CytomX Therapeutics, Inc.
Form 10-Q
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2016

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 (State or other jurisdiction of incorporation or organization)	27-3521219 (I.R.S. Employer Identification No.)
343 Oyster Point Boulevard, Suite 100 South San Francisco, California (Address of principal executive offices)	94080 (Zip Code)

(650) 515-3185

(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 x

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 x 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 x (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 x

As of May 4, 2016, 36,087,768 shares of the registrant's common stock were outstanding.

CYTOMX THERAPEUTICS, INC.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2016

TABLE OF CONTENTS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements that involve risks and uncertainties. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estima "projection," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in "Risk Factors" or "Management's Discussion and Analysis of Financial Condition and Results of Operations" or the following:

- the initiation, timing, progress and results of our research and development programs, preclinical studies, any clinical trials and Investigational New Drug application ("IND"), Clinical Trial Application, New Drug Application ("NDA"), Biologics License Application ("BLA") and other regulatory submissions;
- our receipt and timing of any milestone payments or royalties under any existing or future research collaboration and license agreements or arrangements;
- our expectations regarding the activity of our product candidates once administered in a human subject;
- our expectations and beliefs regarding the evolution of the market for cancer therapies and development of the immuno-oncology industry;
- our ability to identify and develop products for novel cancer targets;
- our dependence on existing and future collaborators for developing, obtaining regulatory approval for and commercializing product candidates in the collaboration;
- our ability to identify and develop product candidates for treatment of additional disease indications;
- our or an existing or future collaborator's ability to obtain and maintain regulatory approval of any of our product candidates;
- the rate and degree of market acceptance of any approved products candidates;
- the commercialization of any approved product candidates;
- our ability to establish and maintain collaborations and retain commercial rights for our product candidates in the collaborations;
- the implementation of our business model and strategic plans for our business, technologies and product candidates;
- our estimates of our expenses, ongoing losses, future revenue and capital requirements;
- our ability to obtain additional funds for our operations;
- our or any existing or future collaborator's ability to obtain and maintain intellectual property protection for our technologies and product candidates and our ability to operate our business without infringing the intellectual property

rights of others;
- our reliance on third parties to conduct our preclinical studies or any future clinical trials;
- our reliance on third-party supply and manufacturing partners to supply the materials and components for, and manufacture, our research and development, preclinical and clinical trial product supplies;
- our ability to attract and retain qualified key management and technical personnel;
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act of 2012;
- our financial performance; and
- developments relating to our competitors or our industry.

Any forward-looking statements in this Quarterly Report on Form 10-Q reflect our current views with respect to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part II, Item 1A. Risk Factors and discussed elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

This Quarterly Report on Form 10-Q also contains estimates, projections and other information concerning our industry, our business and the markets for certain drugs and therapeutic biologics, including data regarding the estimated size of those markets, their projected growth rates and the incidence of certain medical conditions. Information that is based on estimates, forecasts, projections or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained these industry, business, market and other data from reports, research surveys, studies and similar data prepared by third parties, industry, medical and general publications, government data and similar sources. In some cases, we do not expressly refer to the sources from which these data are derived.

Except where the context otherwise requires, in this Quarterly Report on Form 10-Q, “we,” “us,” “our” and the “Company” refer to CytomX Therapeutics, Inc., a Delaware corporation.

Trademarks

This Quarterly Report on Form 10-Q includes trademarks, service marks and trade names owned by us or other companies. All trademarks, service marks and trade names included in this Quarterly Report on Form 10-Q are the property of their respective owners.

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)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$67,897	$ 59,822
Short-term investments	112,739	126,889
Accounts receivable	316	372
Related party accounts receivable	158	372
Prepaid expenses and other current assets	3,438	2,299
Total current assets	184,548	189,754
Property and equipment, net	3,479	3,481
Intangible assets	1,750	1,750
Goodwill	949	949
Restricted cash	917	917
Other assets	309	364
Total assets	$191,952	$ 197,215
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$4,958	$ 4,697
Accrued liabilities	4,738	4,912
Deferred revenues, current portion	7,307	6,130
Total current liabilities	17,003	15,739
Deferred revenue, net of current portion	61,725	54,703
Deferred tax liability	510	507
Other long-term liabilities	—	198
Total liabilities	79,238	71,147
Commitments and contingencies (Note 11)		
Preferred stock, $0.00001 par value; 10,000,000 shares authorized at March 31, 2016; no shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	—	—
Common stock, $0.00001 par value; 75,000,000 authorized at March 31, 2016; 36,085,809 and	1	1

36,033,209 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively		
Stockholders notes receivable	(78)	(78)
Additional paid-in capital	246,256	243,687
Accumulated other comprehensive income / (loss)	30	(76)
Accumulated deficit	(133,495)	(117,466)
Total stockholders' equity	112,714	126,068
Total liabilities and stockholders' equity	$191,952	$ 197,215

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 March 31,	
	2016	2015
Revenues	$1,783	$1,395
Revenues from related parties	440	347
Total revenues	2,223	1,742
Operating expenses:		
Research and development	13,365	4,664
General and administrative	5,040	1,946
Total operating expenses	18,405	6,610
Loss from operations	(16,182)	(4,868)
Interest income	490	138
Interest expense	(353)	(230)
Other income (expense), net	19	(1,251)
Loss before provision for income taxes	(16,026)	(6,211)
Provision for income taxes	3	—
Net loss	(16,029)	(6,211)
Accretion to redemption value and cumulative dividends on preferred stock	—	(1,432)
Net loss attributable to common stockholders	$(16,029)	$(7,643)
Net loss per share attributable to common stockholders, basic and diluted	$(0.44)	$(7.67)
Shares used to compute net loss per share attributable to common stockholders, basic and diluted	36,063,425	996,551
Other comprehensive loss:		
Changes in unrealized gains / (losses) on short-term investments	106	(10)
Total other comprehensive gain / (loss)	106	(10)
Comprehensive loss	$(15,923)	$(6,221)

See accompanying notes to condensed financial statements.

6

CYTOMX THERAPEUTICS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (16,029)	$ (6,211)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	355	268
Amortization of debt discount	—	13
Accretion of discount on short-term investments	350	124
Stock-based compensation expense	2,362	175
Issuance of stock in connection with services	159	—
Change in fair value of convertible preferred stock liability	—	1,031
Change in fair value of convertible preferred stock warrant liability	—	222
Deferred income taxes	3	—
Changes in operating assets and liabilities		
Accounts receivable	56	2
Related party accounts receivable	214	1,663

Prepaid expenses and other current assets	(1,139)	(410)
Other assets	55	22
Accounts payable	246	(567)
Accrued liabilities	(371)	(169)
Deferred revenue	8,199	(1,532)
Net cash used in operating activities	(5,540)	(5,369)
Cash flows from investing activities:		
Purchases of property and equipment	(327)	(255)
Purchases of short-term investments	(33,844)	(51,788)
Maturities of short-term investments	47,750	—
Net cash provided by / (used in) investing activities	13,579	(52,043)
Cash flows from financing activities:		
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	—	1,191
Proceeds from exercise of stock options	48	—
Repayment of notes payable	—	(356)
Payment of deferred offering costs	(12)	—
Net cash provided by financing activities	36	835
Net increase (decrease) in cash and cash equivalents	8,075	(56,577)
Cash and cash equivalents, beginning of period	59,822	64,396
Cash and cash equivalents, end of period	$ 67,897	$ 7,819
Supplemental disclosures of cash flow information:		

Cash paid for interest	$ —	$ 84
Supplemental disclosures of noncash investing and financing items:		
Purchases of property and equipment in accounts payable and accrued liabilities	26	463
Accretion to redemption value and cumulative dividends on preferred stock	—	1,432

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 $81.8 million, after underwriting discounts, commissions and 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.

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.

2. Liquidity

Since inception, the Company has incurred recurring net operating losses. As of March 31, 2016 and December 31, 2015, the Company had an accumulated deficit of $133.5 million and $117.5 million, respectively, and expects to

incur losses for the foreseeable future. Since its inception, the Company has funded its operations primarily through sales of its common stock in conjunction with the IPO, sales of convertible preferred securities and payments received under its collaboration agreements. As of March 31, 2016 and December 31, 2015, the Company had cash, cash equivalents and short-term investments of $180.6 million and $186.7 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 $81.8 million, after deducting underwriting discounts and commissions and offering expenses.

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.

CYTOMX THERAPEUTICS, INC.

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

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 three months ended March 31, 2016 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 thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed 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 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% of 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 Three Months Ended March 31,		Accounts Receivable, net	
	2016	2015	March 31, 2016	December 31, 2015
Customer A	80 %	80 %	67 %	50 %

Customer B	20 %	20 %	33 %	50 %

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

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 a standby letter of credit issued pursuant to an office lease entered in December 2015.

CYTOMX THERAPEUTICS, INC.

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

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 component of accumulated other comprehensive income (loss), net of tax.

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 (accreted) 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 three months ended March 31, 2016 and the year ended December 31, 2015.

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 adjusted the liability for changes in fair value until 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.

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 remeasured 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 Gain and Loss

Comprehensive gain and loss represents all changes in stockholders' deficit except those resulting from distributions to stockholders. The Company's unrealized gains and 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 (ii) 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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. 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. Additionally, in March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations in ASU 2014-09. 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

CYTOMX THERAPEUTICS, INC.

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

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.

In 2015, the FASB issued new guidance related to balance sheet classification of deferred taxes. The new guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. As the Company's deferred tax balance is already classified as noncurrent, the adoption of this new guidance had no financial statement impact.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). Under ASU 2016-2, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company plans to adopt this guidance beginning with its first quarter ending March 31, 2019. The Company is in the process of evaluating the future impact of ASU 2016-02 on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718)" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. The Company is in the process of assessing the impact of adoption of ASU 2016-09 of 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. 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, some of which 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.

CYTOMX THERAPEUTICS, INC.

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

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):

	March 31, 2016			
	Level I	Level II	Level III	Total
Assets				
Money market funds	$58,547	$—	$ —	$58,547
Restricted cash (money market funds)	917	—	—	917
U.S. Government bonds	—	112,739	—	112,739
	$59,464	$112,739	$ —	$172,203

	December 31, 2015			
	Level I	Level II	Level III	Total
Assets				
Money market funds	$44,714	$—	$ —	$44,714
Restricted cash (money market funds)	917	—	—	917
U.S. Government bonds	—	140,392		140,392
	$45,631	$140,392	$ —	$186,023

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

	March 31, 2016			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Investment Securities				
U.S. Government bonds	112,709	31	(1)	112,739
Total securities	$112,709	$ 31	$ (1)	$112,739

The contractual maturities of securities classified as available-for-sale as of March 31, 2016 were as follows (in thousands):

	March 31, 2016
Due within one year	112,739
Total	$112,739

5. Property and Equipment

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

	March 31, 2016	December 31, 2015
Machinery and equipment	$ 5,153	$ 4,910
Computer equipment and software	506	452
Furniture and fixtures	51	51
Leasehold improvements	720	720
Construction in progress	225	169
	6,655	6,302
Less: accumulated depreciation and amortization	(3,176)	(2,821)
	$ 3,479	$ 3,481

CYTOMX THERAPEUTICS, INC.

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

Depreciation and amortization expense was $355,000 and $268,000 for the three months ended March 31, 2016 and 2015, 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):

	March 31, 2016	December 31, 2015
Goodwill	$ 949	$ 949
In-process research and development	1,750	1,750

7. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	March 31, 2016	December 31, 2015
Research and clinical expenses	$ 2,371	$ 1,562
Payroll and related expenses	1,227	2,839
Legal and professional expenses	854	296
Other accrued expenses	286	215
Total	$ 4,738	$ 4,912

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.

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

CYTOMX THERAPEUTICS, INC.

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

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 March 31, 2016 and 2015, the Company recognized revenue of $0.4 million and $0.3 million respectively. As of March 31, 2016 and December 31, 2015, deferred revenue relating to the Pfizer Agreement was $4.7 million and $4.9 million, respectively. The amount due from Pfizer under the Agreement was $0.2 million and $0.4 million as of March 31, 2016 and December 31, 2015, 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.

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

CYTOMX THERAPEUTICS, INC.

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

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 is being 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.

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 the triggering event.

In January 2016, BMS selected an additional target pursuant to the BMS Agreement. Under the terms of the BMS Agreement, BMS paid the Company a $10 million milestone payment. This amount has been recorded as deferred revenue and will be recognized over the remaining performance period.

During the three months ended March 31, 2016 and 2015, the Company recognized revenue of $1.8 million and $1.4 million, respectively. As of March 31, 2016 and December 31, 2015, deferred revenue relating to the BMS Agreement was $51.1 million and $42.6 million, respectively. The amount due from BMS under the BMS Agreement was $0.3 million and $0.4 million as of March 31, 2016 and December 31, 2015, respectively.

CYTOMX THERAPEUTICS, INC.

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

MD Anderson

In November 2015, the Company entered into a research collaboration agreement with MD Anderson to research Probody-enabled chimeric antigen receptor killer (CAR-NK) cell therapies, known as ProCAR-NK cell therapies. Under this collaboration, MD Anderson will use the Company's Probody technology to conduct research of ProCAR-NK cell therapies against certain targets selected by the Company in cancer immunotherapy. Under the research collaboration agreement, the Company has the right to exercise an option, during the option period expiring on November 2, 2019 and upon payment of an option exercise fee, to negotiate and acquire a worldwide, exclusive, sublicensable license from MD Anderson for development and commercialization of products directed against any of the selected targets. The research collaboration agreement will continue in effect until the earlier of (i) the date that the Company exercises the option to acquire the license from MD Anderson and (ii) the expiration of the option period. The impact of this agreement was not material for the financial statements for the three months ended March 31, 2016.

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 three months ended March 31, 2016 and 2015, the Company incurred expenses of $537,000 and $173,000, respectively, to the UC Regents under the provisions of the UC 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,	
2016 (nine months remaining)	$—
2017	150
Total minimum royalty obligations	$150

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.

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.

CYTOMX THERAPEUTICS, INC.

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

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 were exercisable in cash at an exercise price of $3.084396 per share or through a cashless exercise provision.

In connection with the consummation of the IPO in October 2015, all of the warrants 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.

The Company repaid and terminated the Debt Facility in September 2015.

11. Commitments and Contingencies

Operating Lease

New Lease Agreement

On December 10, 2015, the Company entered into a lease (the "New Lease") with HCP Oyster Point III LLC (the "Landlord") to lease approximately 76,173 rentable square feet of office and laboratory space located in South San Francisco, California for the Company's new corporate headquarters.

The term of the New Lease commences on the later of (i) the date that the Landlord's construction and tenant improvements have been completed pursuant to the New Lease and (ii) October 1, 2016. The New Lease has an initial term of ten years from the commencement date, and the Company has an option to extend the initial term for an additional five years at the then fair rental value as determined pursuant to the New Lease.

The New Lease provides for annual base rent of approximately $3.1 million in the first year of the lease term. The annual base rent for the second twelve months will be approximately $4.3 million, which will increase on an annual basis beginning from the 25th month to approximately $5.5 million for the tenth year of the lease. The Company will be entitled to a one-time improvement allowance of up to $12.6 million.

In addition, the Company obtained a standby letter of credit (the "Letter of Credit") in an amount of approximately $0.9 million, which may be drawn by the Landlord to be applied for certain purposes upon the Company's breach of any provisions under the New Lease. The Company has recorded the $0.9 million Letter of Credit in restricted cash as a non-current asset on its balance sheet.

Amendment to Current Lease

In March 2016, the Company entered into an agreement to terminate the current lease, which was due to expire on January 31, 2019 (“Lease Termination”) with its current landlord. The Lease Termination provides for an early termination of the current lease effective on November 30, 2016. The Company will not be required to pay the landlord a termination payment in connection with the early termination of the lease.

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.

CYTOMX THERAPEUTICS, INC.

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

The minimum lease payments for all the Company's facility leases are as follows (in thousands):

Year Ending December 31:	
2016 (nine months remaining)	$1,053
2017	3,387
2018	4,374
2019	4,506
2020	34,144
Total	$47,464

Rent expense during the three months ended March 31, 2016 was a credit of $2,000 due to a one-time adjustment to deferred rent pursuant to the termination of the current lease. Rent expense during the three months ended March 31, 2015 was $235,000.

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.

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 659,209 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 659,209 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.

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. As such, no convertible preferred stock shares were outstanding as of March 31, 2016 and December 31, 2015.

13. Common Stock

In October 2015, the Company’s board of directors and stockholders approved the Company’s amended and restated certificate of incorporation. The amended and restated certificate of incorporation was effective as of October 14, 2015, and provides for 75,000,000 authorized shares of common stock with a par value of $0.00001 per share and 10,000,000 shares of preferred stock with a par value of $0.00001 per share.

CYTOMX THERAPEUTICS, INC.

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

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 March 31, 2016 and December 31, 2015, 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:

	March 31, 2016	December 31, 2015
Options issued and outstanding	6,125,654	5,270,751
Shares available for future stock option grants	2,927,926	2,401,406
	9,053,580	7,672,157

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 2015 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 Options	Weighted-Average Exercise Price Per Share
Balances at December 31, 2015	5,270,751	$ 3.694
Options granted	905,246	14.459
Options exercised	(41,600)	1.116
Option forfeited	(8,743)	3.904
Balances at March 31, 2016	6,125,654	$ 5.302
Options exercisable at March 31, 2016	2,156,260	$ 2.191

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):

	March 31,	
	2016	2015
Stock-based compensation expense:		
Research and development	$1,349	$79
General and administrative	1,172	96
Total stock-based compensation expense	$2,521	$175

16. Related Party Transactions

Certain employees of Third Rock Ventures, a stockholder of the Company, provide consulting services to the Company. General and administrative expense for these services of $12,000 and $8,400 were recorded for the three months ended March 31, 2016 and 2015, respectively. The amounts outstanding and included in accounts payable were $12,000 and $0 as of March 31, 2016 and December 31, 2015, 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 in August 2015. The remaining balance of these loans was approximately $78,000 and $78,000 at March 31, 2016 and December 31, 2015, respectively. Interest income earned on the loans was insignificant during the three months ended March 31, 2016 and 2015.

Revenues from related parties refer to our collaboration agreement with Pfizer, one of our stockholders. During the three months ended March 31, 2016 and 2015, the Company recognized revenue of $0.4 million and $0.3 million, respectively (Note 8). As of March 31, 2016 and December 31, 2015, deferred revenue relating to the Pfizer Agreement was $4.7 million and $4.9 million, respectively. The amount due from Pfizer under the agreement was $0.2 million and $0.4 million as of March 31, 2016 and December 31, 2015, respectively.

17. Employee Benefit Plans

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 three months ended March 31, 2016 and 2015, the Company made contributions to the plan of $141,000 and $18,000, respectively.

Employee Stock Purchase Plan

Concurrent with the completion of the IPO in October 2015, the Company's 2015 Employee Stock Purchase Plan ("ESPP") became effective. The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The ESPP generally provides for six-month offering periods, and at the end of each offering period, employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last trading day of the offering period. No shares were issued under the ESPP as of March 31, 2016 and December 31, 2015.

CYTOMX THERAPEUTICS, INC.

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

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 March 31,	
	2016	2015
Redeemable convertible preferred stock (on an as-converted basis)	—	18,612,177
Convertible preferred stock (on an as-converted basis)	—	244,782
Options to purchase common stock	5,951,381	2,563,466
Convertible preferred stock warrants	—	81,620
Total	5,951,381	21,502,045

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 March 31,	
	2016	2015
Numerator:		
Net loss	$(16,029)	$(6,211)
Add: accretion to redemption value and cumulative dividends on preferred stock	—	(1,432)
Net loss attributable to common stockholders	$(16,029)	$(7,643)
Denominator:		
Weighted-average common shares outstanding used to calculate net loss per share attributable to common stockholders, basic and diluted	36,063,425	996,551
Net loss per share attributable to common stockholders, basic and diluted	$(0.44)	$(7.56)

19. Subsequent Events

On April 21, 2016, the Company entered into the following two collaboration agreements with AbbVie Ireland Unlimited Company ("AbbVie").

Co-Development Agreement

Pursuant to a Co-Development and License Agreement (the "Co-Development Agreement"), the Company and AbbVie will collaborate in the research, development and commercialization of PDCs and products. The Company will be responsible for the research and development of a PDC through the completion of Phase I and all related costs. AbbVie will be responsible for the subsequent clinical studies, and the Company will financially participate in 35% of the global development costs following a Phase II study unless it elects to opt out of the co-development (the "Co-Development Opt-Out"). AbbVie has the sole right to commercialize the PDCs and co-development products worldwide at its own cost and expense, subject to the Company's right to elect to assume a portion of the co-promotion effort in the U.S. for each product (the "Co-Promotion Option"). The Company grants to AbbVie a worldwide, exclusive and sublicensable license to certain patents and know-how for the development and commercialization of PDCs and co-development products. The parties will establish a joint research committee and a joint development committee to oversee the PDC research and development activities, respectively, and, if the Company exercises the Co-Promotion Option, a joint commercialization committee to oversee the commercialization of the co-development products.

Pursuant to the Co-Development Agreement, the financial consideration from AbbVie was comprised of an upfront payment of $20 million and, subject to a reduction by 25% if the Company exercises the Co-Development Opt-Out, a total of up to $470 million in

CYTOMX THERAPEUTICS, INC.

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

development, regulatory and commercial milestone payments. Unless the Company exercises the Co-Development Opt-Out, AbbVie and the Company will share 65% and 35%, respectively, of the net profits and net losses from sales of the co-development products in the U.S. (the "U.S. Profit Sharing"), and the Company will be eligible to receive tiered royalties at double-digit percentages, subject to a reduction in royalties to royalties in the high-single digits to low teens if the Company exercises the Co-Development Opt-Out, on net sales of the co-development products from the ex-U.S. territory. If the Company elects to opt out of the U.S. Profit Sharing, it will receive the tiered royalties, subject to reduction, on global net sales of the co-development products. AbbVie's royalty obligation continues with respect to each country and each licensed product until the later of (i) the expiration, invalidation or abandonment date of the last claim of the licensed patents covering the manufacture, use or sale of such licensed product in such country, (ii) the expiration of any applicable regulatory exclusivity with respect to such product in such country or (iii) the tenth anniversary of the first commercial sale of a licensed product in such country.

The Co-Development Agreement will continue in effect until the date of expiration of the last royalty term for the last licensed product and, if later, the date on which no co-development product is being developed or commercialized in or for the U.S. AbbVie may terminate the agreement in its entirety or on a country-by-country basis after April 21, 2018 for no reason or at any time for certain development, regulatory or commercialization reasons. Either party may terminate the agreement upon the other party's uncured material breach or insolvency.

Discovery Collaboration Agreement

Pursuant to a Discovery Collaboration and License Agreement (the "Discovery Collaboration Agreement"), AbbVie has the right to select a total of up to two targets and the Company and AbbVie will collaborate in the research and development of Probodies against the selected targets. AbbVie has the sole right to develop, manufacture and commercialize the PDCs and products directed toward the targets worldwide at its own cost and expense. The Company grants to AbbVie a worldwide, exclusive and sublicensable license, on a target-by-target basis, to certain patents and know-how for the development, manufacture and commercialization of the PDCs and licensed products. The parties will establish a joint research committee to oversee the research and discovery of Probodies against the selected targets and the conjugation of Probodies into PDCs.

Under the Discovery Collaboration Agreement, the Company will receive from AbbVie an upfront payment of $10 million, an additional milestone payment payable upon the selection by AbbVie of the second target and additional milestone and royalty payments per target, should AbbVie ultimately pursue these targets. AbbVie's royalty obligation continues with respect to each country on a licensed-product-by-licensed product basis until the later of (i) the expiration, invalidation or abandonment date of the last claim of the licensed patents covering the manufacture, use or sale of such licensed product in such country, (ii) the expiration of any applicable regulatory exclusivity with respect to such product in such country or (iii) the tenth anniversary of the first commercial sale of a licensed product in such country.

The Discovery Collaboration Agreement will continue in effect until the date of expiration of the last royalty term for the last licensed product. AbbVie may terminate the agreement in its entirety or on a country-by-country or target-by-target basis for no reason after April 21, 2017 or at any time for certain development, regulatory or commercialization reasons. Either party may terminate the agreement upon the other party's uncured material breach or insolvency.

24

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, 2015, included in our Annual Report on Form 10-K, as filed with the U.S. Securities and Exchange Commission ("SEC") on March 7, 2016.

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"), ImmunoGen, Inc. ("ImmunoGen") and AbbVie Ireland Unlimited Company ("AbbVie") 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 three months ended March 31, 2016 was $16.0 million. As of March 31, 2016, we had an accumulated deficit of $133.5 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 United States Food and Drug Administration ("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 obtained 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, ImmunoGen and AbbVie, 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 SEC, 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 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.

Results of Operations

For the Three Months Ended March 31, 2016 and 2015.

Revenues

	Three Months Ended March 31,		
	2016	2015	Change
	(in thousands)		
Total revenues	$2,223	$1,742	$ 481

Revenue increased $0.5 million during the three months ended March 31, 2016 compared to the corresponding period in 2015. The increase in revenue was primarily due to $0.3 million increase in recognized revenue related to the BMS milestone payment in connection with its selection of the third target, and a $0.2 million increase in service revenue related to our collaborations with BMS and Pfizer.

Operating Costs and Expenses

Research and Development Expenses

	Three Months Ended March 31,		
	2016	2015	Change
	(in thousands)		
Research and development expenses	$13,365	$4,664	$8,701

Research and development expense increased $8.7 million during the three months ended March 31, 2016 compared to the corresponding period in 2015. The increase was attributable to an increase of $6.2 million in laboratory and professional services related to advancement of our product pipeline, an increase of $1.3 million in stock based compensation primarily due to higher stock valuation, an increase of $0.8 million in personnel-related expenses due to an increase in headcount, and an increase of $0.4 million in royalty payments by the Company to a third party triggered by BMS’s milestone payment in connection with its selection of the third target.

General and Administrative Expenses

	Three Months Ended March 31,		
	2016	2015	Change
	(in thousands)		
General and administrative expenses	$5,040	$1,946	$3,094

General and administrative expense increased $3.1 million during the three months ended March 31, 2016 compared to the corresponding period in 2015. The increase was attributable to an increase in consulting and professional services expense of $1.2 million due to costs associated with operating as a public company, an increase of $1.1 million in stock based compensation primarily due to higher stock valuation, and an additional $0.7 million of personnel-related expenses due to an increase in headcount.

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

Three Months Ended March 31,	
2016	2015