### Revenue

Our revenue to date has been primarily derived from non-refundable license payments and reimbursements for research and development expenses under our research, collaboration, and license agreements. We recognize revenue from upfront payments ratably over the term of our estimated period of performance under the agreement. In addition to receiving upfront payments, we may also be entitled to milestone and other contingent payments upon achieving predefined objectives. Revenue from milestones, if they are nonrefundable and deemed substantive, is recognized upon successful accomplishment of the milestones. To the extent that non-substantive milestones are achieved and we have remaining performance obligations, milestones are deferred and recognized as revenue over the estimated remaining period of performance. Reimbursements from Pfizer and BMS for research and development costs incurred under our research, collaboration and license agreements with them are classified as revenue.

For the foreseeable future, we do not expect to generate any revenue from the sale of products unless and until such time as our product candidates have advanced through clinical development and regulatory approval. We expect that any revenue we do generate in the foreseeable future will fluctuate from year to year as a result of the timing and amount of milestones and other payments from our collaborations with BMS, Pfizer and ImmunoGen, and any future collaboration partners, and as a result of the fluctuations in the research and development expenses we incur in the performance of assigned activities under these agreements.

#### Research and Development Expenses

Our research and development expenses consist primarily of costs incurred to conduct research, such as the discovery and development of our product candidates as well as the development of product candidates pursuant to our research, collaboration and license agreements. Research and development expenses include personnel costs, including stock-based compensation expense, contractor services, laboratory materials and supplies, depreciation and maintenance of research equipment, and an allocation of related facilities costs. We expense research and development costs as they are incurred.

We expect our research and development expenses to increase substantially in absolute dollars in the future as we advance our product candidates into and through clinical trials and pursue regulatory approval of our product candidates. The process of conducting the necessary clinical research to obtain regulatory approval is costly and time-consuming. The actual probability of success for our product candidates may be affected by a variety of factors including: the safety and efficacy of our product candidates, early clinical data, investment in our clinical program, the ability of collaborators to successfully develop our licensed product candidates, competition, manufacturing capability and commercial viability. We may never succeed in achieving regulatory approval for any of our product candidates. As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of our research and development projects or when and to what extent we will generate revenue from the commercialization and sale of our product candidates.

#### General and Administrative Expenses

General and administrative expenses include personnel costs, expenses for outside professional services and other allocated expenses. Personnel costs consist of salaries, bonuses, benefits and stock-based compensation. Outside professional services consist of legal, accounting and audit services and other consulting fees. Allocated expenses consist of rent expense related to our office and research and development facility. We expect to incur additional expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the Securities and Exchange Commission, and those of any national securities exchange on which our securities are traded, additional insurance expenses, investor relations activities and other administrative and professional services. We also expect to increase our administrative headcount significantly to operate as public company and as we advance our product candidates through clinical development, which will also increase our general and administrative expenses.

#### Interest Income

Interest income primarily consists of interest income from our cash equivalents and short-term investments.

#### Interest Expense

Interest expense primarily consists of interest costs related to our outstanding borrowings under our loan agreements and amortization of premiums on our short-term investments.

Other Income (Expense), Net

Other income (expense), net consists primarily of changes to the estimated fair value of the convertible preferred stock warrant liability and the convertible preferred stock liability. We will continue to record adjustments to the estimated fair value of the convertible preferred stock warrants until immediately prior to the consummation of the IPO in October 2015.

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## Results of Operations

For the Three and Nine Months Ended September 30, 2015 and 2014.

## Revenues

	Three Months Ended September 30, 2015 2014 Change (in thousands)			Nine Months Ended September 30, 2015 2014 Change (in thousands)		
Revenues	\$1,939	\$1,915	\$ 24	\$5,724	\$3,216	\$2,508

Revenue during the three months ended September 30, 2015 compared to the corresponding periods in 2014 is relatively flat.

Revenue increased \$2.5 million during the nine months ended September 30, 2015 compared to the corresponding period in 2014. The increase in revenue was primarily due to revenue recognized in the first nine months of 2015 related to the BMS agreement entered into in July 2014.

## Operating Costs and Expenses

## Research and Development Expenses

	Three Months Ended September 30, 2015 2014 Change (in thousands)			Nine Months Ended September 30, 2015 2014 Change (in thousands)		
Research and development expenses	\$9,157	\$3,916	\$5,241	\$18,854	\$23,963	\$(5,109)

Research and development expense increased \$5.2 million during the three months ended September 30, 2015 compared to the corresponding period in 2014. The increase was primarily attributable to an increase of \$4.1 million in lab services and supplies related to advancement of our product pipeline, an increase of \$1.0 million in personnel-related expenses due to an increase in headcount, and an increase of \$0.1 million in allocated facility costs partly due to a new lease we entered into in September 2014.

Research and development expense decreased \$5.1 million during the nine months ended September 30, 2015 compared to the corresponding period in 2014. The decrease was primarily attributable to \$12.8 million expensed in the first quarter of 2014 related to the ImmunoGen collaboration agreement, partially offset by an increase of \$5.4 million in lab services and supplies related to advancement of our product pipeline, an increase of \$1.8 million in

personnel-related expenses due to an increase in headcount, an increase of \$0.3 million in allocated facility costs partly due to a new lease we entered into in September 2014, and an increase of \$0.2 million of depreciation due to additional purchases of lab equipment.

General and Administrative Expenses

	Three Months			Nine Months		
	Ended			Ended		
	September 30,	September 30,	Change	September 30,	September 30,	Change
	2015	2014		2015	2014	
	(in thousands)			(in thousands)		
General and administrative expenses	\$4,051	\$1,463	\$2,588	\$8,549	\$4,359	\$4,190

General and administrative expense increased \$2.6 million during the three months ended September 30, 2015 compared to the corresponding period in 2014. The increase was attributable to an additional \$1.7 million of personnel-related expenses due to an increase in headcount and a rise of \$1.0 million in consulting and professional services expenses primarily related to our IPO.

General and administrative expense increased \$4.2 million during the nine months ended September 30, 2015 compared to the corresponding period in 2014. The increase was attributable to an additional \$2.5 million of personnel-related expenses due to an increase in headcount and a rise of \$1.6 million in consulting and professional services expenses.

## Interest Income, Interest Expense and Other Income (Expense), net

	Three Months Ended September 30, 2015 2014 Change			Nine Months Ended September 30, 2015 2014 Change		
	(in thousands)			(in thousands)		
Interest income	\$407	\$2	405	\$874	\$5	869
Interest expense	(718)	(117)	(601 )	(1,356)	(378)	(978 )
Other income (expense), net	(287)	(10 )	(277 )	(1,718)	(44 )	(1,674)
Total Interest and other income (expense)	\$(598)	\$(125)	\$(473 )	\$(2,200)	\$(417)	\$(1,783)

## Interest Income

Interest income increased \$0.4 million during the three months ended September 30, 2015 compared to the corresponding period in 2014. The increase was attributable to interest income earned on cash equivalents and short-term investments as a result of the proceeds received from our preferred stock financings in December 2014, May 2015 and June 2015.

Interest income increased \$0.9 million during the nine months ended September 30, 2015 compared to the corresponding period in 2014. The increase was attributable to interest income earned on cash equivalents and short-term investments as a result of the proceeds received from our preferred stock financings in December 2014, May 2015 and June 2015.

## Interest Expense

Interest expense increased \$0.6 million during the three months ended September 30, 2015 compared to the corresponding period in 2014. The increase was primarily attributable to amortization of premiums on our short-term investments.

Interest expense increased \$1.0 million during the nine months ended September 30, 2015 compared to the corresponding period in 2014. The increase was primarily attributable to amortization of premiums on our short-term investments.

## Other Income (Expense), Net

Other income (expense), net increased \$0.3 million during the three months ended September 30, 2015, compared to the corresponding period in 2014. The increase was primarily attributable to a loss of \$0.3 million related to an increase in the fair value of our convertible preferred stock warrant liability.

Other income (expense), net increased \$1.7 million during the nine months ended September 30, 2015, compared to the corresponding period in 2014. The increase was primarily attributable to a loss of \$1.1 million related to the remeasurement of the convertible preferred stock liability and an increase in the fair value of the convertible preferred stock warrant liability of \$0.6 million.

## Liquidity and Capital Expenditures



## Sources of Liquidity

As of September 30, 2015, we had cash, cash equivalents and short-term investments of \$113.7 million and an accumulated deficit of \$106.0 million, compared to cash and cash equivalents of \$64.4 million and an accumulated deficit of \$78.1 million as of December 31, 2014. We have financed our operations primarily through sales of our convertible preferred securities and payments received under our collaboration agreements. In May and June 2015, respectively, an investor exercised its option to purchase 659,209 shares of Series C redeemable convertible preferred stock for net proceeds of \$3.5 million and we issued 7,490,540 shares of Series D redeemable convertible preferred stock for net proceeds of \$69.7 million.

On October 14, 2015, we consummated our IPO and sold 7,666,667 shares of our common stock at a price of \$12.00 per share, which included the exercise of the underwriters' option to purchase 1,000,000 additional shares of common stock. We received net proceeds of approximately \$82.4 million, after deducting underwriting discounts, commissions and estimated offering expenses. Immediately prior to the consummated IPO, all outstanding shares of the convertible preferred stock and redeemable convertible preferred stock converted into common stock on a one-for-one basis.

We believe our current cash and cash equivalents together with cash received from the IPO will be sufficient to fund our planned expenditures and meet our obligations through at least the next twelve months. However, if the anticipated operating results are not achieved in future periods, the planned expenditures may need to be reduced in order to extend the time period over which the then-available resources would be able to fund the operations. The amounts and timing of our actual expenditures depend on numerous factors, including the progress of our preclinical development efforts, the results of any clinical trials and other studies, our operating costs and expenditures and other factors describe under “Risk Factors”. The costs and timing of developing our CX-072 and CD-166 product candidates are highly uncertain, are subject to substantial risks and many changes. As such, we may alter our expenditures as a result of contingencies such as the failure of one of these product candidates in clinical development, the identification of a more promising product candidate in our research efforts or unexpected operating costs and expenditures. We will need to raise additional funds in the future. There can be no assurance, however, that such efforts will be successful or that, in the event that they are successful, the terms and conditions of such financing will be favorable.

## Cash Flows

The following table summarizes our cash flows for the periods indicated in thousands:

	Nine Months Ended September 30,	
	2015	2014
Net cash provided by (used in):		
Operating activities	\$(19,246)	\$36,200
Investing activities	(79,715)	(999)
Financing activities	70,756	9,407
Net (decrease) increase in cash and cash equivalents	\$(28,205)	\$44,608

## Cash Flows from Operating Activities

During the nine months ended September 30, 2015, cash used in operating activities was \$19.2 million, which consisted of a net loss of \$23.9 million, adjusted by non-cash charges of \$5.6 million and a net decrease of \$0.9 million in our net operating assets. The non-cash charges primarily consist of \$2.1 million in stock-based compensation, \$1.1 million in revaluation of the convertible preferred stock liability, \$0.9 million in depreciation and amortization, \$0.8 million in amortization premiums on our short-term investments and \$0.6 million in remeasurement of the convertible preferred stock warrant liability. The change in our net operating assets and liabilities was primarily due to a decrease of \$4.6 million in deferred revenue due to the recognition of upfront fees received, partially offset by an increase \$2.5 million in accounts payable and accrued liabilities, an increase of \$1.5 million in accounts receivable primarily due to the receipt of the upfront payment from the Pfizer agreement in the first nine months of 2015.

During the nine months ended September 30, 2014, cash provided by operating activities was \$36.2 million, which consisted of a net loss of \$25.5 million, adjusted by non-cash charges of \$1.0 million and a net change of \$60.7 million in our net operating assets. The non-cash charges primarily consist of \$0.6 million in depreciation and

amortization and \$0.4 million in stock-based compensation. The change in our net operating assets and liabilities was primarily due to an increase of \$61.5 million in deferred revenue resulting from \$50.0 million related to BMS collaboration agreement and \$13.2 million related to the ImmunoGen collaboration agreement partially offset by \$1.7 million of amortization of upfront payments and \$0.9 million in prepaid expenses and other current assets.

#### Cash Flows from Investing Activities

Cash used in investing activities during the nine months ended September 30, 2015 was \$79.7 million, which consisted of \$130.0 million of purchases of short-term investments and \$1.4 million of capital expenditures to purchase property and equipment, offset by \$51.3 million in proceeds from the maturity of marketable securities.

Cash used in investing activities during the nine months ended September 30, 2014 was \$1.0 million, which consisted of capital expenditures to purchase property and equipment.

#### Cash Flows from Financing Activities

During the nine months ended September 30, 2015, cash provided by financing activities was \$70.8 million consisting primarily of \$74.4 million in net proceeds from the issuance of preferred stock, partially offset by repayment on our borrowing of \$3.0 million, deferred offering costs of \$1.1 million and repayment of notes receivable of \$0.3 million.

During the nine months ended September 30, 2014, cash provided by financing activities was \$9.4 million consisting of \$10.3 million in net proceeds from the issuance of preferred stock, partially offset by repayments on our borrowings of \$0.9 million.

### Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2015 (in thousands):

	Payments Due by Period <sup>(4)</sup>					Total
	2015 (1)	2016	2017	2018	2019	
Royalty obligations <sup>(2)</sup>	\$—	\$150	\$150	\$—	\$—	\$300
Operating leases <sup>(3)</sup>	245	926	864	894	76	3,005
<b>Total contractual obligations</b>	<b>\$245</b>	<b>\$1,076</b>	<b>\$1,014</b>	<b>\$894</b>	<b>\$76</b>	<b>\$3,305</b>

(1) Remainder of the year

(2) We have royalty obligations under the terms of certain exclusive licensed patent rights. See Note 9 of our financial statements.

(3) We lease our facility under a long-term operating lease, which expires in 2019. We are currently exploring alternatives which would provide us with additional space to accommodate our anticipated growth.

(4) This table does not include any milestone payments or royalty payments to third parties as the amounts, timing and likelihood of such payments are not known.

### Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

### JOBS Act Accounting Election

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily relate to interest rate risks. We had cash and cash equivalents of \$64.4 million as of December 31, 2014 and cash, cash equivalents and short-term investments of \$113.7 million as of September 30, 2015, which consists of bank deposits, money market funds and U.S. government bonds. Such interest-bearing instruments carry a degree of interest rate risk; however, historical fluctuations of interest income have not been significant.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of such date.

Changes in Internal Controls Over Financial Reporting

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

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

We are not currently a party to any material litigation or legal proceedings.

### Item 1A. Risk Factors

#### Risks Related to Our Business

We are a preclinical stage biopharmaceutical company with a history of losses, expect to continue to incur significant losses for the foreseeable future and may never achieve or maintain profitability, which could result in a decline in the market value of our common stock.

We are a preclinical stage biopharmaceutical company with a limited operating history, developing a novel class of therapeutic antibody product candidates, based on our proprietary biologic Probody technology platform. Since our inception, we have devoted our resources to the development of Probody therapeutics. We have had significant operating losses since our inception. As of September 30, 2015, we had an accumulated deficit of \$106.0 million. For the nine months ended September 30, 2015, our net loss was \$23.9 million. Substantially all of our losses have resulted from expenses incurred in connection with our research and development programs and from general and administrative costs associated with our operations. Though we have developed our Probody platform, our technologies and product candidates are in early stages of development, and we are subject to the risks of failure inherent in the development of product candidates based on novel technologies. We have never generated any revenue from product sales, and have not obtained regulatory approval for any of our product candidates.

Furthermore, we do not expect to generate any revenue from product sales for the foreseeable future, and we expect to continue to incur significant operating losses for the foreseeable future due to the cost of research and development, preclinical studies and clinical trials and the regulatory approval process for our product candidates. We expect our net losses to increase substantially as we enter into clinical development of our lead programs. However, the amount of our future losses is uncertain. Our ability to achieve profitability, if ever, will depend on, among other things, our, or our existing or future collaborators, successfully developing product candidates, obtaining regulatory approvals to market and commercialize product candidates, manufacturing any approved products on commercially reasonable terms, establishing a sales and marketing organization or suitable third-party alternatives for any approved product and raising sufficient funds to finance business activities. If we, or our existing or future collaborators, are unable to develop our technologies and commercialize one or more of our product candidates or if sales revenue from any product candidate that receives approval is insufficient, we will not achieve profitability, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We expect that we will need to raise substantial additional funds to advance development of our product candidates and we cannot guarantee this additional funding will be available on acceptable term or at all. Failure to obtain this necessary capital when needed may force us to delay, limit or terminate our product development and commercialize our current or future product candidates.

The development of biopharmaceutical product candidates is capital-intensive. If our product candidates enter and advance through preclinical studies and clinical trials, we will need substantial additional funds to expand our development, regulatory, manufacturing, marketing and sales capabilities. We have used substantial funds to develop our technology and product candidates and will require significant funds to conduct further research and development and preclinical testing and clinical trials of our product candidates, to seek regulatory approvals for our product candidates and to manufacture and market products, if any, that are approved for commercial sale. In addition, due to the consummation, we are incurring and will continue to incur additional costs associated with operating as a public company.

As of September 30, 2015, we had \$113.7 million in cash, cash equivalents and short-term investments. Based on our current operating plan, we believe that our available cash, cash equivalents and short-term investments, together with the net proceeds from the IPO, will be sufficient to fund our anticipated level of operations through end of 2018. Our future capital requirements and the period for which we expect our existing resources to support our operations may vary significantly from what we expect. Our monthly spending levels vary based on new and ongoing research and development and other corporate activities. Because the length of time and activities associated with successful research and development of our product candidates is highly uncertain, we are unable to estimate the actual funds we will require for development and any approved marketing and commercialization activities.



The timing and amount of our operating expenditures will depend largely on:

- the timing and progress of preclinical and clinical development activities;
- the number and scope of preclinical and clinical programs we decide to pursue;
- the progress of the development efforts of parties with whom we have entered or may in the future enter into collaborations and research and development agreements;
- the timing and amount of milestone payments we may receive under our collaborations agreements;
- our ability to maintain our current licenses and research and development programs and to establish new collaboration arrangements;
- the costs involved in prosecuting and enforcing patent and other intellectual property claims;
- the cost and timing of regulatory approvals; and
- our efforts to enhance operational systems and hire additional personnel, including personnel to support development of our product candidates and satisfy our obligations as a public company.

If we are unable to obtain funding on a timely basis or on acceptable terms, we may have to delay, reduce or terminate our research and development programs and preclinical studies or clinical trials, if any, limit strategic opportunities or undergo reductions in our workforce or other corporate restructuring activities. We also could be required to seek funds through arrangements with collaborators or others that may require us to relinquish rights to some of our technologies or product candidates that we would otherwise pursue on our own. We do not expect to realize revenue from sales of products or royalties from licensed products in the foreseeable future, if at all, and unless and until our product candidates are clinically tested, approved for commercialization and successfully marketed. To date, we have primarily financed our operations through the sale of equity securities and payments received under our collaboration agreements. We will be required to seek additional funding in the future and currently intend to do so through additional collaborations, public or private equity offerings or debt financings, credit or loan facilities or a combination of one or more of these funding sources. Our ability to raise additional funds will depend on financial, economic and other factors, many of which are beyond our control. Additional funds may not be available to us on acceptable terms or at all. If we raise additional funds by issuing equity securities, our stockholders will suffer dilution and the terms of any financing may adversely affect the rights of our stockholders. In addition, as a condition to providing additional funds to us, future investors may demand, and may be granted, rights superior to those of existing stockholders. Debt financing, if available, is likely to involve restrictive covenants limiting our flexibility in conducting future business activities, and, in the event of insolvency, debt holders would be repaid before holders of our equity securities received any distribution of our corporate assets.

Our product candidates are in early stages of development and have never been tested in a human subject. Our product candidates may fail in development or suffer delays that materially and adversely affect their commercial viability.

We have no products on the market and all of our product candidates, including cancer immunotherapies, PDCs and bispecific antibodies, are in early stages of development. In particular, none of our product candidates has ever been tested in a human subject. Our ability to achieve and sustain profitability depends on obtaining regulatory approvals for and successfully commercializing our product candidates, either alone or with third parties. Before obtaining regulatory approval for the commercial distribution of our product candidates, we or an existing or future collaborator must conduct extensive preclinical tests and clinical trials to demonstrate the safety and efficacy in humans of our product candidates.

We may not have the financial resources to continue development of, or to modify existing or enter into new collaborations for, a product candidate if we experience any issues that delay or prevent regulatory approval of, or our ability to commercialize, product candidates, including:

- negative or inconclusive results from our clinical trials or the clinical trials of others for product candidates similar to ours, leading to a decision or requirement to conduct additional preclinical testing or clinical trials or abandon a

program;

- product-related side effects experienced by participants in our clinical trials or by individuals using drugs or therapeutic biologics similar to our product candidates;
- delays in submitting INDs or comparable foreign applications or delays or failure in obtaining the necessary approvals from regulators to commence a clinical trial, or a suspension or termination of a clinical trial once commenced;
- conditions imposed by the FDA or comparable foreign authorities regarding the scope or design of our clinical trials;
- delays in enrolling research subjects in clinical trials;

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- high drop-out rates of research subjects;
- inadequate supply or quality of product candidate components or materials or other supplies necessary for the conduct of our clinical trials;
- greater than anticipated clinical trial costs;
- poor effectiveness of our product candidates during clinical trials;
- unfavorable FDA or other regulatory agency inspection and review of a clinical trial site;
- failure of our third-party contractors or investigators to comply with regulatory requirements or otherwise meet their contractual obligations in a timely manner, or at all;
- delays and changes in regulatory requirements, policy and guidelines, including the imposition of additional regulatory oversight around clinical testing generally or with respect to our technology in particular; or
- varying interpretations of data by the FDA and similar foreign regulatory agencies.

Our approach to the discovery and development of our therapeutic treatments is based on novel technologies that are unproven and may not result in marketable products.

We plan to develop a pipeline of product candidates using our proprietary Probody platform. We believe that product candidates (including cancer immunotherapies, PDCs and bispecific antibodies) identified with our product discovery platform may offer an improved therapeutic approach by taking advantage of unique conditions in the tumor microenvironment, thereby reducing the dose-limiting toxic effects associated with existing products, which also attack healthy tissue. However, the scientific research that forms the basis of our efforts to develop product candidates based on our Probody platform is ongoing. Further, the scientific evidence to support the feasibility of developing therapeutic treatments based on our Probody platform is both preliminary and limited.

No product candidates based on our Probody platform have been tested in humans. We may ultimately discover that our Probody platform and any product candidates resulting therefrom do not possess certain properties required for therapeutic effectiveness. For example, when administered in a human, the peptide mask may not be cleaved, which would limit the potential efficacy of the antibody and reduce the potential to limit the toxicity of the anti-cancer agent. Probody product candidates may also be unable to remain stable in the human body for the period of time required for the drug to reach the target tissue or they may trigger immune responses that inhibit the ability of the product candidate to reach the target tissue or that cause adverse side effects in humans. We currently have only limited data, and no conclusive evidence, to suggest that we can introduce these necessary properties into our Probody platform and any product candidates. We may spend substantial funds attempting to introduce these properties and may never succeed in doing so. In addition, product candidates based on our Probody platform may demonstrate different chemical and pharmacological properties in patients than they do in laboratory studies. Although our Probody platform and certain product candidates have successful results in animal studies, they may not demonstrate the same chemical and pharmacological properties in humans and may interact with human biological systems in unforeseen, ineffective or harmful ways. As a result, we may never succeed in developing a marketable product, we may not become profitable and the value of our common stock will decline.

Further, we are not aware of any company currently developing a therapeutic using a prodrug approach to antibody drug development and no regulatory authority has granted approval for such therapeutic. As such, we believe the FDA has limited early experience with Probody-based therapeutics in oncology or other disease areas, which may increase the complexity, uncertainty and length of the regulatory approval process for our product candidates. For example, our Probody product candidates contain a linker that is cleaved by proteases in the tumor microenvironment, which releases the peptide mask. This may result in unforeseen events when administered in a human. We and our existing or future collaborators may never receive approval to market and commercialize any product candidate. Even if we or an existing or future collaborator obtains regulatory approval, the approval may be for targets, disease indications or patient populations that are not as broad as we intended or desired or may require labeling that includes significant use or distribution restrictions or safety warnings. We or an existing or future collaborator may be required to perform additional or unanticipated clinical trials to obtain approval or be subject to post-marketing testing requirements to

maintain regulatory approval. If our Probody technologies prove to be ineffective, unsafe or commercially unviable, our entire platform and pipeline would have little, if any, value, which would have a material and adverse effect on our business, financial condition, results of operations and prospects.

The market may not be receptive to our product candidates based on a novel therapeutic modality, and we may not generate any future revenue from the sale or licensing of product candidates.

Even if regulatory approval is obtained for a product candidate, we may not generate or sustain revenue from sales of the product due to factors such as whether the product can be sold at a competitive cost and otherwise accepted in the market. The product candidates that we are developing are based on our Probody platform, which is a new technology and therapeutic approach. Market participants with significant influence over acceptance of new treatments, such as physicians and third-party payors, may not adopt a product or treatment based on our Probody platform and technologies, and we may not be able to convince the medical community and third-party payors to accept and use, or to provide favorable reimbursement for, any product candidates developed by us or our existing or future collaborators. Negative publicity regarding pricing and price increases generally, whether on our product candidates or products sold by other pharmaceutical companies, could negatively affect market acceptance of our product candidates. Market acceptance of our product candidates will depend on, among other factors:

- the timing of our receipt of any marketing and commercialization approvals;
- the terms of any approvals and the countries in which approvals are obtained;
- the safety and efficacy of our product candidates;
- the prevalence and severity of any adverse side effects associated with our product candidates;
- limitations or warnings contained in any labeling approved by the FDA or other regulatory authority;
- relative convenience and ease of administration of our product candidates;
- the willingness of patients to accept any new methods of administration;
- the success of our physician education programs;
- the availability of adequate government and third-party payor reimbursement;
- the pricing of our products, particularly as compared to alternative treatments; and
  - availability of alternative effective treatments for the disease indications our product candidates are intended to treat and the relative risks, benefits and costs of those treatments.

If any product candidate we commercialize fails to achieve market acceptance, it could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We have entered, and may in the future seek to enter, into collaborations with third parties for the development and commercialization of our product candidates using our Probody platform. If we fail to enter into such collaborations, or such collaborations are not successful, we may not be able to capitalize on the market potential of our Probody platform and resulting product candidates.

Since 2013, we have entered into collaborations with Pfizer, BMS and ImmunoGen to develop certain Probody therapeutics. In addition, we may in the future seek third-party collaborators for development and commercialization of other therapeutic technologies or product candidates. Biopharmaceutical companies are our prior and likely future collaborators for any marketing, distribution, development, licensing or broader collaboration arrangements. With respect to our existing collaboration agreements, and what we expect will be the case with any future collaboration agreements, we have and would expect to have limited control over the amount and timing of resources that our collaborators dedicate to the development or commercialization of our product candidates. Our ability to generate revenues from these arrangements will depend on our collaborators' abilities to successfully perform the functions assigned to them in these arrangements.

Collaborations involving our product candidates currently pose, and will continue to pose, the following risks to us:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
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collaborators may not pursue development and commercialization of our product candidates or may elect not to continue or renew development or commercialization programs based on preclinical or clinical trial results, changes in the collaborators' strategic focus or available funding, or external factors such as an acquisition that diverts resources or creates competing priorities;

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- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our product candidate if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;
- collaborators with marketing and distribution rights to one or more products may not commit sufficient resources to the marketing and distribution of such product or products;
- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to litigation or potential liability;
- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- disputes may arise between the collaborators and us that result in the delay or termination of the research, development or commercialization of our product candidate or that result in costly litigation or arbitration that diverts management attention and resources; and
- collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development or commercialization of the applicable product candidates.

Collaboration agreements may not lead to development or commercialization of our product candidates in the most efficient manner or at all. If a collaborator of ours were to be involved in a business combination, the continued pursuit and emphasis on our product development or commercialization program could be delayed, diminished or terminated.

If our collaborators cease development efforts under our existing or future collaboration agreements, or if any of those agreements are terminated, these collaborations may fail to lead to commercial products and we may never receive milestone payments or future royalties under these agreements.

Substantially all of our revenue to date has been derived from our existing collaboration agreements, and a significant portion of our future revenue and cash resources is expected to be derived from these agreements or other similar agreements we may enter into in the future. Revenue from research and development collaborations depend upon continuation of the collaborations, reimbursement of development costs, the achievement of milestones and royalties, if any, derived from future products developed from our research. If we are unable to successfully advance the development of our product candidates or achieve milestones, revenue and cash resources from milestone payments under our collaboration agreements will be substantially less than expected.

In addition, to the extent that any of our existing or future collaborators were to terminate a collaboration agreement, in some cases we may be forced to independently develop these product candidates, including funding preclinical or clinical trials, assuming marketing and distribution costs and defending intellectual property rights, or, in certain instances, abandon product candidates altogether, any of which could result in a change to our business plan and a material and adverse effect on our business, financial condition, results of operations and prospects.

We may not successfully engage in strategic transactions, including any additional collaborations we seek, which could adversely affect our ability to develop and commercialize product candidates, impact our cash position, increase our expense and present significant distractions to our management.

From time to time, we may consider strategic transactions, such as additional collaborations, acquisitions of companies, asset purchases and out- or in-licensing of product candidates or technologies. In particular, we will evaluate and, if strategically attractive, seek to enter into additional collaborations, including with major biotechnology or biopharmaceutical companies. The competition for collaborators is intense, and the negotiation

process is time-consuming and complex. Any new collaboration may be on terms that are not optimal for us, and we may not be able to maintain any new collaboration if, for example, development or approval of a product candidate is delayed, sales of an approved product candidate do not meet expectations or the collaborator terminates the collaboration. Any such collaboration, or other strategic transaction, may require us to incur non-recurring or other charges, increase our near- and long-term expenditures and pose significant integration or implementation challenges or disrupt our management or business. These transactions would entail numerous operational and financial risks, including exposure to unknown liabilities, disruption of our business and diversion of our management's time and attention in order to manage a collaboration or develop acquired products, product candidates or technologies, incurrence of substantial debt or dilutive issuances of equity securities to pay transaction



consideration or costs, higher than expected collaboration, acquisition or integration costs, write-downs of assets or goodwill or impairment charges, increased amortization expenses, difficulty and cost in facilitating the collaboration or combining the operations and personnel of any acquired business, impairment of relationships with key suppliers, manufacturers or customers of any acquired business due to changes in management and ownership and the inability to retain key employees of any acquired business. Accordingly, although there can be no assurance that we will undertake or successfully complete any transactions of the nature described above, any transactions that we do complete may be subject to the foregoing or other risks and have a material and adverse effect on our business, financial condition, results of operations and prospects. Conversely, any failure to enter any additional collaboration or other strategic transaction that would be beneficial to us could delay the development and potential commercialization of our product candidates and have a negative impact on the competitiveness of any product candidate that reaches market.

If third parties on which we intend to rely to conduct our preclinical studies, or any future clinical trials, do not perform as contractually required, fail to satisfy regulatory or legal requirements or miss expected deadlines, our development program could be delayed with material and adverse effects on our business, financial condition, results of operations and prospects.

We intend to rely on third-party clinical investigators, contract research organizations (“CROs”), clinical data management organizations and consultants to design, conduct, supervise and monitor preclinical studies of our product candidates and will do the same for any clinical trials. Because we intend to rely on these third parties, we will have less control over the timing, quality and other aspects of preclinical studies and clinical trials than we would have had we conducted them on our own. These investigators, CROs and consultants will not be our employees and we will have limited control over the amount of time and resources that they dedicate to our programs. These third parties may have contractual relationships with other entities, some of which may be our competitors, which may draw time and resources from our programs. The third parties with which we may contract might not be diligent, careful or timely in conducting our preclinical studies or clinical trials, resulting in the preclinical studies or clinical trials being delayed or unsuccessful.

If we cannot contract with acceptable third parties on commercially reasonable terms, or at all, or if these third parties do not carry out their contractual duties, satisfy legal and regulatory requirements for the conduct of preclinical studies or clinical trials or meet expected deadlines, our clinical development programs could be delayed and otherwise adversely affected. In all events, we will be responsible for ensuring that each of our preclinical studies and clinical trials are conducted in accordance with the general investigational plan and protocols for the trial. The FDA requires preclinical studies to be conducted in accordance with good laboratory practices (“GLPs”) and clinical trials to be conducted in accordance with good clinical practices (“GCPs”), including for designing, conducting, recording and reporting the results of preclinical studies and clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of clinical trial participants are protected. Our reliance on third parties that we do not control will not relieve us of these responsibilities and requirements. Any adverse development or delay in our clinical trials could have a material and adverse effect on our business, financial condition, results of operations and prospects.