CytomX Therapeutics, Inc.
Form 10-Q
November 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-37587

CytomX Therapeutics, Inc.

(Exact name of Registrant as Specified in its Charter)

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

151 Oyster Point Blvd., Suite 400

South San Francisco, CA 94080

(650) 515-3185

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

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

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

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

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

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

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

As of November 2, 2018, 45,007,104 shares of the registrant's common stock were outstanding.

CYTOMX THERAPEUTICS, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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:

- our expectations regarding the potential benefits, activity, effectiveness and safety of our product candidates and therapeutics developed utilizing our Probody platform technology;

- the initiation, timing, progress and results of our ongoing clinical trials, research and development programs, preclinical studies, and Investigational New Drug application ("IND"), Clinical Trial Application, New Drug Application ("NDA"), Biologics License Application ("BLA") and other regulatory submissions;

- the timing of the completion of our ongoing clinical trials and the timing and availability of clinical data from such clinical trials;

- our ability to identify and develop additional product candidates;

- our dependence on collaborators for developing, obtaining regulatory approval for and commercializing product candidates in the collaboration;

- our or a collaborator's ability to obtain and maintain regulatory approval of any of our product candidates;

- our receipt and timing of any milestone payments or royalties under any research collaboration and license agreements or arrangements;

-

our expectations and beliefs regarding the evolution of the market for cancer therapies and development of the immuno-oncology industry;

- the rate and degree of market acceptance of any approved product candidates;

- the commercialization of any approved product candidates;

- our ability to establish and maintain collaborations and retain commercial rights for our product candidates in such 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 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 ability to transition from an emerging growth company under the Jumpstart Our Business Startups Act of 2012 to a large accelerated filer;

- our ability to secure and maintain licenses of intellectual property to protect our technologies and product candidates;

- 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. Financial Statements

CYTOMX THERAPEUTICS, INC.

CONDENSED BALANCE SHEETS

(in thousands, except share and per share data)

	September 30, 2018 (unaudited)	December 31, 2017 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 259,753	$ 177,548
Short-term investments	204,809	196,562
Accounts receivable	56	10,139
Prepaid expenses and other current assets	7,890	4,352
Total current assets	472,508	388,601
Property and equipment, net	5,482	4,218
Intangible assets, net	1,495	1,604
Goodwill	949	949
Restricted cash	917	917
Other assets	1,375	1,355
Total assets	$ 482,726	$ 397,644
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,871	$ 4,205
Income tax payable	4,990	1
Accrued liabilities	21,416	16,382
Deferred revenue, current portion	52,997	40,559
Total current liabilities	86,274	61,147
Deferred revenue, net of current portion	236,365	264,704
Other long-term liabilities	2,426	1,897
Total liabilities	325,065	327,748
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, $0.00001 par value; 10,000,000 shares authorized and no shares issued and outstanding at September 30, 2018 and December 31, 2017.	—	—
Common stock, $0.00001 par value; 75,000,000 shares authorized; 44,997,279 and 38,478,560 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1	1
Additional paid-in capital	440,616	289,454
Accumulated other comprehensive loss	(208)	(94)

Accumulated deficit	(282,748)	(219,465)
Total stockholders' equity	157,661	69,896
Total liabilities and stockholders' equity	$ 482,726	$ 397,644

(1) The condensed balance sheet as of December 31, 2017 was derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

See accompanying notes to condensed financial statements.

CYTOMX THERAPEUTICS, INC.

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$12,509	$23,662	$48,031	$43,121
Revenue from related party	—	482	—	1,429
Total revenue	12,509	24,144	48,031	44,550
Operating expenses:				
Research and development	27,549	28,920	75,560	71,573
General and administrative	8,137	6,249	24,535	17,989
Total operating expenses	35,686	35,169	100,095	89,562
Loss from operations	(23,177)	(11,025)	(52,064)	(45,012)
Interest income	2,219	806	5,134	1,400
Other income (expense), net	29	(47)	(50)	(101)
Loss before provision for income taxes	(20,929)	(10,266)	(46,980)	(43,713)
Provision for (benefit from) income taxes	2,502	(19)	5,391	7
Net loss	$(23,431)	$(10,247)	$(52,371)	$(43,720)
Net loss per share, basic and diluted	$(0.53)	$(0.28)	$(1.29)	$(1.19)
Shares used to compute net loss per share, basic and diluted	43,917,510	36,947,129	40,528,105	36,757,119
Other comprehensive income (loss):				
Changes in unrealized gains (losses) on short-term investments	(30)	49	(114)	(34)
Comprehensive loss	$(23,461)	$(10,198)	$(52,485)	$(43,754)

See accompanying notes to condensed financial statements.

CYTOMX THERAPEUTICS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(52,371)	$(43,720)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Gain on disposal of property and equipment	—	(1)
Amortization of intangible assets	109	—
Depreciation and amortization	1,276	1,241
Amortization of premiums (accretion of discounts) on investments	(1,114)	392
Stock-based compensation expense	12,262	8,537
Non-cash acquisition of in-process research and development asset charged to expense	—	10,700
Deferred income taxes	—	7
Changes in operating assets and liabilities		
Accounts receivable	10,083	1,976
Related party accounts receivable	—	86
Prepaid expenses and other current assets	(3,538)	(952)
Other assets	(20)	(98)
Accounts payable	2,795	(3,495)
Accrued liabilities, income tax payable and other long-term liabilities	10,552	4,124
Deferred revenue	(26,813)	169,574
Net cash (used in) provided by operating activities	(46,779)	148,371
Cash flows from investing activities:		
Purchases of property and equipment	(2,669)	(1,325)
Purchases of short-term investments	(161,743)	(54,183)
Maturities of short-term investments	154,496	84,000
Net cash (used in) provided by investing activities	(9,916)	28,492
Cash flows from financing activities:		
Proceeds from common stock issuance, net of underwriting discounts and issuance costs of $9,154	134,596	—
Proceeds from exercise of stock options and employee stock purchases	4,304	2,717
Net cash provided by financing activities	138,900	2,717
Net increase in cash, cash equivalents and restricted cash	82,205	179,580
Cash, cash equivalents and restricted cash, beginning of period	178,465	105,562
Cash, cash equivalents and restricted cash, end of period	$260,670	$285,142

Supplemental disclosures of noncash investing and financing items:		
Purchases of property and equipment in accounts payable and accrued liabilities	233	79
Non-cash acquisition of in-process research and development asset charged to expense	—	10,700
Non-cash adjustment to deferred revenue resulting from the adoption of ASC 606	10,912	—

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 a clinical-stage, oncology-focused biopharmaceutical company with a vision of transforming lives with safer, more effective therapeutics. The Company is pioneering a novel class of investigational antibody therapeutics, based on its Probody™ therapeutic technology platform, for the treatment of cancer. The Probody therapeutic approach is designed to more specifically target antibody therapeutics to the tumor microenvironment and reduce drug activity in healthy tissue and in circulation. The Company is located in South San Francisco, California and was incorporated in the state of Delaware in September 2010.

Stock Offering

In July 2018, the Company completed an underwritten public offering of 5,867,347 shares of common stock at a price of $24.50 per share, which included 765,306 shares issued pursuant to the underwriters' exercise of their option to purchase additional shares of common stock. The aggregate net proceeds received by the Company from the offering were approximately $134.6 million after deducting underwriting discounts and commissions and offering expenses of $9.2 million.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting.

Unaudited Interim Financial Information

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

The condensed balance sheet data as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The condensed results of operations for the three and nine months ended September 30, 2018 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, 2017 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.

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.

CYTOMX THERAPEUTICS, INC.

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

Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed balance sheets that sum to the total of the amounts shown in the condensed statements of cash flows (in thousands).

	As of September 30, 2018	As of December 31, 2017
Cash and cash equivalents	$259,753	$177,548
Restricted cash - non-current assets	917	917
Total	$260,670	$178,465

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

Contract Balances

Customer payments are recorded as deferred revenue upon receipt or when due and may require deferral of revenue recognition to a future period until the Company performs its obligations under these arrangements. Amounts payable to the Company are recorded as accounts receivable when the Company's right to consideration is unconditional.

Comprehensive Income (Loss)

The Company's unrealized gains and losses on short-term investments represent the only component of other comprehensive income (loss) that is excluded from the reported net loss.

Revenue Recognition

The Company adopted ASC Topic 606 effective January 1, 2018 on a modified retrospective basis. As such, the prior period amounts were not restated and continue to be presented in accordance with ASC Topic 605. For the Company's accounting policy on revenue recognition prior to January 1, 2018, refer to the 2017 Form 10-K filed with the SEC on March 7, 2018. The policy disclosed in this Quarterly Report on Form 10-Q is the Company's policy under ASC Topic 606, which has been applied since January 1, 2018.

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 for the Company's technology or programs, (ii) research and development services, and (iii) services or obligations in connection with participation in research or steering committees. Payments to the Company under these arrangements typically include one or more of the following: nonrefundable upfront and license fees, research funding, milestone and other contingent payments to

the Company for the achievement of defined collaboration objectives and certain preclinical, clinical, regulatory and sales-based events, as well as royalties on sales of any commercialized products.

The Company recognizes revenue when the customer obtains control of the promised goods or services, in an amount that reflects the consideration which the Company has received or expects to receive in exchange for those goods or services.

The Company assesses whether the promises in its arrangements with customers are considered distinct performance obligations that should be accounted for separately. Judgment is required to determine whether the license to the Company's intellectual property is distinct from the research and development services or participation on steering committees.

The transaction price in each arrangement is allocated to the identified performance obligations based on the standalone selling price ("SSP") of each distinct performance obligation, which requires judgment. In instances where SSP is not directly observable, such as when a license or service is not sold separately, SSP is determined using information that may include market conditions and other observable inputs. Due to the early stage of the Company's licensed technology, the license of such technology is typically combined with research and development services and steering committee participation as one performance obligation. In these cases, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

CYTOMX THERAPEUTICS, INC.

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

The Company's collaboration and license agreements may include contingent payments related to specified research, development and regulatory 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, or upon receipt of actual marketing approvals of a covered product or for additional indications. At each reporting date, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price by using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. Once determined, the transaction price is allocated to each performance obligation on a relative SSP basis. At the end of each subsequent reporting period, the Company re-evaluates the probability or achievement of each such milestone and any related constraint, and if necessary, adjusts its estimate of the overall transaction price.

The Company's collaboration and license agreements may also include contingent payments related to sales-based milestones. Sales-based milestones are typically payable when annual sales of a covered product reach specified levels. Sales-based milestones are recognized at the later of when the associated performance obligation has been satisfied or when the sales occur. Unlike other contingency payments, such as regulatory milestones, sales-based milestones are not included in the transaction price based on estimates at the inception of the contract, but rather, are included when the sales or usage occur.

AbbVie Ireland Unlimited Company ("AbbVie"), one of the Company's collaboration partners, entered into a license agreement with Seattle Genetics, Inc. ("SGEN") to license certain intellectual property rights. As part of the Company's collaboration agreement with AbbVie, the Company pays SGEN sublicense fees. These sublicense fees are treated as reductions to the transaction price and combined with the performance obligation to which they relate. Milestone payments, when considered probable of being reached and when a significant revenue reversal would not be probable of occurring, are also recorded net of the associated sublicense fees and included in the transaction price.

Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 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. ASU 2014-09 replaced most existing revenue recognition guidance in U.S. GAAP. The standard permits the use of either the retrospective or cumulative effect transition method. Additionally, in March 2016, the FASB issued ASU No. 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 No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and

licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which relates to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. These standards (collectively Accounting Standard Codification Topic 606 ("ASC 606") have the same effective date and transition date of January 1, 2018. The Company adopted ASC 606 on January 1, 2018, using the cumulative effect transition method. The Company elected to use the practical expedient for contract modifications whereby the aggregate effect of all modifications that occurred prior to the transition date can be reflected when identifying performance obligations and determining and allocating the transaction price.

The Company evaluated its contracts with customers under ASC 606. The impact of adopting ASC 606 on the Company's results of operations, financial condition, and cash flows varies depending on the contract. The Company recorded adjustments upon the adoption of ASC 606 as a result of the different accounting treatment of its revenue agreements with respect to the inclusion of milestone payments in the initial transaction price and the method to be used to recognize upfront fees. Under the prior revenue recognition standard, milestone payments were recognized when earned and upfront fees were generally recognized as revenue over the research term on a straight-line basis if another method of revenue recognition did not more clearly match the pattern of delivery of goods or services to the customer. Under ASC 606, milestone payments are included in the initial transaction price when it is probable that a significant reversal of the milestone payment will not occur. In addition, the Company can no longer default to the straight-line method as the default method in recognizing revenue for goods or services delivered over time. As such, the amount and timing of revenue recognition for its collaboration agreements changed under ASC 606. The impact of the adoption of ASC 606 was an increase in the balance of deferred revenue and an increase in the accumulated deficit balance of $10.9 million on January 1, 2018 in the Company's condensed Balance Sheet.

CYTOMX THERAPEUTICS, INC.

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

The following table summarizes the impact of adopting ASC 606 on select unaudited condensed balance sheet line items (in thousands):

	As of September 30, 2018		
	Balances Under		As Reported Under
	ASC 605	Adjustments	ASC 606
Liabilities			
Income tax payable	$4,082	908	$ 4,990
Deferred revenue - current	46,230	6,767	52,997
Deferred revenue - long-term	223,781	12,584	236,365
Stockholders' Equity			
Accumulated deficit	(262,489)	(20,259)	(282,748)

The following tables summarize the impact of adopting ASC 606 on select unaudited condensed statement of operations line items (in thousands, except per share data):

	Three Months Ended September 30, 2018		
	Balances Under		As Reported Under
	ASC 605	Adjustments	ASC 606
Revenue	$10,895	$ 1,614	$ 12,509
Loss from operations	(24,791)	1,614	(23,177)
Loss before provision for income taxes	(22,543)	1,614	(20,929)
Provision for income taxes	2,650	(148)	2,502
Net loss	(25,193)	1,762	(23,431)
Net loss per share, basic and diluted	(0.57)	0.04	(0.53)

	Nine Months Ended September 30, 2018		
	Balances Under		As Reported Under
	ASC 605	Adjustments	ASC 606
Revenue	$55,944	$ (7,913)	$ 48,031
Loss from operations	(44,151)	(7,913)	(52,064)
Loss before provision for income taxes	(39,067)	(7,913)	(46,980)
Provision for income taxes	4,483	908	5,391
Net loss	(43,550)	(8,821)	(52,371)

Net loss per share, basic and diluted	(1.07)	(0.22)	(1.29)

The following table summarizes the impact of adopting ASC 606 on select unaudited condensed statement of cash flows line items (in thousands):

	Nine Months Ended September 30, 2018		
	Balances Under ASC 605	Adjustments	As Reported Under ASC 606
Cash flows from operating activities:			
Net loss	$(43,550)	$ (8,821)	$ (52,371)
Changes in operating assets and liabilities:			
Accrued liabilities, income tax payable and other long-term liabilities	9,644	908	10,552
Deferred revenue	(34,726)	7,913	(26,813)

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new standard provides clarification on the cash flow presentation and classification of certain transactions, including debt prepayment or extinguishment, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. The Company adopted this standard in its first quarter ended March 31, 2018. The adoption of this standard had no impact on the Company’s financial statements for the three months and nine months ended September 30, 2018.

CYTOMX THERAPEUTICS, INC.

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

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash, Statement of Cash Flows (Topic 230). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this standard in its first quarter ended March 31, 2018. The Company has revised the presentation of restricted cash in its Statements of Cash Flows and provided the additional disclosures required under this standard.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This accounting standard update provides clarity when a change to terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the vesting condition, fair value or the award classification is not the same both before and after a change to the terms and conditions of the award. The Company adopted this standard on January 1, 2018. The adoption of this standard had no impact on the Company’s financial statements for the three months and nine months ended September 30, 2018.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under ASU 2016-02, 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 required a modified retrospective adoption, with early adoption permitted. In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases (“ASU 2018-10”) and ASU 2018-11, Targeted Improvements. ASU 2018-10 provides improvements and clarification to ASU 2016-02 in various areas, including implicit interest rates, lessee assessment of lease classification, lease term and purchase options and various other improvements. ASU 2018-11 provides another transition method by allowing entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to adopt Topic 842 beginning with its first quarter ending March 31, 2019. The Company is currently evaluating the impact of the lease standard on its financial statements. The Company anticipates that implementation of Topic 842 will result in an increase in assets and liabilities and additional disclosures. To date, the Company has created an inventory of its leases. The Company continues to evaluate the transition considerations, including the election of various practical expedients provided by the standard.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard changes the impairment model for most financial assets and certain other instruments. Under the new standard, entities holding financial assets and net investment in leases that are not accounted for at fair value through net income are to be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the

financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The new standard will be effective for the Company on January 1, 2020. The Company is currently evaluating the impact of this new guidance.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new standard simplifies the measurement of goodwill by eliminating the Step 2 impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, though early adoption is permitted. The Company is currently evaluating the impact of this new guidance.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The new standard will be effective for the Company on January 1, 2019. The Company is currently evaluating the impact of this new guidance.

CYTOMX THERAPEUTICS, INC.

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

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update). This standard adds various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118, which clarifies the SEC Staff's views on income tax accounting implications of the Tax Cuts and Jobs Act (the "Tax Act"). It requires reporting of provisional amounts for specific income tax effects of the Tax Act for which the accounting under ASC Topic 740 will be incomplete, but a reasonable estimate can be determined. Provision amounts for income tax effects of the Tax Act for which a reasonable estimate cannot be determined, ASC Topic 740 should be applied based on provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted. Provisional amounts for income tax effects for which a reasonable estimate cannot be determined would be reported in the first reporting period in which a reasonable estimate can be determined. The Company continues to analyze the impact of the Tax Act for which it can reasonably estimate in the three months and nine months ended September 30, 2018 (See Note 9, Income Tax Expense).

In June 2018, the FASB issued ASU No. 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this ASU expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. This new guidance is effective for the Company on January 1, 2019 with early adoption permitted. The Company is currently evaluating the impact of this new guidance.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820). The amendments in this ASU modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. Various disclosure requirements have been removed, including the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements held at the end of the reporting period. The ASU also modified various disclosure requirements and added some disclosure requirements for Level 3 fair value measurements. The amendments in this ASU are effective for the Company on January 1, 2020. The additional disclosures on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. Currently, the Company does not expect the adoption of this ASU will have a material impact on its financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40). The amendments in this ASU on the accounting for implementation, setup and other upfront costs (collectively "implementation costs") apply to entities that are a customer in a hosting arrangement. The amendments under this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, the amendments in this ASU require an entity in a hosting arrangement that is a

service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to expense. They also require an entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. This ASU is effective for the Company on January 1, 2020. The Company is currently evaluating the impact of this new guidance.

3. Fair Value Measurements and Short-Term Investments

In accordance with ASC 820-10, Fair Value Measurements and Disclosures, the Company determines the fair value of financial and non-financial assets and liabilities using the fair value hierarchy, which establishes three levels of inputs that may be used to measure 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.

CYTOMX THERAPEUTICS, INC.

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

The carrying amounts of the Company's financial instruments, including restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their relatively short maturities. The Company's financial instruments consist of Level I assets. Level I assets consist primarily of highly liquid money market funds, some of which are included in restricted cash, and U.S. government bonds that are included in short-term investments.

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

		September 30, 2018			
	Valuation Hierarchy	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Assets					
Money market funds	Level I	$130,543	$ —	$ —	$130,543
Restricted cash (money market funds)	Level I	917	—	—	917
U.S. government bonds	Level I	204,990	—	(181)	204,809
Total		$336,450	$ —	$ (181)	$336,269

		December 31, 2017			
	Valuation Hierarchy	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Assets					
Money market funds	Level I	$164,440	$ —	$ —	$164,440
Restricted cash (money market funds)	Level I	917	—	—	917
U.S. government bonds	Level I	196,629	—	(67)	196,562
Total		$361,986	$ —	$ (67)	$361,919

As of September 30, 2018, no securities have contractual maturities of longer than one year.

4. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Research and clinical expenses	$ 14,846	$ 10,068
Payroll and related expenses	4,823	4,526
Legal and professional expenses	1,328	1,523
Other accrued expenses	419	265
Total	$ 21,416	$ 16,382

5. Research and Collaboration Agreements

AbbVie Ireland Unlimited Company

In April 2016, the Company and AbbVie entered into two agreements, a CD71 Co-Development and Licensing Agreement (the “CD71 Agreement”) and a Discovery Collaboration and Licensing Agreement (the “Discovery Agreement” and together with the CD71 Agreement the “AbbVie Agreements”). Under the terms of the CD71 Agreement, the Company and AbbVie will co-develop a Probody Drug Conjugates (“PDC”) against CD71, with the Company responsible for pre-clinical and early clinical development. AbbVie will be responsible for later development and commercialization, with global late-stage development costs shared between the two companies. The Company will assume 35% of the net profits or net losses related to later development unless it opts-out. If the Company opts-out from participation of co-development of the CD71 PDC, AbbVie will have sole right and responsibility for the further development, manufacturing and commercialization of such CD71 PDC.

CYTOMX THERAPEUTICS, INC.

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

Under the CD71 Agreement, the Company received an upfront payment of $20.0 million in April 2016, and is eligible to receive up to $470.0 million in development, regulatory and commercial milestone payments, a 35% profit split on U.S. sales, and royalties on ex-U.S. sales in the high teens to low twenties if the Company participates in the co-development of the CD71 Licensed Product subject to a reversion to a royalty on U.S. sales, and reduction in royalties on ex-U.S. sales, if the Company opts-out from the co-development of the CD71 PDC. The Company's share of later stage co-development costs for each CD71 PDC are capped, provided that AbbVie may offset the Company's co-development cost above the capped amounts from future payments such as milestone payments and royalties. In July 2017, the Company received a milestone payment of $14.0 million (net of payment of an associated sublicense fee of $1.0 million to SGEN under the Seattle Genetics Agreement) from AbbVie for achieving certain milestones required to be met to begin GLP toxicology studies under the CD71 Agreement. In May 2018, the United States Food and Drug Administration ("FDA") cleared the IND application for CX-2029, the PDC targeting CD71. As a result, the Company achieved the IND success criteria under the CD71 Agreement and received a $21.0 million milestone payment (net of the payment of an associated sublicense fee of $4.0 million to SGEN). The Company commenced enrollment of our Phase 1/2 clinical trial and dosed the first patient in a clinical trial at the end of the second quarter of 2018.

Under the terms of the Discovery Agreement, AbbVie receives exclusive worldwide rights to develop and commercialize PDCs against up to two targets, one of which was selected in March 2017. The Company shall perform research services to discover the Probody therapeutics and create PDCs for the nominated collaboration targets. From that point, AbbVie shall have sole right and responsibility for development and commercialization of products comprising or containing such PDCs ("Discovery Licensed Products").

Under the Discovery Agreement, the Company received an upfront payment of $10.0 million in April 2016 and may receive an additional payment upon the selection by AbbVie of the second target and the satisfaction of certain success criteria under the CD71 Agreement. AbbVie has not selected the second target, but the success criteria under the CD71 Agreement were met in September 2016. The Company is also eligible to receive up to $275.0 million in target nomination, development, regulatory and commercial milestone payments and royalties in the high single to low teens from commercial sales of any resulting PDCs.

The Company has determined that the CD71 and Discovery Agreements with AbbVie should be combined and evaluated as a single arrangement in determining revenue recognition, because both agreements were concurrently negotiated and executed.

The Company identified the following performance obligations at the inception of the AbbVie Agreements: (1) the research, development and commercialization license for CD71 Probody therapeutic, (2) the research services related to CD71 Probody therapeutic, (3) the obligation to participate in the CD71 Agreement joint research committee, (4) the research services related to the first discovery target (5) the research, development and commercialization license

for the first discovery target, and (6) the obligation to participate in the Discovery Agreement joint research committee. The Company concluded that, at the inception of the agreement, AbbVie's option for the second discovery target is not a material right and is therefore not a performance obligation.

The Company determined that the research, development and commercialization licenses for CD71 and discovery targets are not distinct from the Company's respective research services and expertise. The Company considered factors such as novelty of the Probody therapeutic and PDC technology and lack of other parties' expertise in this space, the Company's rights to technology relating to a proprietary platform to enable the Probody therapeutic development and AbbVie's contractual obligation to use the Company's research services. The Company determined that the CD71 Agreement research, development and commercialization license, related research service and participation in the joint research committee were a combined performance obligation and were distinct from the Discovery Agreement research, development and commercialization license, related research service and participation in the joint research committee. Therefore, the Company concluded that there are two distinct performance obligations: CD71 Agreement performance obligation consisting of the CD71 Agreement research, development and commercialization license, related research service and participation in the joint research committee, and the Discovery Agreement performance obligation consisting of the Discovery Agreement research, development and commercialization license, related research service and participation in the joint research committee.

CYTOMX THERAPEUTICS, INC.

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

The total transaction price upon adoption of ASC 606 on January 1, 2018 of $39.8 million consists of $30.0 million in upfront payments, $14.0 million milestone payment received (net of the payment of an associated sublicense fee of $1.0 million to SGEN) less $4.2 million of estimated sublicense fees. The upfront payments under the AbbVie Agreements are allocated between the two performance obligations based on the estimated relative standalone selling prices. The $30.0 million of upfront payments is allocated $20.0 million to the CD71 Agreement, with the remaining $10.0 million allocated to the Discovery Agreement. The $14.0 million milestone payment received (net of the payment of an associated sublicense fee of $1.0 million to SGEN) and estimated sublicense fees are allocated to the CD71 Agreement performance obligation as they are directly related to the development of the CD71 Probody therapeutic. In May 2018, the Company earned a $21.0 million milestone payment (net of the payment of an associated sublicense fee of $4.0 million to SGEN). The $21.0 million milestone payment was included as part of the transaction price in May 2018 and a revenue adjustment of $9.9 million was recognized in the second quarter of 2018 reflecting the percentage completed to-date on the project related to this milestone. The Company determined that the remaining potential milestone payments are probable of significant revenue reversal as their achievement is highly dependent on factors outside the Company's control. Therefore, these payments have been fully constrained and were not included in the transaction price as of September 30, 2018. Under the UCSB Agreement, the Company is obligated to make royalty payments to UCSB equal to 5% of certain sublicense revenue payments owed to or received by the Company. As of September 30, 2018 and December 31, 2017, the Company accrued sublicense fees of $1.0 million and $0.5 million, respectively, under the CD71 Agreement. The Company recognized the initial transaction price upon adoption of ASC 606 on January 1, 2018 of $29.8 million allocated to the CD71 Agreement performance obligation using a cost-based input measure. In applying the cost-based input method of revenue recognition, the Company uses actual full-time employee ("FTE") hours incurred relative to total estimated FTE hours expected to be incurred for the combined performance obligation. Revenue is recognized based on actual FTE hours incurred as a percentage of total estimated FTE hours as the Company completes its performance obligation over the five-year service period. As the Discovery Agreement performance obligation represents an obligation to continuously make the Company's Probody therapeutic technology platform available to AbbVie, the initial transaction price of $10.0 million allocated to this performance obligation is recognized over the common measure of progress for the entire performance obligation over the estimated research service period of five years.

The Company recognized revenue of $2.8 million and $15.4 million for the three months ended September 30, 2018 and 2017, respectively, and $16.3 million and $18.1 million for the nine months ended September 30, 2018 and 2017, respectively, related to the AbbVie Agreements. As of September 30, 2018 and December 31, 2017, deferred revenue related to the CD71 Agreement performance obligation was $25.4 million and $11.2 million, respectively, and deferred revenue related to the Discovery Agreement performance obligation was $5.2 million and $6.8 million, respectively. As of both September 30, 2018 and December 31, 2017, no amount was due from AbbVie under the CD71 and Discovery Agreements.

Amgen, Inc.

On September 29, 2017, the Company and Amgen, Inc. ("Amgen") entered into a Collaboration and License Agreement (the "Amgen Agreement"). Pursuant to the Amgen Agreement, the Company received an upfront payment of $40.0 million in October 2017. Concurrent with the entry into the Amgen Agreement, the Company and Amgen entered into a Share Purchase Agreement (the "Purchase Agreement") pursuant to which Amgen purchased 1,156,069 shares of the Company's common stock, par value $0.00001 per share, at a price of $17.30 per share (calculated based on a 20-day

volume-weighted average price), for total proceeds of $20.0 million, which the Company received on October 6, 2017, the closing date of the transaction. The Company estimated a premium on the stock sold to Amgen of $0.5 million, which takes into account a discount due to the lack of marketability resulting from the six-month lockup period.

Under the terms of the Amgen Agreement, the Company and Amgen will co-develop a Probody T-cell engaging bi-specific therapeutic targeting EGFR ("EGFR Products"). The Company is responsible for early-stage development of EGFR Products and all related costs (up to certain pre-set costs and certain limits based on clinical study size). Amgen will be responsible for late-stage development, commercialization, and all related costs of EGFR Products. Following early-stage development, the Company will have the right to elect to participate financially in the global co-development of EGFR Products with Amgen, during which the Company would bear certain of the worldwide development costs for EGFR Products and Amgen would bear the rest of such costs (the "EGFR Co-Development Option"). If the Company exercises its EGFR Co-Development Option, the Company will share in somewhat less than 50% of the profit and losses from sales of such EGFR Products in the U.S., subject to certain caps, offsets, and deferrals. If the Company chooses not to exercise its EGFR Co-Development Option, the Company will not bear any costs of later stage development. The Company is eligible to receive up to $455.0 million in development, regulatory, and commercial milestone payments for EGFR Products, and royalties in the low-double-digit to mid-teen percentage of worldwide commercial sales, provided that if the Company exercises its EGFR Co-Development option, it shall receive a profit and loss split of sales in the U.S. and royalties in the low-double-digit to mid-teen percentage of commercial sales outside of the U.S..

CYTOMX THERAPEUTICS, INC.

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

Amgen also has the right to select a total of up to three targets, including the two additional targets discussed below. The Company and Amgen collaborate in the research and development of Probody T-cell engaging bi-specifics products directed against such targets. Amgen has selected one such target (the "Amgen Other Product"). If Amgen exercises its option within a specified period of time, it can select two such additional targets (the "Amgen Option Products" and, together with the Amgen Other Product, the "Amgen Products"). Except with respect to preclinical activities to be conducted by CytomX, Amgen will be responsible, at its expense, for the development, manufacture, and commercialization of all Amgen Products. If Amgen exercises all of its options and advances all three of the Amgen Products, CytomX is eligible to receive up to $950.0 million in upfront, development, regulatory, and commercial milestones and tiered high single-digit to low-teen percentage royalties. The Company concluded that, at the inception of the agreement, Amgen's option to select the two additional targets is not a material right and does not represent a performance obligation of the agreement.

At the initiation of the collaboration, CytomX had the option to select, from programs specified in the Amgen Agreement, an existing pre-clinical stage T-cell engaging bispecific product from the Amgen pre-clinical pipeline. In March 2018, CytomX selected the program. CytomX is responsible, at its expense, for converting this program to a Probody T-cell engaging bispecific product, and thereafter, will be responsible for development, manufacturing, and commercialization of the product ("CytomX Product"). Amgen is eligible to receive up to $203.0 million in development, regulatory, and commercial milestone payments for the CytomX Product, and tiered mid-single digit to low double-digit percentage royalties.

The Company considered the criteria for combining contracts in ASC 606 and determined that the Amgen Agreement and the Purchase Agreement should be combined into one contract. The Company accounted for the Amgen Agreement based on the fair values of the assets and services exchanged. The Company identified the following performance obligations at the inception of the Amgen Agreement: (1) the research, development and commercialization license, (2) the research and development services for the EGFR Products and the Amgen Other Product, and (3) the obligation to participate in the joint steering committee ("JSC") and the joint research committee ("JRC"). The Company determined that research, development and commercialization license and the participation in the JSC and JRC are not distinct from the research and development services and therefore those performance obligations were combined into one combined performance obligation. The Amgen Other Products are accounted for as a separate performance obligation from the EGFR Products as the nature of the services being performed is not the same and the value that Amgen can derive from one program is not dependent on the success of the other.

Concurrent with the execution of the Amgen Agreement, the Company entered into a sublicense agreement whereby the Company granted Amgen a sublicense of its rights to one patent family that it co-owns with the Regents of the University of California, acting through its Santa Barbara campus ("UCSB"), that is exclusively licensed to the Company under the UCSB Agreement covering Probody antibodies and other pro-proteins in the fields of therapeutics, in vivo diagnostics and prophylactics. This sublicense was incremental to the patents, patent applications and know-how covering T-cell engaging bispecific Probody molecules that were developed and owned by the Company and licensed to Amgen. Under the UCSB Agreement, the Company is obligated to make a royalty payment to UCSB equal to 15% of certain sublicense revenue payments owed to or received by the Company. The Company determined that the calculation of the sublicense fee is not specifically addressed in the sublicense agreement when the

Company simultaneously licenses the UCSB technology along with the technology the Company has developed internally. As of December 31, 2017, the Company recorded a liability of $2.1 million, which represents the Company's best estimate of the amount to be remitted to UCSB. As of September 30, 2018, the Company determined that the estimated liability of $2.1 million was still appropriate.

The total transaction price of $51.2 million, consisting of the $40.0 million upfront payment, an estimated fair value of $10.7 million for the CytomX Product and $0.5 million of premium on the sale of the Company's common stock, was allocated between two performance obligations based on the relative standalone selling price of each performance obligation. To determine the standalone selling price, the Company used the discounted cash flow method by calculating risk-adjusted net present values of estimated cash flows. The Company determined that the remaining potential milestone payments were probable of significant revenue reversal as their achievement was highly dependent on factors outside the Company's control. As a result, these payments were fully constrained and were not included in the transaction price as of September 30, 2018. The Company recognizes the transaction price of $45.8 million allocated to the EGFR Products performance obligation using a cost-based input measure. In applying the cost-based input method of revenue recognition, the Company uses actual costs incurred relative to budgeted costs expected to be incurred for the combined performance obligation. These costs consist primarily of internal FTE effort and third-party contract costs. Revenue is recognized based on actual costs incurred as a percentage of total budgeted costs as the Company completes its performance obligation over the six-year service period. As the Amgen Other Product performance obligation represents an obligation to continuously make the Probody therapeutic technology platform available to Amgen, the initial transaction price of $4.7 million allocated to this performance obligation is recognized over the common measure of progress for the entire performance obligation over the estimated research service period of six years.

CYTOMX THERAPEUTICS, INC.

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

The Company recognized revenue of $1.5 million and $4.4 million for the three and nine months ended September 30, 2018, respectively, related to the Amgen Agreement. There were no amounts recognized during the three and nine months ended September 30, 2017. As of September 30, 2018 and December 31, 2017, deferred revenue related to the EGFR Products performance obligation was $41.0 million and $45.3 million, respectively. As of September 30, 2018 and December 31, 2017, deferred revenue related to the Amgen Other Products performance obligation was $4.0 million and $4.6 million, respectively. As of September 30, 2018, no amount was due from Amgen under the Amgen Agreement.

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 therapeutic 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 had additional rights to substitute up to two collaboration targets within three years of the effective date of the BMS Agreement. These rights expired in May 2017. 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 the Company was initially entitled to receive 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-single digits to low double-digit percentages from potential future sales. The Company also receives research and development service fees based on a prescribed FTE rate that is capped.

The Company identified the following performance obligations at the inception of the BMS Agreement: (1) the exclusive research, development and commercialization license, (2) the research and development services and (3) the obligation to participate in the joint research committee. The Company determined that the license, the Company’s research services and expertise related to the development of the product candidates should be combined with the research services and participation in the joint research committee as one combined performance obligation. The Company concluded that, at the inception of the agreement, BMS’ options for the third and fourth targets were not

material rights and not performance obligations. As such, each option was accounted for as a separate arrangement upon exercise. Additionally, the Company considered whether the services performed for each target should be considered separate performance obligations and concluded that all targets should be accounted for as one combined performance obligation.

The Company received an upfront payment of $50.0 million from BMS in July 2014. In January and December 2016, BMS selected the third and fourth targets, respectively, and paid the Company $10.0 million and $15.0 million, respectively, pursuant to the terms of the BMS Agreement. In December 2016, BMS selected a clinical candidate pursuant to the BMS Agreement, which triggered a $2.0 million pre-clinical milestone payment to the Company. In November 2017, the Company recognized a $10.0 million milestone payment from BMS upon approval of the investigational new drug application for the CTLA-4-directed Probody therapeutic.

On March 17, 2017, the Company and BMS entered into Amendment Number 1 to Extend Collaboration and License Agreement (the “Amendment”). The Amendment grants BMS exclusive worldwide rights to develop and commercialize Probody therapeutics for up to six additional oncology targets and two non-oncology targets. The effective date of the Amendment was April 25, 2017 (“Amendment Effective Date”).

Under the terms of the Amendment, the Company continues to collaborate with BMS to discover and conduct preclinical development of Probody therapeutics against targets selected by BMS under the terms of the Amendment.

CYTOMX THERAPEUTICS, INC.

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

Pursuant to the Amendment, the financial consideration from BMS is comprised of an upfront payment of $200.0 million and the Company is eligible to receive up to an aggregate of $3,586.0 million as follows: (i) up to $116.0 million in development milestone payments per target or up to $928.0 million if the maximum of eight targets are selected for the first product modality; (ii) up to $124.0 million in milestone payments for the first commercial sale in various territories for up to three indications per target program or up to $992.0 million if the maximum of eight targets are selected for the first product modality; (iii) up to $60.0 million in sales milestone payments per target or up to $480.0 million if maximum of eight targets are selected for the first product modality; and (iv) up to $56.3 million in development milestone payments or up to $450.0 million if the maximum of eight targets are selected for the second product modality; (v) up to $62.0 million in milestone payments for the first commercial sale in various territories for up to three indications per target program or up to $496.0 million if the maximum of eight targets are selected for the second product modality; (vi) up to $30.0 million in sales milestone payments per target or up to $240.0 million if maximum of eight targets are selected for the second product modality. The Company is also entitled to tiered mid-single to low double-digit percentage royalties from potential future sales. The Amendment does not change the term of the BMS's royalty obligation under the BMS Agreement. BMS's royalty obligation continues on a licensed-product by licensed-product basis until the later of (i) the expiration of the last claim of the licensed patents covering the licensed products in the country, (ii) the twelfth anniversary of the first commercial sale of a licensed product in a country, or (iii) the expiration of any applicable regulatory, pediatric, orphan drug or data exclusivity with respect to such product.

The initial transaction price is $272.8 million consisting of the upfront fees of $250.0 million, research and development service fees of $10.8 million and milestone payments received to date of $12.0 million. The Company determined that the remaining potential milestone payments were probable of significant revenue reversal as their achievement was highly dependent on factors outside the Company's control. Therefore, these payments were fully constrained and were not included in the transaction price as of September 30, 2018. The BMS Agreement represents an obligation to continuously make the Probody therapeutic technology platform available to BMS. Therefore, the initial transaction price is recognized over the estimated research service period, which ends on April 25, 2023.

The Company recognized revenue of $8.2 million during each of the three months ended September 30, 2018 and 2017, respectively, and $24.6 million and $18.4 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and December 31, 2017, deferred revenue related to the BMS Agreement was $213.8 million and $235.0 million, respectively. The amount due from BMS under the BMS Agreement was $56,000 and $10.1 million as of September 30, 2018 and December 31, 2017, respectively.

ImmunoGen, Inc.

In January 2014, the Company and ImmunoGen, Inc. ("ImmunoGen") entered into the Research Collaboration Agreement (the "ImmunoGen Research Agreement"). The ImmunoGen Research Agreement provided the Company with the right to use ImmunoGen's Antibody Drug Conjugate ("ADC") technology in combination with the Company's Probody therapeutic technology to create a 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 therapeutic technology to create PDCs directed at two targets under the ImmunoGen Research Agreement and to subsequently obtain exclusive, worldwide development and commercialization licenses to develop and commercialize such PDCs. In February 2016, the Company exercised its option to obtain a development and commercialization license for CX-2009 pursuant to the terms of the ImmunoGen Research Agreement (the "CX-2009 License"). In February 2017, ImmunoGen exercised its first option to obtain a development and commercialization license for one of the two targets. Substitution rights for this program terminated in February 2017 and ImmunoGen discontinued the program in July 2017. The Company recognized the remaining deferred revenue related to the discontinued program upon the termination of the program. ImmunoGen exercised its second option to obtain a development and commercialization license pursuant to the ImmunoGen Research Agreement (the "ImmunoGen 2017 License") for a target in December 2017 and continues research work on this program.

Under the terms of the ImmunoGen Research Agreement, both the Company and ImmunoGen performed research activities on behalf of the other party for no monetary consideration through January 2018 and the arrangement was extended to June 2018, as discussed below. 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.

CYTOMX THERAPEUTICS, INC.

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

In consideration for the ImmunoGen 2017 License, the Company is entitled to receive up to $30.0 million in development and regulatory milestone payments, up to $50.0 million in sales milestone payments and royalties in the mid-single digits on the commercial sales of any resulting product. For the CX-2009 License, the Company is obligated to pay ImmunoGen up to $60.0 million in development and regulatory milestone payments and 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. In August 2017, the Company made a milestone payment of $1.0 million to ImmunoGen for the first patient dosing with CX-2009. No milestone payments have been accrued to the Company under the ImmunoGen 2017 License.

The Company accounted for the ImmunoGen Research Agreement based on the fair value of the assets and services exchanged. The Company identified the following performance obligations at the inception of the ImmunoGen Research 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, the research services, and the technology improvements are not distinct from the development and commercialization license and therefore those performance obligations were combined into one combined performance obligation. The Company considered factors such the limited economic benefits to ImmunoGen if the development and commercialization license was 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 at the inception of the ImmunoGen Research Agreement. In December 2017, the Company entered into the ImmunoGen 2017 License and extended the Company’s obligation to provide research services under the ImmunoGen Research Agreement to June 30, 2018. The fair value of the consideration for the combined performance obligation was recognized as revenue over the research period that ended on June 30, 2018. As of June 30, 2018, neither company has further research obligations under the ImmunoGen Research Agreement.

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 allocated to the research services, joint research committee participation and technology improvements, which was expensed over the period of services provided.

The Company recognized revenue of $0 and $83,000 for the three months ended September 30, 2018 and 2017, respectively and $1.5 million and $6.6 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and December 31, 2017, deferred revenue relating to the ImmunoGen Research Agreement was $0 and $0.7 million, respectively. As of both September 30, 2018 and December 31, 2017, no amount was due from ImmunoGen under the ImmunoGen Research Agreement.

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 had 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 continued 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 expenses related to this agreement were not material to the financial statements for the three and nine months ended September 30, 2018 and 2017. The Company decided not to exercise the option to extend the agreement and allowed it to expire on November 1, 2018.

CYTOMX THERAPEUTICS, INC.

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

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 PDCs for research project targets nominated by Pfizer. Pfizer nominated two research targets in 2013 and, pursuant to the Pfizer Agreement, had the option of nominating two additional research targets. In December 2014, Pfizer selected an additional research target and paid the Company $1.5 million. The option to select a fourth target lapsed in May 2016. Pfizer discontinued the epidermal growth factor receptor ("EGFR") program and decided to terminate the remaining two targets in February and March 2018. In March 2018, Pfizer terminated the Pfizer Agreement. As such, the Company had no further performance obligations under this agreement following the termination of the Pfizer Agreement and recognized the remaining deferred revenue of $1.1 million during the three months ended March 31, 2018.

Pursuant to the Pfizer Agreement, the Company received an upfront payment of $6.0 million and research and development service fees based on a prescribed FTE rate per year that is capped. The Company identified the following performance obligations at the inception of the Pfizer Agreement: (1) the research license, (2) the research services and (3) the obligation to participate in the joint research committee. The Company determined that the research license was not distinct from the research services and participation in the joint research committee due to the 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 combined performance obligation. 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 did not represent a material right and were not performance obligations.

As the combined performance obligation represented an obligation to continuously make the Probody therapeutic technology platform available to Pfizer, the initial transaction price was recognized over the common measure of progress for the entire performance obligation over the estimated research service period of five and a half years.

The Company recognized revenue of $0 and $0.5 million for the three months ended September 30, 2018 and 2017, respectively, and $1.4 million both the nine months ended September 30, 2018 and 2017. As of September 30, 2018 and December 31, 2017, deferred revenue relating to the Pfizer Agreement was $0 and $1.6 million, respectively. The amount due from Pfizer under the Pfizer Agreement was $0 and $13,000 as of September 30, 2018 and December 31, 2017, respectively.

Contract Liabilities

The following table presents changes in the Company's total contract assets and liabilities during the nine months ended September 30, 2018 (in thousands):

		Additions		Deductions		
	Balance at 12/31/2017	ASC 606 Adoption Adjustment	Adjustment to Transaction Price from Performance Obligation Satisfied	Revenue Recognized from an Adjustment to Transaction Price During the Period	Revenue Recognized from Amounts Included in Contract Liability at the Beginning of the Period	Balance at 9/30/2018
Contract liabilities:						
Deferred revenue	$ 305,263	$ 10,912	$ 21,000	$ (10,799)	$ (37,014)	$ 289,362

Additions of $31.9 million consists of the ASC 606 adoption adjustment of $10.9 million and $21.0 million earned (net of the payment of an associated sublicense fee of $4.0 million to SGEN) resulting from the achievement of the IND milestone under the CD71 Agreement. The $21.0 million milestone payment is included in the transaction price and is being recognized over the research period of the CD71 Agreement. Of the $21.0 million, $10.8 million was recognized as revenue during the nine months ended September 30, 2018 based on the estimated percentage completed to-date of the CD71 project. Deductions also includes $37.0 million of revenue recognized during the nine months ended September 30, 2018 that was included in the contract liability balance at the beginning of the period.

CYTOMX THERAPEUTICS, INC.

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

The Company estimates that the $289.4 million of deferred revenue related to the following contracts as of September 30, 2018 will be recognized as revenue as set forth below. However, the timing of revenue recognition could differ from the estimates depending on facts and circumstances impacting the various contracts, including progress of research and development, resources assigned to the contracts by the Company or its collaboration partners or other factors outside of the Company's control.

- The $25.4 million of deferred revenue related to the CD71 Agreement as of September 30, 2018 is expected to be recognized based on actual FTE effort and program progress until approximately April 2021.
- The $5.2 million of deferred revenue related to the Discovery Agreement as of September 30, 2018 is expected to be recognized ratably until approximately April 2021.
- The $41.0 million of deferred revenue related to the Amgen EGFR Products as of September 30, 2018 is expected to be recognized based on actual FTE effort and program progress until approximately September 2023.
- The $4.0 million of deferred revenue related to the Amgen Other Products as of September 30, 2018 is expected to be recognized ratably until approximately September 2023.
- The $213.8 million of deferred revenue related to the BMS Agreement as of September 30, 2018 is expected to be recognized ratably until approximately April 2025.

6. License Agreement

The Company has an exclusive, worldwide license agreement (the "UCSB Agreement") with UCSB, relating to the use of certain patents and technology relating to its core technology, including its therapeutic antibodies, and to certain patent rights the Company co-owns with UCSB covering Probody antibodies and other pro-proteins.

Pursuant to the UCSB Agreement, the Company is obligated to (i) make royalty payments to UCSB on net sales of its products covered under the agreement, subject to annual minimum amounts, (ii) make milestone payments to UCSB upon the occurrence of certain events, (iii) make a milestone payment to UCSB upon occurrence of an IPO or change of control, and (iv) reimburse UCSB for prosecution and maintenance of the licensed patents. If the Company sublicenses its rights under the UCSB Agreement, it is obligated to pay UCSB a percentage of the total sublicense revenue received, which total amount would be first reduced by the aggregate amount of certain research and development related expenses incurred by the Company and other permitted deductions.

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

The Company incurred expenses of $0.1 million and $1.7 million for the three months ended September 30, 2018 and 2017, respectively, and $0.6 million and $12.0 million for the nine months ended September 30, 2018 and 2017,

respectively, to UCSB under the provisions of the UCSB Agreement.

Royalty obligations

The Company has annual minimum royalty obligations of $150,000 under the terms of certain exclusive licensed patent rights. The royalty obligations are cancellable any time by giving notice to the licensor, with the termination being effective 60 days after giving notice.

CYTOMX THERAPEUTICS, INC.

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

7. Stock-Based Compensation

Stock Options

Activities under the Company's stock option plans for the nine months ended September 30, 2018 were as follows:

	Options Outstanding	
	Number of Options	Weighted-Average Exercise Price Per Share
Balances at December 31, 2017	6,503,458	$ 8.157
Options granted	1,921,900	25.760
Options exercised	(631,539)	6.253
Option forfeited/expired	(111,764)	17.248
Balances at September 30, 2018	7,682,055	$ 12.586
Options exercisable at September 30, 2018	4,183,476	$ 7.262

Stock-based Compensation

Total stock-based compensation recorded related to options granted to employees and non-employees and employee stock purchase plan was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock-based compensation expense:				
Research and development	$2,131	$1,267	$5,989	$3,813
General and administrative	2,282	1,514	6,273	4,724
Total stock-based compensation expense	$4,413	$2,781	$12,262	$8,537

8. Net Loss Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Options to purchase common stock	7,292,701	6,713,038	7,434,862	6,976,470
Total	7,292,701	6,713,038	7,434,862	6,976,470

9. Income Tax Expense

The Company recorded a provision for income taxes of $2.5 million and $5.4 million during the three and nine months ended September 30, 2018, respectively. The income tax expense was generated as a result of a timing difference in the recognition of revenue between tax and U.S. GAAP purposes, primarily related to the upfront payment received from the BMS Agreement and the Amgen Agreement in 2017. This timing difference will be recognized as revenue for tax purposes in 2018, which will generate taxable income and therefore, tax expense. The Company’s effective tax rate was (12.0)% and 0.2% for the three months ended September 30, 2018 and 2017, respectively, and (11.5)% and 0.0% for the nine months ended September 30, 2018 and 2017, respectively. Income tax expense for the three and nine months ended September 30, 2018 was accrued based on the newly-enacted statutory federal tax rate of 21%, which was effective for tax years starting on January 1, 2018. As of September 30, 2018, the Company maintained a full valuation allowance against its net deferred tax assets due to its history of losses.

CYTOMX THERAPEUTICS, INC.

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

On December 22, 2017, the Tax Act of 2017 was signed into law making significant changes to the Internal Revenue Code. The Tax Act contains significant changes to corporate income tax, including among other things, a reduction to the corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%. Since further guidance, interpretations and rulings are expected in the 12 months following enactment, the Company has made certain provisional estimates, as permitted by SAB 118 and continues to analyze the impact of the Tax Act. As of September 30, 2018, the Company had not completed its accounting for all of the effects of the Tax Act due to pending guidance, interpretations and rulings to be issued. The Company did not make any adjustments during the three and nine months ended September 30, 2018 to its tax amounts recorded during the year ended December 31, 2017. As the Company collects and prepares the necessary data and obtains further guidance or interpretation of the Tax Act, it may make adjustments to the provisional amounts that it has recorded that may materially impact the provision for income taxes in the period in which the adjustments are made. The Company will complete its accounting analysis when the interpretations, guidance and rulings are finalized by the various tax and standard-setting bodies, which is expected by the end of December 2018.

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 financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto for the year ended December 31, 2017, included in our Annual Report on Forms 10-K and 10-K/A, as filed with the U.S. Securities and Exchange Commission ("SEC") on March 7, 2018 and March 14, 2018, respectively.

Overview

CytomX Therapeutics is a clinical-stage oncology-focused biopharmaceutical company pioneering a novel class of investigational antibody therapeutics based on its Probody™ therapeutic technology platform. Probody therapeutics are designed to exploit unique conditions of the tumor microenvironment to more effectively localize antibody binding and activity while limiting activity in healthy tissues. The Company's pipeline includes cancer immunotherapies against clinically-validated targets, including a PD-L1-targeting Probody therapeutic wholly owned by CytomX (CX-072), a PD-1-targeting Probody therapeutic wholly owned by CytomX (CX-188) and a CTLA-4-targeting Probody therapeutic partnered with Bristol Myers Squibb (BMS-986249). The pipeline also includes first-in-class Probody drug conjugates against highly attractive targets including a CD166-targeting Probody drug conjugate wholly owned by CytomX (CX-2009), and a CD71-targeting Probody drug conjugate partnered with AbbVie (CX-2029), which are among cancer targets that have been considered to be inaccessible to conventional antibody drug conjugates due to their presence on many healthy tissues. CytomX and its partners have four programs in the clinic. In addition to its wholly owned programs, CytomX has strategic collaborations with AbbVie Ireland Unlimited Company ("AbbVie"), Amgen Inc. ("Amgen"), Bristol-Myers Squibb Company ("BMS"), ImmunoGen, Inc ("Immunogen"), and others. Our two lead wholly owned programs, CX-072, a PD-L1-targeting Probody therapeutic and CX-2009, a CD166-targeting Probody drug conjugate, are both currently being evaluated in Phase 1/2 clinical trials known as PROCLAIM (Probody Clinical Assessment in Man) ("PROCLAIM"), an international umbrella clinical trial program that provides clinical trial sites with access to our novel therapies under one central protocol.

We announced initial clinical data regarding CX-072 from our PROCLAIM-CX-072 clinical trial on June 4, 2018 at the 2018 Annual Meeting of the American Society of Clinical Oncology in Chicago, Illinois and on October 22, 2018 at the 2018 Annual Meeting of the European Society of Medical Oncology in Munich, Germany. We expect to disclose initial clinical data regarding CX-2009 from our PROCLAIM-CX-2009 clinical trial in the first half of 2019. In October 2018, we filed an IND for CX-188, our wholly owned PD-1-targeting Probody therapeutic.

The two most advanced collaboration programs are a Probody therapeutic directed against CTLA-4, partnered with BMS, and CX-2029, a CD71 directed Probody Drug Conjugate partnered with AbbVie. BMS is currently evaluating the CTLA-4-directed Probody therapeutic, BMS-986249, in a Phase 1/2 clinical trial that it initiated in January 2018. In the second quarter of 2018, we commenced enrollment of our Phase 1/2 clinical trial for CX-2029, our partnered program with AbbVie. We have also extended our Probody platform to the T-cell engaging bispecific modality. Our most advanced program in that modality is an Epidermal Growth Factor Receptor-CD3 ("EGFR-CD3") T-cell bispecific, which is currently in lead optimization stage, and which we are developing in partnership with Amgen.

We currently have three product candidates enrolling patients in clinical trials that we are conducting and one product candidate enrolling patients in clinical trials which our partner, BMS, is conducting, but we do not have any product candidates 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 was $23.4 million and $52.4 million for the three and nine months ended September 30, 2018, respectively. As of September 30, 2018, we had an accumulated deficit of $282.7 million. We expect to continue to incur significant losses for the foreseeable future.

Regulatory agencies, including the U.S. 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 will need to commit significant time, resources, and funding to develop our wholly owned and partnered product candidates in clinical trials, including CX-072, CX-2009 and CX-2029 as well as any additional product candidates for which we initiate clinical trials in 2018 and beyond. 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, of regulatory uncertainty, manufacturing limitations and 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 in the near term. 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.

Critical Accounting Policies and Estimates

The preparation of our Condensed Financial Statements requires us to make estimates and judgments that affect the reported amounts in the financial statements and related disclosures. On an ongoing basis, management evaluates its significant accounting policies and estimates. We base our estimates on historical experience and on various market-specific and other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates. Estimates are assessed each period and updated to reflect current information. A summary of our critical accounting policies and estimates is presented in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017. Other than the adoption of ASC 606, there have been no material changes to our critical accounting policies and estimates during the nine months ended September 30, 2018.

Revenue Recognition

On January 1, 2018, we adopted Auditing Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (ASC 606) using the cumulative effect transition method.

We recognize revenue when our customer obtains control of the promised goods or services, in an amount that reflects the consideration which we have received or expect to receive in exchange for those goods or services.

Our revenues are primarily derived through our license, research, development and commercialization agreements. The terms of these types of agreements may include (i) licenses for our technology or programs, (ii) research and development services, and (iii) services or obligations in connection with participation in research or steering committees. Payments to us under these arrangements typically include one or more of the following: nonrefundable upfront and license fees, research funding, milestone and other contingent payments to us 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 certain agreements, the collaboration partner is solely responsible for meeting the defined collaboration objectives that trigger the contingent payment.

We assess whether the promises in these arrangements are considered distinct performance obligations that should be accounted for separately. Judgment is required to determine whether the license to our Probody therapeutic technology platform is distinct from the research and development services or participation on development committees.

The transaction price in each arrangement is allocated to the identified performance obligations based on the standalone selling price (“SSP”) of each distinct performance obligation. Judgment is required to determine SSP. In instances where SSP is not directly observable, such as when a license or service is not sold separately, SSP is determined using information that may include market conditions and other observable inputs. Due to the early stage of our licensed technology, the license of such technology is typically combined with the research and development services and committee participation as one performance obligation. In these cases, we utilize judgment to assess the

nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. We evaluate the measure of progress each reporting period and, if necessary, adjust the measure of performance and related revenue recognition.

Our 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. At the inception of each agreement that includes such milestone payments, we evaluate whether the milestones are considered probable of being reached and estimate the amount to be included in the transaction price by using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within our control or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation based on a relative SSP basis. At the end of each subsequent reporting period, we re-evaluate the probability or achievement of each such milestone and any related constraint, and if necessary, adjusts its estimate of the overall transaction price.

Components of Results of Operations

Revenue

Our revenue to date has been primarily derived from non-refundable license payments, milestone payments and reimbursements for research and development expenses under our research, collaboration, and license agreements. We recognize revenue from upfront payments over the term of our estimated period of performance under the agreement using a cost-based input method or a common measure of progress for the entire performance obligation. In addition to receiving upfront payments, we may also be entitled to milestone and other contingent payments upon achieving predefined objectives. Revenue from milestones and other contingent payments, when it is probable that there will not be a significant revenue reversal, is also recognized over the performance period based on a similar method. Reimbursements from BMS and Pfizer 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 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 collaboration agreements with AbbVie, Amgen, BMS, ImmunoGen and any other 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, clinical development including activities with third parties, such as clinical research organizations (“CROs”) and contract manufacturing organizations (“CMOs”), manufacture drug products used in clinical trials, 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 incurred.

We expect our research and development expenses to increase substantially in absolute dollars in the future as we advance our product candidates through clinical trials, initiate additional clinical trials, and pursue regulatory approval of our product candidates. For example, we commenced enrollment of our Phase 1/2 clinical trial of CX-072, our candidate directed against PD-L1, for cancer and treated our first patient in January 2017, and our Phase 1/2 clinical trial of CX-2009, our PDC candidate directed against CD-166, for cancer in June 2017. In June 2018, we commenced enrollment of our Phase 1/2 clinical trial for CX-2029, our CD71 Probody Drug Conjugate being developed in collaboration with AbbVie. Furthermore, we filed an IND for CX-188, our wholly owned PD-1-targeting Probody therapeutic, in October 2018; however, the clearance of such IND with the FDA and the initiation of clinical enrollment for CX-188 is subject to the satisfaction of certain conditions. 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 the Sarbanes-Oxley Act of 2002 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 to operate as a 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, and accretion of discounts or amortization of premiums on our short-term investments.

Other Income (Expense), net

Other income (expense), net consists primarily of gains and losses from changes in currency exchange rates.

Results of Operations

For the Three and Nine Months Ended September 30, 2018 and 2017.

Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
	(in thousands)			(in thousands)		
Total revenue	$12,509	$24,144	$(11,635)	$48,031	$44,550	$3,481

Revenue decreased by $11.6 million during the three months ended September 30, 2018 and increased by $3.5 million during the nine months ended September 30, 2018, compared to the corresponding periods in 2017. The following table summarizes our revenue by collaboration partner during the respective periods:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
	(in thousands)					
AbbVie	$2,827	$15,376	$(12,549)	$16,261	$18,133	$(1,872)
Amgen	1,520	—	1,520	4,372	—	4,372
BMS	8,162	8,203	(41)	24,572	18,369	6,203
ImmunoGen	—	83	(83)	1,471	6,620	(5,149)
Pfizer	—	482	(482)	1,355	1,428	(73)
Total Revenue	$12,509	$24,144	$(11,635)	$48,031	$44,550	$3,481

The variances in revenue for the three and nine months ended September 30, 2018 compared to the comparable periods in 2017 were partially due to the adoption of Accounting Standards Codification 606, Revenue from Contracts with Customers (“ASC 606”). The total revenue for the three and nine months ended September 30, 2018 would have been $10.9 million and $55.9 million, respectively, under Accounting Standards Codification 605, Revenue Recognition (“ASC 605”). The difference between the amount of revenue recognized under ASC 606 and the amount that would have been recognized under ASC 605 for the nine months ended September 30, 2018 was primarily a result of the difference in how revenue is recognized related to the $21.0 million (net of the payment of an associated sublicense fee of $4.0 million to SGEN under the Seattle Genetics Agreement) CD71 milestone payment. Under ASC 606, the milestone payment is included in the transaction price and recognized based on the total estimated percentage completed to-date. Under ASC 605, the entire $21.0 million (net of the payment of an associated sublicense fee of $4.0 million to SGEN) would have been recognized in income upon satisfaction of the performance criteria.

The decrease in revenue from AbbVie of $12.5 million for the three months ended September 30, 2018 compared to the corresponding period in 2017 was primarily due to the recognition during the third quarter of 2017, in full in accordance with ASC 605, of $14.0 million (net of the payment of an associated sublicense fee of $1.0 million to SGEN) in revenue as a result of meeting certain milestones to begin GLP toxicology studies under the CD71 Agreement, offset by an increase of $1.5 million in revenue resulting from the change in the method of revenue recognition for the CD71 Agreement from straight-line under ASC 605 to percentage-of-completion under ASC 606, which we adopted on January 1, 2018.

The decrease in revenue from AbbVie of $1.9 million for the nine months ended September 30, 2018 compared to the corresponding period in 2017 was primarily due to the recognition during the third quarter of 2017 of $14.0 million (net of the payment of an associated license fee of $1.0 million to SGEN) in revenue as a result of meeting certain milestones required to be met to begin GLP toxicology studies under the CD71 Agreement, which amount was partially offset by the recognition of $10.8 million of revenue recorded to-date (reflecting the percentage completed to-date on the project) of the $21.0 million milestone earned (net of the payment of an associated sublicense fee of $4.0 million to SGEN) and added to the transaction price in May 2018 for the achievement of the IND filing success criteria under the CD71 Agreement; and an increase of $1.3 million in revenue resulting from the change in the method of revenue recognition for the CD71 Agreement from straight-line under ASC 605 to percentage-of-completion under ASC 606, which we adopted on January 1, 2018.

Revenue from Amgen increased by $1.5 million and $4.4 million for the three and nine months ended September 30, 2018, respectively. We entered into our Collaboration and License Agreement with Amgen in September 2017 (the "Amgen Agreement"). As such, no revenue was recognized during the three and nine months ended September 30, 2017.

The increase in revenue from BMS of $6.2 million for the nine months ended September 30, 2018 compared to the corresponding period in 2017 was primarily due to an increase of $7.9 million in amortization of deferred revenue related to the $200.0 million of upfront payment we received as a result of the BMS Amendment, which amount was partially offset by a decrease of $1.4 million in amortization of deferred revenue resulting from an increase in the estimated length of the research terms during late April 2017, which caused monthly amortization subsequent to April 2017 to be less than amounts reported in previous periods and a decrease in service revenue of $0.3 million for the nine months ended September 30, 2018 compared to the corresponding period in 2017.

The decrease in revenue from ImmunoGen of $5.1 million for the nine months ended September 30, 2018 compared to the corresponding period in 2017 was the result of the recognition of $6.5 million in revenue related to the delivery of a Development and Commercialization License to ImmunoGen in connection with the Immunogen Research Agreement during the nine months ended September 30, 2017, which amount was partially offset by an increase of $1.4 million in revenue during the nine months ended September 30, 2018 resulting from the extension of the research term under the ImmunoGen Research Agreement to June 2018.

The decrease in revenue from Pfizer of $0.5 million for the three months ended September 30, 2018 compared to the corresponding period in 2017 was a result of the termination of our Research Collaboration, Option and License Agreement with Pfizer in March 2018.

Operating Costs and Expenses

Research and Development Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
	(in thousands)			(in thousands)		
Research and development expenses	$27,549	$28,920	$(1,371)	$75,560	$71,573	$3,987

Research and development expenses decreased by $1.4 million during the three months ended September 30, 2018 compared to the corresponding period in 2017. The decrease was attributable to the recognition during the third quarter of 2017 of $10.7 million of non-cash research and development expense related to the estimated fair value of the CytomX Product under the Amgen agreement and $1.2 million of sublicense fee payable to UCSB as a result of

the Amgen Agreement. The decrease was partially offset by an increase of $3.2 million in personnel-related expenses and allocation of information technology and facilities-related expenses resulting from an increase in headcount, an increase of $2.7 million in lab contracts and services primarily related to CX-2009 Phase1/2 clinical development, an increase in clinical trial expenses of $4.0 million primarily related to CX-072, CX-2009 and CX-2029, and an increase in lab supplies of $0.6 million.

Research and development expenses increased by $4.0 million during the nine months ended September 30, 2018 compared to the corresponding period in 2017. The increase was attributable to an increase of $17.0 million in lab contracts and services and clinical trial expenses related to CX-072, CX-2009 and CX-2029 Phase 1/2 clinical development and to the ramp up for IND filing and clinical trial preparation for CX-188, an increase of $8.5 million in personnel-related expenses and allocation of information technology and facilities-related expenses resulting from an increase in headcount, an increase of $1.1 million in consulting expenses and an increase of $0.6 million in lab supplies. These increases were partially offset by a $10.0 million sublicense fee payment made to UCSB in 2017, which was triggered by the $200 million upfront payment made by BMS in connection with our expanded collaboration, a $1.0 million sublicense payment to ImmunoGen upon the commencement of enrollment of Phase 1/2 and first patient dosing in the clinical trial for CX-2009 during the second quarter of 2017, and $10.7 million of non-cash research and development expense recognized in 2017 related to the estimated fair value of the CytomX Product under the Amgen agreement and a $1.2 million sublicense fee payable to UCSB recognized as a result of the Amgen agreement in 2017.

The following table summarizes our research and development expenses by program incurred during the respective periods presented:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
External costs incurred by product candidate (target):	(in thousands)			(in thousands)		
CX-072 (PD-L1)	$4,351	$2,118	$2,233	$13,747	$6,721	$7,026
CX-2009 (CD166)	5,068	846	4,222	12,113	6,338	5,775
CX-2029 (CD71)	3,996	3,509	487	8,756	7,031	1,725
CX-188 (PD-1)	1,402	1,628	(226)	4,809	2,603	2,206
Other wholly owned and partnered programs	1,002	12,870	(11,868)	2,714	14,861	(12,147)
General research and development expenses	2,665	2,084	581	7,646	16,262	(8,616)
	18,484	23,055	(4,571)	49,785	53,816	(4,031)
Internal Costs	9,065	5,865	3,200	25,775	17,757	8,018
Total research and development expenses	$27,549	$28,920	$(1,371)	$75,560	$71,573	$3,987

The decreases in “other wholly owned and partnered programs” for both the three and nine months ended September 30, 2018 compared to the corresponding periods in 2017 were primarily due to the $10.7 million of research and development expense recognized during the three months ended September 30, 2017 related to the estimated fair value of the CytomX Product under the Amgen agreement. The decrease in “general research and development expenses” for the nine months ended September 30, 2018 compared to the corresponding period in 2017 was primarily due to a payment of $10.0 million in sublicense fee to UCSB under the UCSB Agreement. Increases in other categories of external costs for the three and nine months ended September 30, 2018 were due primarily to increases in lab contracts and services and clinical trial expenses related to CX-072, CX-2009 and CX-2029 Phase 1/2 clinical development and to the ramp up for IND filing and clinical trial preparation for CX-188. Increases in internal costs for the three and nine months ended September 30, 2018 were primarily due to increases in personnel-related expenses and allocation of information technology and facilities-related expenses resulting from an increase in headcount.

General and Administrative Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
	(in thousands)			(in thousands)		
General and administrative expenses	$8,137	$6,249	$1,888	$24,535	$17,989	$6,546

General and administrative expenses increased by $1.9 million during the three months ended September 30, 2018 compared to the corresponding period in 2017. The increase was attributable to an increase of $2.1 million in personnel-related expenses due to an increase in headcount, partially offset by a decrease of $0.3 million in legal fees.

General and administrative expenses increased by $6.5 million during the nine months ended September 30, 2018 compared to the corresponding period in 2017. The increase was attributable to an increase of $4.7 million in personnel-related expenses due to an increase in headcount, and an increase of $1.6 million in consulting expenses related to strategic planning, tax compliance, legal compliance and facilities.

Interest Income and Other Income (Expense), net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
	(in thousands)			(in thousands)		
Interest income	$2,219	$806	$1,413	$5,134	$1,400	$3,734
Other income (expense), net	29	(47)	76	(50)	(101)	51
Total interest and other income	$2,248	$759	$1,489	$5,084	$1,299	$3,785

Interest Income

Interest income increased by $1.4 million during the three months ended September 30, 2018 compared to the corresponding period in 2017. The increase was primarily attributable to an increase in interest income earned on our short-term investments and an increase in our overall cash and cash equivalents position resulting from the common stock offering completed in July 2018.

Interest income increased by $3.7 million during the nine months ended September 30, 2018 compared to the corresponding period in 2017. The increase was primarily attributable to an increase in interest income earned on our short-term investments and an increase in our overall cash and cash equivalents position resulting from the common stock offering completed in July 2018.

Other Income (Expense), Net

Other income (expense), net remain relatively flat for the three and nine months ended September 30, 2018 compared to the corresponding period in 2017.

Provision For Income Taxes

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
	(in thousands)			(in thousands)		
Provision for income taxes	$2,502	$(19)	$2,521	$5,391	$ 7	$5,384

Provision for income taxes increased by $2.5 million during the three months ended September 30, 2018 compared to the corresponding period in 2017. The income tax expense was generated as a result of a timing difference in the recognition of revenue under tax and U.S. GAAP requirements, primarily related to the upfront payments received pursuant to the BMS Amendment entered into in March 2017 and the Amgen Agreement entered into in September 2017. This timing difference will be recognized as revenue for tax purposes in 2018, which will generate taxable income and therefore, tax expense.

Provision for income taxes increased by $5.4 million during the nine months ended September 30, 2018 compared to the corresponding period in 2017. The income tax expense was generated as a result of a timing difference in the recognition of revenue under tax and U.S. GAAP requirements, primarily related to the upfront payments received pursuant to the BMS Amendment entered into in March 2017 and the Amgen Agreement entered into in September 2017. This timing difference will be recognized as revenue for tax purposes in 2018, which will generate taxable income and therefore, tax expense.

Liquidity and Capital Expenditures

Sources of Liquidity

As of September 30, 2018, we had cash, cash equivalents and short-term investments of $464.6 million and an accumulated deficit of $282.7 million, compared to cash and cash equivalents of $374.1 million and an accumulated deficit of $219.5 million as of December 31, 2017. To date, we have financed our operations primarily through sales of our common stock in conjunction with the IPO and a subsequent stock offering, sales of our convertible preferred securities prior to our IPO and payments received under our collaboration agreements. In July 2018, we issued 5,867,347 shares of our common stock at a price of $24.50 per share, which included 765,306 shares issued pursuant to the underwriters' exercise of their option to purchase additional shares of common stock, for net proceeds of $134.6 million.

Based upon our current operating plan, we expect our existing capital resources will be sufficient to fund operations for at least the next 12 months. However, if the anticipated operating results are not achieved in future periods, our planned expenditures may need to be reduced in order to extend the time period over which the then-available resources would be able to fund the operations. The amounts and timing of our actual expenditures depend on numerous factors, including the progress of our preclinical and clinical development efforts, the results of any clinical trials and other studies, our operating costs and expenditures and other factors described under the caption "Risk Factors" in this Quarterly Report on Form 10-Q. The cost and timing of developing our products, including CX-072, CX-2009, CX-2029 and CX-188 are highly uncertain, are subject to substantial risks and many changes. As such, we may alter our expenditures as a result of contingencies such as the failure of one or all of our product candidates currently in clinical development, the acceleration of one or all of our product candidates in clinical development, the initiating of clinical trials for additional product candidates, the identification of a more promising product candidate in our research efforts or unexpected operating costs and expenditures. We will need to raise additional funds in the future. There can be no assurance, however, that such efforts will be successful or that, in the event that they are successful, the terms and conditions of such financing will be favorable to us.

Cash Flows

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

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Net cash (used in) provided by operating activities	$(46,779)	$148,371
Net cash (used in) provided by investing activities	(9,916)	28,492
Net cash provided by financing activities	138,900	2,717
Net increase in cash and cash equivalents	$82,205	$179,580

Cash Flows from Operating Activities

During the nine months ended September 30, 2018, cash used in operating activities was $46.8 million, which consisted of a net loss of $52.4 million, adjusted by non-cash charges of $12.5 million and a net decrease of $6.9 million in our operating assets and liabilities. The non-cash charges primarily consisted of $12.3 million in stock-based compensation and $1.4 million in depreciation and amortization, partially offset by $1.1 million in accretion of discounts on our short-term investments. The change in our operating assets and liabilities was primarily attributable to a net decrease in deferred revenue of $26.8 million resulting from the recognition of $47.8 million in upfront fees and milestone payments under ASC 606 pursuant to our collaboration agreements, offset by the $21.0 million (net of the payment of an associated sublicense fee of $4.0 million to SGEN) of adjustment to deferred revenue resulting from the AbbVie CD71 milestone payment earned and a decrease of $3.5 million in prepaid expenses and other current assets. These decreases were partially offset by an increase in cash flows from accounts receivable of $10.1 million resulting primarily from the $10.0 million we received from BMS for the IND filing of BMS-986249, an increase of $10.6 million in accrued liabilities, income tax payable and other long-term liabilities resulting primarily from a $5.0 million increase in income tax payable, a $2.9 million in accrued liabilities driven by increases in lab services and UCSB sublicense fee accrual and a $2.0 million in accrued CRO expenses relating to clinical trial activities; and an increase in accounts payable of $2.8 million.

During the nine months ended September 30, 2017, cash provided by operating activities was $148.4 million, which consisted of a net loss of $43.7 million, adjusted by non-cash charges of $20.9 million and a net increase of $171.2 million in our operating assets and liabilities. The non-cash charges primarily consisted of $8.5 million in stock-based compensation, $10.7 million in non-cash acquisition of in-process research and development expense, $1.2 million in depreciation and amortization and $0.4 million in amortization premiums on our short-term investments. The change in our operating assets and liabilities was primarily attributable to an increase of $169.6 million in deferred revenue, which was primarily due to a $200.0 million upfront payment from BMS in connection with the BMS Amendment entered into in March 2017, partially offset by the recognition of upfront fees of $23.9 million under certain of our collaboration agreements and $6.5 million in recognized revenue from our delivery of a Development and Commercialization License to ImmunoGen in connection with our collaboration agreement; an increase in accrued liabilities of $4.1 million due primarily to the accrual of the $1.2 million of sublicense fee payable to UCSB, $2.2 million increase in clinical expense accrual, and a $1.2 million increase in long-term accrued liabilities resulting from deferred rent recorded on the new headquarter office; and an increase of $2.1 million in accounts receivable. These

increases were partially offset by an increase of $1.0 million in prepaid expenses and other current assets, and a decrease of $3.5 million in accounts payable.

Cash Flows from Investing Activities

During the nine months ended September 30, 2018, cash used in investing activities was $9.9 million, which consisted of $161.7 million used in purchases of short-term investments and $2.7 million of capital expenditures used to purchase property and equipment. Such decreases were offset by $154.5 million in proceeds received upon the maturity of marketable securities.

During the nine months ended September 30, 2017, cash provided by investing activities was $28.5 million, which consisted of $84.0 million in proceeds received upon the maturity of marketable securities. Such increase was offset by $54.2 million used in the purchase of short-term investments and $1.3 million of capital expenditures used to purchase property and equipment.

Cash Flows from Financing Activities

During the nine months ended September 30, 2018, cash provided by financing activities primarily consisted of proceeds from our common stock public offering of $134.6 million (net of underwriting discounts and stock issuance costs of $9.2 million) and proceeds from the exercise of stock options and employee stock purchases under the employee stock purchase plan of $4.3 million.

During the nine months ended September 30, 2017, cash provided by financing activities consisted of proceeds from the exercise of stock options and employee stock purchases under the employee stock purchase plan.

Contractual Obligations

There were no material changes in contractual obligations from the amounts disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017. Refer to our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 7, 2018 and amended on March 14, 2018.

Segment Information

We have one primary business activity and operate as one reportable segment.

Off-Balance Sheet Arrangements

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

JOBS Act Accounting Election

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. We also rely on other exemptions provided by the JOBS Act, including without limitation, providing an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act. Based on our public float at June 30, 2018, we will cease to be an emerging growth company at December 31, 2018 and, accordingly, we will be required to comply with the auditor attestation requirements of Section 404 to include an opinion from our independent registered public accounting firm on the effectiveness of our internal controls over financial reporting for our 2018 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily relate to interest rate risks. We had cash, cash equivalents and short-term investments of $464.6 million as of September 30, 2018 and cash, cash equivalents and short-term investments of $374.1 million as of December 31, 2017, which consists of bank deposits, money market funds and U.S. government bonds. Such interest-bearing instruments carry a degree of interest rate risk; however, historical fluctuations of interest income have not been significant. Our market risks have not changed materially from those disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate exposure. We have not historically been exposed to material risks due to changes in interest rates. Based on our investment positions as of September 30, 2018, a hypothetical 100 basis point change in interest rates would not have material effect in the fair value of the portfolio. Any changes would only be

realized if we sold the investments prior to maturity.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the “Exchange Act”) refers to controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018, the end of the period covered by this Quarterly Report on Form 10-Q. Management's assessment of internal control over financial reporting was conducted using the criteria defined in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of such date.

Changes in Internal Controls Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to claims and assessments from time to time in the ordinary course of business but are not aware of any such matters, individually or in the aggregate, that will have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

You should consider carefully the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including our financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." If any of the following risks are realized, our business, financial condition, results of operations and prospects could be materially and adversely affected. The risks described below are not the only risks facing the Company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, results of operations and/or prospects.

Risks Related to Our Business

We are a clinical-stage biopharmaceutical company with a limited operating history and have not generated any revenue from product sales. We have a history of losses, expect to continue to incur significant losses for the foreseeable future and may never achieve or maintain profitability, which could result in a decline in the market value of our common stock.

We are a clinical-stage biopharmaceutical company with a limited operating history, developing a novel class of therapeutic antibody product candidates, based on our proprietary biologic Probody technology platform. Since our inception, we have devoted our resources to the development of Probody therapeutics. We have had significant operating losses since our inception. As of September 30, 2018 and December 31, 2017, we had an accumulated deficit of $282.7 million and $219.5 million, respectively. Substantially all of our losses have resulted from expenses incurred in connection with our research and development programs and from general and administrative costs associated with our operations.

Though we have developed our Probody platform, our technologies and product candidates are in early stages of development, and we are subject to the risks of failure inherent in the development of product candidates based on novel technologies. We have not yet demonstrated our ability to successfully complete any clinical trials, including large-scale, pivotal clinical trials, obtain regulatory approvals, arrange for a third party to manufacture a commercial scale product candidate, or conduct sales and marketing activities necessary for successful commercialization. Typically, it takes many years to develop one product candidate from the time it enters initial preclinical studies to when it is available for treating patients. Consequently, any predictions made about our future success or viability may not be as accurate as they could be if we had a longer operating history. We will need to transition from a company with a research and development focus to a company capable of supporting commercial activities. We may not be successful in such a transition.

Furthermore, we have never generated any revenue from product sales, and have not obtained regulatory approval for any of our product candidates. We also do not expect to generate any revenue from product sales for the foreseeable future, and we expect to continue to incur significant operating losses for the foreseeable future due to the cost of

research and development, preclinical studies and clinical trials and the regulatory approval process for our product candidates. We expect our net losses to increase substantially as we continue clinical development of our lead programs and advance additional programs into clinical development. In particular, we expect our losses to increase substantially as we continue to enroll patients in our ongoing Phase 1/2 clinical trials of CX-072, our candidate directed against PD-L1, CX-2009, our PDC candidate directed against CD-166, CX-2029, and our PDC candidate directed against CD71 in collaboration with AbbVie Inc., as we prepare for and begin clinical trials for CX-188, our wholly owned PD-1-targeting Probody therapeutic and as we advance into later trials and new trials for other programs. However, the amount of our future losses is uncertain. Our ability to achieve profitability, if ever, will depend on, among other things, our, or our collaborators, successfully developing product candidates, obtaining regulatory approvals to market and commercialize product candidates, manufacturing any approved products on commercially reasonable terms, establishing a sales and marketing organization or suitable third-party alternatives for any approved product and raising sufficient funds to finance business activities. If we, or our collaborators, are unable to develop our technologies and commercialize one or more of our product candidates or if sales revenue from any product candidate that receives approval is insufficient, we will not achieve profitability, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

The development of biopharmaceutical product candidates is capital-intensive. To date we have used substantial funds to develop our technology and product candidates and will require significant funds to conduct our ongoing clinical trials as well as to further our research and development, preclinical testing and future clinical trials of additional product candidates, to seek regulatory approvals for our product candidates and to manufacture and market any products that are approved for commercial sale. In addition, we have incurred and will continue to incur additional costs associated with operating as a public company.

As of September 30, 2018, we had $464.6 million in cash, cash equivalents and short-term investments. We believe that our existing capital resources will be sufficient to fund our planned operations for at least the next 12 months. Our future capital requirements and the period for which we expect our existing resources to support our operations may vary significantly from what we expect. Our monthly spending levels vary based on our ongoing clinical trials, new and ongoing research and development and other corporate activities. For example, we expect our monthly spending to increase substantially as we continue to enroll patients in our ongoing Phase 1/2 clinical trials of CX-072, CX-2009, and CX-2029, as we prepare for and begin clinical trials for CX-188 and as we advance into later trials and new trials for other programs. Because the length of time and activities associated with conducting our clinical trials and successfully researching and developing our product candidates is highly uncertain, we are unable to estimate the actual funds we will require for development and, once any product candidate is approved, any subsequent marketing and commercialization activities.

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

- the scope, timing and progress of our ongoing clinical trials as well as any other preclinical and clinical development activities;
- the number, size and type of clinical trials and preclinical studies that we may be required to complete for our product candidates, as well as the cost and time of such studies and trials;
- the number, scope and prioritization of preclinical and clinical programs we decide to pursue;
- the time and cost necessary to produce clinical supplies of our product candidates;
- the time and cost necessary to scale our manufacturing capabilities following regulatory approval and commercial launch of any product candidates.
- the progress of the development efforts of parties with whom we have entered or may in the future enter into collaborations and research and development agreements;
- the timing and amount of payments we may receive or are obligated to pay under our collaboration agreements and license agreements;
- our ability to maintain our current licenses and research and development programs and to establish new collaboration arrangements;
- the costs involved in prosecuting and enforcing patent and other intellectual property claims;
- the cost and timing of regulatory approvals; and
- our efforts to enhance operational systems and hire additional personnel, including personnel to support development and commercialization of our product candidates and satisfy our obligations as a public company.

If we are unable to obtain funding on a timely basis or on acceptable terms, we may have to delay, reduce or terminate our research and development programs and preclinical studies or clinical trials, limit strategic opportunities or undergo reductions in our workforce or other corporate restructuring activities. We also could be required to seek funds through arrangements with collaborators or others that may require us to relinquish rights to some of our technologies or product candidates that we would otherwise pursue on our own. We do not expect to realize revenue from sales of products or royalties from licensed products in the foreseeable future, if at all, and unless and until our product candidates are clinically tested, approved for commercialization and successfully marketed. To date, we have financed our operations primarily through sales of our common stock, sale of our convertible preferred securities prior to our IPO and payments received under our collaboration agreements, including, most recently, the Collaboration and License Agreement that we entered into with Amgen in September 2017. We will be required to seek additional funding in the future and currently intend to do so through additional collaborations, public or private equity offerings or debt financings, credit or loan facilities or a combination of one or more of these funding sources. Our ability to raise additional funds will depend on financial,

economic and other factors, many of which are beyond our control. Additional funds may not be available to us on acceptable terms or at all. If we raise additional funds by issuing equity securities, our stockholders will suffer dilution and the terms of any financing may adversely affect the rights of our stockholders. In addition, as a condition to providing additional funds to us, future investors may demand, and may be granted, rights superior to those of existing stockholders. Debt financing, if available, is likely to involve restrictive covenants limiting our flexibility in conducting future business activities, and, in the event of insolvency, debt holders would be repaid before holders of our equity securities received any distribution of our corporate assets.

Clinical development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

As is the case with all oncology drugs, our product candidates in clinical development or preclinical development have a high risk of failure. We commenced enrollment of our Phase 1/2 clinical trial of CX-072, our candidate directed against PD-L1, for cancer and treated our first patient in January 2017. We also initiated our Phase 1/2 clinical trial of CX-2009, our PDC candidate directed against CD-166, for cancer in June 2017 and our Phase 1/2 clinical trial of CX-2029, our PDC candidate directed against CD71 in collaboration with AbbVie, for cancer and treated our first patient in June 2018. In addition, Bristol-Myers Squibb Company (“BMS”) commenced enrollment of a Phase 1/2 clinical trial for BMS-986249, a Probody therapeutic directed against CTLA-4, in 2018. It is impossible to predict when or if any of our or our partner’s product candidates will prove effective and safe in humans or will receive regulatory approval. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we or our partners must complete extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Commencement of clinical trials for programs beyond CX-072, CX-2009, CX-2029 and BMS-986249 is subject to finalizing the trial design and filing an IND or similar filing with the FDA or similar foreign regulatory authority. We recently filed an IND application for CX-188, our wholly owned PD-1-targeting Probody therapeutic; however, the clearance of such IND and the initiation of clinical enrollment is subject to the satisfaction of certain conditions. In addition, even if we file our IND or comparable submissions in other jurisdictions for these or other product candidates, the FDA or other regulatory authorities could disagree that we have satisfied their requirements to commence our clinical trials or disagree with our study design, which may require us to complete additional preclinical studies or amend our protocols or impose stricter conditions on the commencement of clinical trials and may delay our ability to begin Phase 1 clinical trials, causing an increase in the amount of time and expense required to develop our product candidates. As a result of the foregoing, the research and development, preclinical studies and clinical testing of any product candidate is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the development process.

Further, we or our collaborators may also experience delays in completing ongoing clinical trials, completing preclinical studies or initiating further clinical trials of our product candidates. We do not know whether our or our collaborators’ ongoing clinical trials or preclinical studies will be completed on schedule or at all, or whether planned clinical trials or preclinical studies will begin on time, need to be redesigned, enroll patients on time or be completed on schedule, if at all. We or our collaborators may have insufficient internal resources to complete ongoing clinical trials or initiate clinical trials for our other product candidates. The development programs for our product candidates may be delayed for a variety of reasons, including delays related to:

- recruiting suitable patients to participate in a clinical trial;
- developing and validating any companion diagnostic to be used in a clinical trial;
- the FDA or other regulatory authorities requiring us to submit additional data or imposing other requirements before permitting us to initiate a clinical trial;

- obtaining regulatory clearance to commence a clinical trial;
- reaching agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and clinical trial sites;
- obtaining institutional review board ("IRB") approval at each clinical trial site;
- having patients complete a clinical trial or return for post-treatment follow-up;
- clinical trial sites deviating from trial protocol or dropping out of a trial;
- adding new clinical trial sites;
- manufacturing our product candidates in sufficient quality and quantity for use in clinical trials; or
- collaborators electing to not pursue development and commercialization of our product candidates.

In addition, the results of preclinical studies and early clinical trials of our product candidates may not be predictive of the results of later-stage clinical trials. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through preclinical studies and initial clinical trials. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or safety profiles, notwithstanding promising results in earlier trials.

Our product candidates are in early stages of development and may fail or suffer delays that materially and adversely affect their commercial viability. If we are unable to advance our product candidates through clinical development, obtain regulatory approval and ultimately commercialize such product candidates, or experience significant delays in doing so, our business will be materially harmed.

We are very early in our development efforts, with only three product candidates, CX-072, CX-2009 and CX-2029, currently in early stage clinical development. In addition, BMS is currently evaluating BMS-986249, a CTLA-4-directed Probody therapeutic in a Phase 1/2 clinical trial that it initiated in January 2018. We filed an IND on CX-188 in October 2018, but have not initiated patient enrollment in the clinical trial yet. We have no products on the market and our ability to achieve and sustain profitability depends on obtaining regulatory approvals for and successfully commercializing our product candidates, either alone or with third parties. Before obtaining regulatory approval for the commercial distribution of our product candidates, we or our collaborator must conduct extensive preclinical tests and clinical trials to demonstrate sufficient safety and efficacy of our product candidates in patients.

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

- negative or inconclusive results from our clinical trials, the clinical trials of our collaborators or the clinical trials of others for product candidates similar to ours, leading to a decision or requirement to conduct additional preclinical testing or clinical trials or abandon a program;
- product-related side effects experienced by participants in our clinical trials, the clinical trials of our collaborators or by individuals using drugs or therapeutic biologics similar to our product candidates;
- delays in submitting INDs or comparable foreign applications or delays or failure in obtaining the necessary approvals from regulators to commence a clinical trial, or a suspension or termination of a clinical trial once commenced;
- conditions imposed by the United States Food and Drug Administration (“FDA”) or comparable foreign authorities regarding the scope or design of our clinical trials;
- delays in enrolling research subjects in clinical trials;
- high drop-out rates of research subjects;
- inadequate supply or quality of product candidate components or materials or other supplies necessary for the conduct of our clinical trials or the clinical trials of our collaborators;
- greater than anticipated clinical trial costs;
- delay in the development or approval of companion diagnostic tests for our product candidates;
- unfavorable FDA or other regulatory agency inspection and review of a clinical trial site;
- failure of our third-party contractors or investigators to comply with regulatory requirements or otherwise meet their contractual obligations in a timely manner, or at all;
- delays and changes in regulatory requirements, policy and guidelines, including the imposition of additional regulatory oversight around clinical testing generally or with respect to our technology in particular; or

- varying interpretations of data by the FDA and similar foreign regulatory agencies.

We could find that the therapeutics we or our collaborators pursue are not safe or efficacious or that the safety. Further, a clinical trial may be suspended or terminated by us, our collaborators, the IRBs of the institutions in which such trials are being conducted, the Data Safety Monitoring Board for such trial or by the FDA or other regulatory authorities due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug or therapeutic biologic, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. Furthermore, we expect to rely on our collaborators, contract research organizations ("CROs") and clinical trial sites to ensure proper and timely conduct of our clinical trials and while we expect to enter into agreements governing their committed activities, we have limited influence over their actual performance.

If we or our collaborators experience delays in the completion of, or termination of, any clinical trial of our product candidates, the commercial prospects of our product candidates will be harmed, and our ability to generate product revenues or receive royalties from any of these product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product development and approval process and jeopardize our ability to commence product sales and generate revenues. Furthermore, if one or more of our product candidates or our Probody therapeutic technology generally prove to be ineffective, unsafe or commercially unviable, the development of our entire platform and pipeline could be delayed, potentially permanently. Any of these occurrences may materially and adversely affect our business, financial condition, results of operations and prospects. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates.

Our product candidates may cause undesirable side effects that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following marketing approval, if any.

Undesirable side effects caused by our product candidates could cause us, our collaborators or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or other regulatory authorities. As is the case with all oncology drugs, there may be immediate or late side effects associated with the use of our product candidates (e.g. CX-072, CX-2009, CX-2029 and CX-188). For example, we announced clinical data regarding CX-072 from our PROCLAIM-CX-072 clinical trial on June 4, 2018 at the 2018 Annual Meeting of the American Society of Clinical Oncology in Chicago, Illinois. While CX-072 has generally been well tolerated to date, there can be no guaranty that unexpected adverse events will not occur later in this trial or in other trials involving our product candidates or the product candidates of our collaborators. The data described at ASCO show that the administration of monotherapy CX-072 was well tolerated with the majority of treatment-related adverse events ("TRAEs") as Grade 1/2. However, Grade 3/4 TRAEs were reported in two patients (neutropenia and thrombocytopenia in a patient with thymic cancer (3 mg/kg) and transaminase elevation in a patient with breast cancer (30 mg/kg)) but both events were successfully managed with therapeutic intervention including steroids and discontinuation of CX-072. In addition, the results showed that the administration of CX-072 in combination with ipilimumab was well tolerated with the majority of TRAEs as Grade 1/2. Of the 16 treated patients, five (31%) reported a Grade 3/4 TRAE, a rate similar to that reported previously for 3 mg/kg ipilimumab monotherapy. These events included: Grade 3 colitis (n=1), Grade 3 dyspnea/pneumonitis (n=1), Grade 3 headache/Grade 3 hyponatremia (n=1), and Grade 3 amylase/Grade 4 lipase (n=1). A Grade 3 TRAE in one patient was designated as non-treatment related post data cutoff. A dose limiting toxicity of Grade 3 dyspnea was reported in one patient. On October 22, 2018, we presented follow-up data at the 2018 Annual Meeting of the European Society of Medical Oncology in Munich, Germany. In this presentation, we also disclosed initial data on immune related adverse events (irAE) and infusion related reactions (IRR). Of the 46 patients treated, 3 (7%) developed Grade 3/4 irAEs and 2 (4%) developed Grade 3/4 IRRs. Of the 20 patients treated in the combination with ipilimumab, 2 (10%) developed Grade 3/4 irAEs and 0 (0%) developed Grade 3/4 IRRs.

The results of our future clinical trials or the clinical trials of our collaborators could reveal a high and unacceptable severity of adverse side effects and it is possible that patients enrolled in such clinical trials could respond in unexpected ways. For instance, our Phase 1/2 clinical trial of CX-072 is being conducted in patients with advanced cancers, including metastatic or locally advanced unresectable solid tumors or lymphomas, who have failed other approved therapies for their disease, and as such, it may be difficult to establish safety and efficacy in this type of patient population. In addition, certain arms of our clinical trial of CX-072 enroll patients with tumor types that are not

known to be responsive to PD-L1 agents and therefore may be less likely to show effectiveness. Because certain PD-1 and PD-L1 agents are already approved for the treatment of some tumor types, we cannot test CX-072 on those tumor types and will not be able to obtain clinical information about how CX-072 acts in these tumors. Comparing safety and efficacy of CX-072 against other PD-L1 or PD-1 antibodies (either in development or in the market) may be difficult since our Phase 1/2 study is enrolling a different patient population than other studies. Furthermore, a portion of our Phase 1/2 clinical trial of CX-072 includes the administration of CX-072 in combination with Yervoy (ipilimumab) or Zelboraf (vemurafenib), which could exacerbate immune system related adverse events, cause increased toxicity or otherwise lead to unexpected adverse events. The Phase 1/2 clinical trial of BMS-986249 being conducted by BMS includes the administration of the product candidate at relatively high dosage levels, which could further exacerbate such risks. In our Phase 1/2 clinical trials of CX-2009 and CX-2029, we are targeting CD-166 and CD71, respectively, targets that are broadly expressed on normal tissue, which could create unacceptable toxicity or fail to result in anti-tumor activity. For instance, CD71, which is a metabolic protein with high levels of expression in healthy tissues, and the consequences of targeting such protein in humans are unknown. Any future clinical trials of our product candidates could face similar or heightened risks depending on the modality.

In the event that our clinical trials or the clinical trials of our collaborators reveal these or other adverse side effects, our trials or the clinical trials of our collaborators could be suspended or terminated and the FDA or comparable foreign regulatory authorities could impose a clinical hold, order us to cease further development of or deny approval of our product candidates for any or all targeted indications. Such side effects could also affect patient recruitment or the ability of enrolled patients to complete the trial or result in potential product liability claims. In addition, any of these occurrences with respect to one of our product candidates could negatively affect our or any collaborator's ability to enroll patients and seek regulatory approval for other product candidates that we have developed using our Probody platform, which could also result in a collaborator terminating any program utilizing our Probody platform and the termination of such collaborative relationship. Any of these occurrences may materially and adversely affect our

business, financial condition, results of operations and prospects. Further, clinical trials by their nature utilize a sample of the potential patient population. With a limited number of patients and limited duration of exposure, rare and severe side effects of our product candidates may only be uncovered with a significantly larger number of patients exposed to the product candidate.

In the event that any of our product candidates receives regulatory approval and we, our collaborators or others identify undesirable side effects caused by such product or any other Probody therapeutics, any of the following adverse events could occur, which could result in the loss of significant revenue to us and materially and adversely affect our results of operations and business:

- regulatory authorities may withdraw their approval of the product or seize the product;
- we or our collaborators may be required to recall the product or change the way the product is administered to patients;
- additional restrictions may be imposed on the marketing of the particular product or the manufacturing processes for the product or any component thereof;
- we may be subject to fines, injunctions or the imposition of civil or criminal penalties;
- regulatory authorities may require the addition of labeling statements, such as a “black box” warning or a contraindication;
- we may be required to create a Medication Guide outlining the risks of such side effects for distribution to patients;
- we could be sued and held liable for harm caused to patients;
- the product may become less competitive; and
- our reputation may suffer.

In addition, adverse side effects caused by any drugs utilizing the same or similar anti-bodies of our product candidates, or that are similar in nature to our product candidates could delay or prevent regulatory approval of our product candidates, limit the commercial profile of an approved label for our product candidates, or result in significant negative consequences following marketing approval.

We believe that any of these events could prevent us from achieving or maintaining market acceptance of our product candidates and could substantially increase the costs of commercializing our product candidates, if approved, and significantly impact our ability to successfully commercialize our product candidates and generate revenues.

If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside the United States. Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors, including:

- the size and nature of the target patient population;

- the eligibility criteria for the clinical trial;
- the design of the clinical trial;
- the availability of an appropriate genomic screening test;
- the perceived risks and benefits of the product candidate under study;
- the efforts to facilitate timely enrollment in clinical trials;
- the patient referral practices of physicians;
- the ability to monitor patients adequately during and after treatment; and
- the proximity and availability of clinical trial sites for prospective patients.

In addition, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the product candidate being studied in relation to other available therapies, including any new drugs or therapeutic biologics that may be approved for the indications we are investigating, could affect our ability to enroll a sufficient number of eligible patients in our clinical trials. For example, in our Phase 1/2 clinical trial of CX-072, which is directed against PD-L1, we are only permitted to enroll patients with cancer types for which there are no PD inhibitors available for sale. As there are currently several PD-1 and/or PD-L1 agents approved for a growing list of cancer types along with hundreds of clinical trials exploring the use of PD-1 and PD-L1 agents, there can be no assurance that patients will choose to enroll in our clinical trial. In addition, any arms of our Phase 1/2 clinical trial of CX-072 for indications with small population sizes could be particularly difficult to enroll. Enrollment of the CX-188 clinical trial will have similar enrollment considerations. Furthermore, the part of our Phase 1/2 clinical trial of CX-072 in which patients are treated with the combination of CX-072 and vemurafenib can only enroll those patients who do not have access to MEK inhibitors because the emerging standard of care in jurisdictions where MEK inhibitors are available in combination with a BRAF inhibitor (such as vemurafenib), which may have an impact on enrollment in this part of the trial. Our Phase 1/2 clinical trial of CX-2009 studies patients who have one of seven specific tumor types rather than patients suffering from any cancer, which may limit the rate of enrollment of the trial. As with the clinical trials of CX-072, our Phase 1/2 clinical trials of CX-2009 and CX-2029 are also competing with hundreds of clinical trials with alternative anti-cancer drugs in a similar class (e.g. antibody drug conjugates), and certain arms of the clinical trial may be difficult to enroll due to the emerging standard of care for such indications in certain jurisdictions, including the United States. Any clinical trials of our product candidates initiated by our collaborators, including BMS' ongoing Phase 1/2 clinical trial, face similar and additional risks relating to enrollment. We or our collaborators could also encounter delays in the development of any of our product candidates if prescribing physicians encounter unresolved ethical issues associated with enrolling patients in clinical trials of our product candidates in lieu of prescribing existing treatments that have established safety and efficacy profiles. Any delays relating to patient enrollment could cause significant delays in the timing of our clinical trials or the clinical trials of our collaborators, which may materially and adversely affect our business, financial condition, results of operations and prospects.

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

We plan to continue to develop a pipeline of product candidates using our proprietary Probody platform. We believe that product candidates (including cancer immunotherapies, PDCs and bispecific antibodies) identified with our product discovery platform may offer an improved therapeutic approach by taking advantage of unique conditions in the tumor microenvironment, thereby reducing the dose-limiting toxic effects associated with traditional antibody products, which can also attack healthy tissue. However, the scientific research that forms the basis of our efforts to develop product candidates based on our Probody platform is ongoing, including the research resulting from our ongoing Phase 1/2 clinical trials for CX-072, CX-2009 and CX-2029.

We may ultimately discover that our Probody platform and any product candidates resulting from it do not possess certain properties required for therapeutic effectiveness or protection from toxicity. For example, when Probodies are administered to human subjects, protease levels in the tumor may not be sufficient and the peptide mask may not be cleaved, which would limit the potential efficacy of the antibody and reduce the potential to limit the toxicity of the anti-cancer agent. In addition, if the peptide mask is inappropriately released, for example, due to an inflammatory disease, it may result in unforeseen events when administered in humans. Binding of the peptide mask to the antigen binding domain of the Probody may not be constant, which could lead to intermittent periods when the antigen binding domain or antibody portion is unmasked. Furthermore, Probody product candidates may not remain stable in the human body for the period of time required for the drug to reach and to bind to the target tissue. In addition,

product candidates based on our Probody platform may demonstrate different chemical and pharmacological properties in patients than they do in laboratory studies. Although our Probody platform and certain product candidates have demonstrated successful results in animal studies, they may not demonstrate the same chemical and pharmacological properties in humans and may interact with human biological systems in unforeseen, ineffective or harmful ways. Our understanding of the molecular pharmacology of Probodies, that is, the precise manner and sequence in which they are activated and behave in vivo, is incomplete. Probodies are complex biological molecules and we are evaluating the performance of this new technology in cancer patients for the first time. Many specific elements of Probody therapeutic function may contribute their overall safety and efficacy profile including, but not limited to, the removal of only one mask from the dually masked antibody, the removal of both masks from the dually masked antibody, the binding strength of masks for the underlying antibody, and the binding strength of the underlying antibody for its target. We have no direct structural evidence for how masks interact with antibodies. It may take many years before we develop a full understanding of Probody pharmacology, and we may never know precisely how they function in vivo. As with any new biologic or product developed on a novel platform, we have a limited understanding of the immunogenicity profile of Probody therapeutics. As a result, our Probody product candidates may trigger immune responses that inhibit the ability of the antibody to reach the target tissue, cause adverse side effects in humans or cause hypersensitivity reactions. Problems that are specific to our Probody platform may have an unfavorable impact on all of our product candidates. As a result, we may never succeed in developing a marketable product and we may never become profitable, which would cause the value of our common stock to decline.

In addition, the scientific evidence to support the feasibility of developing product candidates against novel, difficult to drug targets, is both preliminary and limited. For example, our understanding of the expression of CD166 in both healthy and diseased tissues is still developing. As a result, we cannot provide any assurance that we will be able to successfully identify and advance any product candidates to target novel, difficult to drug targets.

We believe the only clinical experience that the FDA and foreign regulatory authorities have with Probody-based therapeutics in oncology comes from CX-072, CX-2009, CX-2029 and BMS-986249. We believe that the FDA and foreign regulatory authorities, have no clinical experience in other disease areas, and such limited experience may increase the complexity, uncertainty and length of the regulatory approval process for our product candidates and may keep us from commencing first-in-human trials in certain countries. As there is limited historical precedent for the regulatory clearance of Probody-based therapeutics in oncology, there is a higher degree of risk that the FDA or other regulatory authorities could disagree that we or our collaborators have satisfied their requirements to commence clinical trials for products or disagree with our study designs, which may require us to complete additional preclinical studies or amend our protocols or impose stricter conditions on the commencement of clinical trials. In addition, local clinical practice in other countries may affect whether we or our collaborators are able to initiate a clinical trial there. As a result, we and our collaborators may never receive approval to market and commercialize any product candidate. Even if we or our collaborators obtain regulatory approval, the approval may be for targets, disease indications or patient populations that are not as broad as we or they intended or desired or may require labeling that includes significant use or distribution restrictions or safety warnings. We or our collaborators may be required to perform additional or unanticipated clinical trials to obtain approval or be subject to post-marketing testing requirements to maintain regulatory approval. If one or more of our product candidates or our Probody technology generally prove to be ineffective, unsafe or commercially unviable, our entire platform and pipeline would have little, if any, value, which would have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

Even if regulatory approval is obtained for a product candidate, we may not generate or sustain revenue from sales of the product due to factors such as whether the product can be sold at a competitive cost and whether it will otherwise be accepted in the market. The product candidates that we are developing are based on our Probody platform, which is a new technology and therapeutic approach. Market participants with significant influence over acceptance of new treatments, such as physicians and third-party payors, may not adopt a product or treatment based on our Probody platform and technologies, and we may not be able to convince the medical community and third-party payors to accept and use, or to provide favorable reimbursement for, any product candidates developed by us or our collaborators. This may be particularly true for any of our product candidates (including CX-072, CX-188, and BMS-986249) for which there are existing approved therapies, such as approved agents targeting PD-L1, PD-1, or CTLA-4. Market acceptance of our product candidates will depend on, among other factors:

- the timing of our receipt of any marketing and commercialization approvals;
- the terms of any approvals and the countries in which approvals are obtained;
- the safety and efficacy of our product candidates, including those being developed by our collaborators;
- the prevalence and severity of any adverse side effects associated with our product candidates;
- limitations or warnings contained in any labeling approved by the FDA or other regulatory authority;
- the availability of effective companion diagnostics;
- relative convenience and ease of administration of our product candidates;
- the willingness of patients to accept any new methods of administration;

- the success of our physician education programs;
- the availability of adequate government and third-party payor reimbursement;
- the pricing of our products, particularly as compared to alternative treatments; and
- the availability of alternative effective treatments for the disease indications our product candidates are intended to treat and the relative risks, benefits and costs of those treatments.

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

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

Since 2013, we have entered into collaborations with AbbVie, Amgen, BMS, ImmunoGen and Pfizer to develop certain Probody therapeutics. We may in the future seek third-party collaborators for development and commercialization of other therapeutic technologies or product candidates. Biopharmaceutical companies are our prior and likely future collaborators for any marketing, distribution, development, licensing or broader collaboration arrangements. With respect to our existing collaboration agreements, and what we expect will be the case with any future collaboration agreements, we have and would expect to have limited control over whether such collaborations pursue the development of our product candidates or the amount and timing of resources that such collaborators dedicate to the development or commercialization of our product candidates. For instance, in March 2018, Pfizer terminated the collaboration agreement we had entered into with them in May 2013. Such collaboration agreement had entitled Pfizer to nominate up to four research targets and since 2013, we had collaborated with Pfizer on three of such targets. However, no program was ever advanced beyond the lead optimization stage pursuant to the agreement, and Pfizer had previously elected not to select a fourth target and had decided to discontinue its epidermal growth factor receptor Probody Drug Conjugate. In July 2017, ImmunoGen discontinued the preclinical evaluation of one of its two programs being developed under our collaboration. As a result, there can be no assurances that any of the programs covered by our existing or future collaborations will be developed further. Further, our ability to generate revenues from our existing and future arrangements will depend on our collaborators' abilities to successfully perform the functions assigned to them in these arrangements. Additionally, some of our collaborations may require us to share in certain development and commercialization expenses. If we cannot afford to share such expenses when required, our rights under such collaborations may be adversely affected, including potentially that our collaborator may terminate the relevant agreement.

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

- collaborators have significant discretion in determining the amount and timing of efforts and resources that they will apply to these collaborations, including, with respect to BMS, BMS-986249;
- collaborators may not pursue development and commercialization of our product candidates or may elect not to continue or renew development or commercialization programs based on preclinical or clinical trial results, changes in the collaborators' strategic focus or available funding or resources, or external factors such as an acquisition that diverts resources or creates competing priorities;
- collaborators have significant discretion in designing any clinical trials they operate pursuant to our collaboration agreements, including BMS' ongoing Phase 1/2 clinical trial of BMS-986249, and may release data from such clinical trials, including with respect to our Probody therapeutics, without consulting us;
    - collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing and are not necessarily required to give us information about their clinical data;
- collaborators may independently develop, or develop with third parties, products that compete directly or indirectly with our product candidate if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;
- collaborators with marketing and distribution rights to one or more products may not commit sufficient resources to the marketing and distribution of such product or products;
- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or

proprietary information or expose us to litigation or potential liability;

- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- disputes may arise between the collaborators and us that result in the delay or termination of the research, development or commercialization of our product candidate or that result in costly litigation or arbitration that diverts management attention and resources; and
- collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development or commercialization of the applicable product candidates.

As a result of the foregoing, our current and any future collaboration agreements may not lead to development or commercialization of our product candidates in the most efficient manner or at all and may not result in the realization of the benefits we expected to achieve upon our entry into such agreements. Any failure to successfully develop or commercialize our product candidates pursuant to our current or any future collaboration agreements could have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

Substantially all of our revenue to date has been derived from our existing collaboration agreements, including, most recently, the Amgen Agreement that we entered into with Amgen in September 2017, and a significant portion of our future revenue and cash resources is expected to be derived from these agreements or other similar agreements we may enter into in the future. Revenue from research and development collaborations depend upon continuation of the collaborations, reimbursement of development costs, the achievement of milestones and royalties, if any, derived from future products developed from our research. If we are unable to successfully advance the development of our product candidates or achieve milestones, revenue and cash resources from milestone payments under our collaboration agreements will be substantially less than expected.

In addition, to the extent that any of our collaborators were to terminate a collaboration agreement, we may decide to independently develop these product candidates to the extent we retain development rights. Such development could include funding preclinical or clinical trials, assuming marketing and distribution costs and defending intellectual property rights. Alternatively, in certain instances, we may choose to abandon product candidates altogether. For instance, in March 2018, Pfizer terminated the collaboration agreement we had entered into with them in May 2013. Such collaboration agreement had entitled Pfizer to nominate up to four research targets and since 2013, we had collaborated with Pfizer on three of such targets. However, no program was ever advanced beyond the lead optimization stage pursuant to the agreement, and Pfizer had previously elected not to select a fourth target and had decided to discontinue its epidermal growth factor receptor Probody Drug Conjugate. Any of the foregoing could result in a change to our business plan and have a material adverse effect on our business, financial condition, results of operations and prospects. If a collaboration is terminated, we would not be eligible to receive the milestone, royalty or other payments that would have been payable under the collaboration agreement.

If we do not achieve our projected development and commercialization goals in the timeframes we announce and expect, the commercialization of any of our product candidates may be delayed, and our business will be harmed.

For planning purposes, we sometimes estimate the timing of the accomplishment of various scientific, clinical, regulatory and other product development objectives. These milestones may include our expectations regarding the commencement or completion of scientific studies and clinical trials, the submission of regulatory filings, or commercialization objectives. From time to time, we may publicly announce the expected timing of some of these milestones, such as the completion of an ongoing clinical trial, the initiation of other clinical programs, receipt of marketing approval, or a commercial launch of a product. The achievement of many of these milestones may be outside of our control. All of these milestones are based on a variety of assumptions which may cause the timing of achievement of the milestones to vary considerably from our estimates, including:

- our available capital resources or capital constraints we experience;
- the rate of progress, costs and results of our clinical trials and research and development activities, including the extent of scheduling conflicts with participating clinicians and collaborators;
- our ability to identify and enroll patients who meet clinical trial eligibility criteria;
-

our receipt of approvals by the FDA and other regulatory authorities and the timing thereof;

- other actions, decisions or rules issued by regulators;
- our ability to access sufficient, reliable and affordable supplies of materials used in the manufacture of our product candidates;
- our ability to manufacture and supply clinical trial materials to our clinical sites on a timely basis;
- the efforts of our collaborators with respect to the commercialization of our products; and
- the securing of, costs related to, and timing issues associated with, product manufacturing as well as sales and marketing activities.

If we fail to achieve announced milestones in the timeframes we expect, the commercialization of any of our product candidates may be delayed, and our business and results of operations may be harmed.

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

Since commencing operations, we have entered into several collaboration agreements, including, most recently, the Amgen Agreement that we entered into with Amgen in September 2017. From time to time, we may consider strategic transactions, such as additional collaborations, acquisitions of companies, asset purchases and out- or in-licensing of product candidates or technologies. In particular, we will evaluate and, if strategically attractive, seek to enter into additional collaborations, including with major biotechnology or biopharmaceutical companies. The competition for collaborators is intense, and the negotiation process is time-consuming and complex. Any new collaboration may be on terms that are not optimal for us, and we may not be able to maintain any new collaboration if, for example, development or approval of a product candidate is delayed, sales of an approved product candidate do not meet expectations or the collaborator terminates the collaboration. Any such collaboration, or other strategic transaction, may require us to incur non-recurring or other charges, increase our near- and long-term expenditures and pose significant integration or implementation challenges or disrupt our management or business. These transactions would entail numerous operational and financial risks, including exposure to unknown liabilities, disruption of our business and diversion of our management's time and attention in order to manage a collaboration or develop acquired products, product candidates or technologies, incurrence of substantial debt or dilutive issuances of equity securities to pay transaction consideration or costs, higher than expected collaboration, acquisition or integration costs, write-downs of assets or goodwill or impairment charges, increased amortization expenses, difficulty and cost in facilitating the collaboration or combining the operations and personnel of any acquired business, impairment of relationships with key suppliers, manufacturers or customers of any acquired business due to changes in management and ownership and the inability to retain key employees of any acquired business. Accordingly, although there can be no assurance that we will undertake or successfully complete any transactions of the nature described above, any transactions that we do complete may be subject to the foregoing or other risks and have a material and adverse effect on our business, financial condition, results of operations and prospects. The termination by a collaborator of a collaboration may cause a decrease in the price of our stock. Conversely, any failure to enter any additional collaboration or other strategic transaction that would be beneficial to us could delay the development and potential commercialization of our product candidates and have a negative impact on the competitiveness of any product candidate that reaches market.

If we are unable to successfully develop companion diagnostic tests for certain of our product candidates, or experience significant delays in doing so, we may not realize the full commercial potential of our product candidates.

Because we are focused on precision medicine, in which predictive biomarkers will be used to identify the right patients for our product candidates, we believe that our success may depend, in part, on the development of companion diagnostic tests. To successfully develop a companion diagnostic test, we would need to address a number of scientific, technical and logistical challenges. However, we have little experience in the development of companion diagnostic tests and may not be successful in developing appropriate tests to pair with any of our product candidates. Companion diagnostic tests are subject to regulation by the FDA and similar regulatory authorities outside the United States as medical devices and require separate regulatory approval prior to commercialization. Given our limited experience in developing companion diagnostic tests, we could seek to rely on third parties to design, manufacture, obtain regulatory approval for any companion diagnostic tests for our product candidates. However, we and such collaborators may encounter difficulties in developing and obtaining approval for the companion diagnostic tests, including issues relating to selectivity/specificity, analytical validation, reproducibility, or clinical validation. Any delay or failure by us or our collaborators to develop or obtain regulatory approval of the companion diagnostic tests could delay or prevent approval of our product candidates. As a result, our business would be harmed, possibly materially.

We rely on third parties to conduct all of our clinical trials and certain of our preclinical studies and intend to continue to do so, and if such third parties do not perform as contractually required, fail to satisfy regulatory or legal requirements or miss expected deadlines, our development programs could be delayed with material and adverse effects on our business, financial condition, results of operations and prospects.

We do not have the ability to independently conduct clinical trials. As such, we currently rely and intend to continue to rely on third-party clinical investigators, CROs, clinical data management organizations and consultants to help us design, conduct, supervise and monitor clinical trials of our product candidates. As a result, we will have less control over the timing, quality and other aspects of our clinical trials than we would have had we conducted them on our own. These investigators, CROs and consultants are not our employees and we have limited control over the amount of time and resources that they dedicate to our programs. These third parties may have contractual relationships with other entities, some of which may be our competitors, which may draw time and resources from our programs. The third parties with which we contract might not be diligent, careful or timely in conducting our preclinical studies or clinical trials, resulting in the preclinical studies or clinical trials being delayed or unsuccessful.

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

Because we rely on third-party manufacturing and supply partners, our supply of research and development, preclinical and clinical development materials may become limited or interrupted or may not be of satisfactory quantity or quality.

We rely on third-party contract manufacturers to manufacture our clinical trial and preclinical study product supplies. For certain products, such as CX-2009 and CX-2029, our manufacturing supply chain includes several contract manufacturers, and failure by any of these manufacturers could result in interruptions of our clinical studies. We do not own manufacturing facilities for producing such supplies and we do not currently have an alternative to any of our third-party contract manufacturers. There can be no assurance that our preclinical and clinical development product supplies will not be limited, interrupted, or of satisfactory quality or continue to be available at acceptable prices. In particular, any replacement of any of our third-party contract manufacturers could require significant effort and expertise because there may be a limited number of qualified replacements. In addition, we may encounter issues with transferring technology to a new third-party manufacturer, and we may encounter regulatory delays if we need to move the manufacturing of our products from one third-party manufacturer to another. For example, we are dependent on ImmunoGen under our collaboration for certain steps in the manufacturing of clinical quantities of CX-2009. However, contract manufacturing is not ImmunoGen's primary business and ImmunoGen may not have sufficient resources to commit to manufacturing for third parties. In February 2018, ImmunoGen announced the closure of their clinical manufacturing facility in Norwood, MA at the end of 2018. This site provided clinical manufacturing support for the CX-2009 program. We have initiated the transfer of the drug substance manufacturing process from ImmunoGen to a contract manufacturer, where we have an existing relationship and with expertise in the manufacture of antibody drug conjugates at a clinical and commercial scale. To date, the manufacturing transfer process is still ongoing and has not yet been completed. However, there can be no assurances that we will not experience a disruption to the supply of CX-2009 in connection with such transfer or that the transfer will be successful.

The manufacturing process for a product candidate is subject to FDA and foreign regulatory authority review. Suppliers and manufacturers must meet applicable manufacturing requirements and undergo rigorous facility and process validation tests required by regulatory authorities in order to comply with regulatory standards, such as current Good Manufacturing Practices ("cGMPs"). In the event that any of our manufacturers fails to comply with such requirements or to perform its obligations to us in relation to quality, timing or otherwise, or if our supply of components or other materials becomes limited or interrupted for other reasons, such as one of our manufacturers going out of business, we may be forced to manufacture the materials ourselves, for which we currently do not have the capabilities or resources, or enter into an agreement with another third party, which we may not be able to do on reasonable terms, if at all. In some cases, the technical skills or technology required to manufacture our product candidates may be unique or proprietary to the original manufacturer and we may have difficulty transferring such

skills or technology to another third party and a feasible alternative may not exist. These factors would increase our reliance on such manufacturer or require us to obtain a license from such manufacturer in order to have another third party manufacture our product candidates. If we are required to change manufacturers for any reason, we will be required to verify that the new manufacturer maintains facilities and procedures that comply with quality standards and with all applicable regulations and guidelines. The delays associated with the verification of a new manufacturer could negatively affect our ability to develop product candidates in a timely manner or within budget.

We expect to continue to rely on third-party manufacturers if we receive regulatory approval for any product candidate. To the extent that we have existing, or enter into future, manufacturing arrangements with third parties, we will depend on these third parties to perform their obligations in a timely manner consistent with contractual and regulatory requirements, including those related to quality control and assurance. If we are unable to obtain or maintain third-party manufacturing for product candidates, or to do so on commercially reasonable terms, we may not be able to develop and commercialize our product candidates successfully. We may find that our third-party manufacturer is unable to scale up the process in order to produce commercial quantities of our products. Our or a third party's failure to execute on our manufacturing requirements and comply with cGMPs could adversely affect our business in a number of ways, including:

- an inability to initiate or continue clinical trials of product candidates under development;
- delay in submitting regulatory applications, or receiving regulatory approvals, for product candidates;

- loss of the cooperation of a collaborator;
- subjecting third-party manufacturing facilities or our manufacturing facilities to additional inspections by regulatory authorities;
- requirements to cease distribution or to recall batches of our product candidates; and
- in the event of approval to market and commercialize a product candidate, an inability to meet commercial demands for our products.

The supply chain for the manufacturing of our product candidates is complicated and can involve many parties. This is especially the case for our clinical stage Probody Drug Conjugates, CX-2009 and CX-2029. If we were to experience any supply chain issues, our product supply could be seriously disrupted. In addition, we expect the logistical challenges associated with our supply chain to grow more complex as additional product candidates commence any clinical trials.

We, or third-party manufacturers, may be unable to successfully scale-up manufacturing of our product candidates in sufficient quality and quantity, which would delay or prevent us from developing our product candidates and commercializing approved products, if any.

It may prove more challenging than we anticipate to manufacture products that incorporate our Probody therapeutic technology. In order to conduct clinical trials of our product candidates, including our Phase 1/2 clinical trials for CX-072, CX-2009, CX-2029 and CX-188, we will need to manufacture them in large quantities. We, or any manufacturing partners, may be unable to successfully increase the manufacturing capacity for any of our product candidates in a timely or cost-effective manner, or at all, although to date we have been able to successfully manufacture clinical quantities of CX-072, CX-2009, CX-2029 and CX-188. In particular, we are dependent on ImmunoGen under our collaboration for certain steps in the manufacturing of clinical quantities of CX-2009. However, contract manufacturing is not ImmunoGen's primary business and ImmunoGen may not have sufficient resources to commit to manufacturing for third parties. In addition, quality issues may arise during scale-up activities. In February 2018, ImmunoGen announced the closure of their clinical manufacturing facility in Norwood, Massachusetts at the end of 2018, which provided clinical manufacturing support for the CX-2009 program. We have initiated the transfer of the drug substance manufacturing process from ImmunoGen to a contract manufacturer, where we have an existing relationship and with expertise in the manufacture of antibody drug conjugates at a clinical and commercial scale. However, there can be no assurances that we will not experience a disruption to the supply of CX-2009 in connection with such transfer. To date, the manufacturing transfer process is still ongoing and has not yet been completed. In addition, for CX-2029, the manufacturing of additional clinical quantities could be particularly difficult because we are relying on three different parties to manufacture supplies. If we, or any manufacturing partners, are unable to successfully scale up the manufacture of our product candidates in sufficient quality and quantity, the development, testing, and clinical trials of that product candidate may be delayed or infeasible, and regulatory approval or commercial launch of any resulting product may be delayed or not obtained, which could significantly harm our business.

We may acquire assets or form strategic alliances in the future, and we may not realize the benefits of such acquisitions.

As we continue to mature our Probody platform and our clinical stage pipeline, we may seek to acquire and/or in-license other oncology products, product candidates, programs or companies that we consider complimentary to our efforts. Such efforts may never result in a transaction and any future growth through acquisition or in-licensing will depend upon the availability of suitable products, product candidates, programs or companies for acquisition or in-licensing on acceptable prices, terms and conditions. Even if appropriate opportunities are available, we may not be able to acquire rights to them on acceptable terms, or at all. The competition to acquire or in-license rights to promising products, product candidates, programs and companies is fierce, and many of our competitors are large, multinational pharmaceutical and biotechnology companies with considerably more financial, development and

commercialization resources, personnel, and experience than we have. In order to compete successfully in the current business climate, we may have to pay higher prices for assets than may have been paid historically, which may make it more difficult for us to realize an adequate return on any acquisition. In addition, even if we succeed in identifying promising products, product candidates, programs or companies, we may not have the ability to develop, obtain regulatory approval for and commercialize such opportunities, or the financial resources necessary to pursue them.

Even if we are able to successfully identify and acquire or in-license new products, product candidates, programs or companies, we may not be able to successfully manage the risks associated with integrating any products, product candidates, programs or companies into our business or the risks arising from anticipated and unanticipated problems in connection with an acquisition or in-licensing. Further, while we seek to mitigate risks and liabilities of potential acquisitions through, among other things, due diligence, there may be risks and liabilities that such due diligence efforts fail to discover, that are not disclosed to us, or that we inadequately assess. Any failure in identifying and managing these risks and uncertainties effectively would have a material adverse effect on our business. In any event, we may not be able to realize the anticipated benefits of any acquisition or in-licensing for a variety of reasons, including the possibility that a product candidate fails to advance to clinical development, proves not to be safe or effective in clinical trials, or

fails to reach its forecasted commercial potential or that the integration of a product, product candidate, program or company gives rise to unforeseen difficulties and expenditures. Any failure in identifying and managing these risks and uncertainties would have a material adverse effect on our business.

In addition, acquisitions create other uncertainties and risks, particularly when the acquisition takes the form of a merger or other business consolidation. We may encounter unexpected difficulties, or incur unexpected costs, in connection with transition activities and integration efforts, which include:

- high acquisition costs;
- the need to incur substantial debt or engage in dilutive issuances of equity securities to pay for acquisitions;
- the potential disruption of our historical business and our activities under our collaboration agreements;
- the strain on, and need to expand, our existing operational, technical, financial and administrative infrastructure;
- our lack of experience in late-stage product development and commercialization;
- the difficulties in assimilating employees and corporate cultures;
- the difficulties in hiring qualified personnel and establishing necessary development and/or commercialization capabilities;
- the failure to retain key management and other personnel;
- the challenges in controlling additional costs and expenses in connection with and as a result of the acquisition;
- the need to write down assets or recognize impairment charges;
- the diversion of our management's attention to integration of operations and corporate and administrative infrastructures; and
- any unanticipated liabilities for activities of or related to the acquired business or its operations, products or product candidates.

If we fail to integrate or otherwise manage an acquired business successfully and in a timely manner, resulting operating inefficiencies could increase our costs more than we planned, could negatively impact the market price of our common stock and could otherwise distract us from execution of our strategy. Failure to maintain effective financial controls and reporting systems and procedures could also impact our ability to produce timely and accurate financial statements.

We may expend our limited resources to pursue a particular product candidate and fail to capitalize on product candidates that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we focus on specific product candidates, including CX-072, CX-2009, CX-2029 and CX-188. As a result, we may forgo or delay pursuit of opportunities with other product candidates that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable product candidates. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

We may experience difficulties in managing our growth and expanding our operations successfully.

We will need to grow our organization substantially to continue development and pursue the potential commercialization of CX-072, CX-2009, CX-2029, CX-188 and our other product candidates, as well as function as a public company. As we increase the number of our product candidates entering and advancing through preclinical studies and clinical trials, we will need to expand our development, regulatory and manufacturing capabilities or contract with additional organizations to provide these capabilities for us. In addition, we expect our collaborations to

require greater resources as the development of our product candidates under such agreements progresses. In the future, we expect to also have to manage additional relationships with collaborators or partners, suppliers and other organizations. In particular, if the third-parties on which we currently rely are not capable of delivering services or supplies in a manner that is sufficient to meet our requirements as we expand our operations, we could be required to contract with new third parties and there can be no assurances that the services or supplies of such third parties will be available on commercially reasonable terms, or at all. Furthermore, our ability to manage our operations and future growth will require us to continue to increase headcount

as well as improve our operational, financial and management controls, reporting systems and procedures. We may not be able to implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls.

We face competition from entities that have developed or may develop product candidates for cancer, including companies developing novel treatments and technology platforms. If these companies develop technologies or product candidates more rapidly than we do or their technologies are more effective, our ability to develop and successfully commercialize product candidates may be adversely affected.

The development and commercialization of drugs and therapeutic biologics is highly competitive. We compete with a variety of multinational biopharmaceutical companies and specialized biotechnology companies, as well as technology being developed at universities and other research institutions. Our competitors have developed, are developing or will develop product candidates and processes competitive with our product candidates. Competitive therapeutic treatments include those that have already been approved and accepted by the medical community and any new treatments that enter the market. We believe that a significant number of products are currently under development, and may become commercially available in the future, for the treatment of conditions for which we may try to develop product candidates. For instance, there is intense and rapidly evolving competition in the biotechnology, biopharmaceutical and antibody and immunoregulatory therapeutics fields, and our competitors include larger and better funded biopharmaceutical, biotechnological and therapeutics companies. In addition, these companies compete with us in recruiting scientific and managerial talent.

We believe that while our Probody platform, its associated intellectual property and our scientific and technical know-how, give us a competitive advantage in this space, competition from many sources remains. The clinical development pipeline for cancer includes small molecules, antibodies and therapies from a variety of groups. In addition, numerous compounds are in clinical development for cancer treatment. As a result, our success will partially depend on our ability to develop and protect therapeutics that are safer and more effective than competing products. Our commercial opportunity and success will be reduced or eliminated if competing products that are safer, more effective, or less expensive than the therapeutics we develop or if we are unable to utilize our Probody therapeutic technology to differentiate our Probody therapeutics from the products of our competitors. For instance, if any of our lead product candidates, including CX-072, CX-2009, CX-2029 and CX-188 are approved, they will compete with a range of therapeutic treatments that are either in development or currently marketed. A variety of oncology drugs and therapeutic biologics are currently on the market or in clinical development. The market for immunotherapies like CX-072 is, in particular, highly competitive and the field is changing quickly. Given the amount of time required to successfully develop and obtain regulatory approval for each of our product candidates, it is therefore possible that by the time we obtain any such approval, if ever, and commence sales, we may no longer be able to differentiate such product candidate from those of our competitors.

We face substantial competition from pharmaceutical companies developing products in immuno-oncology, including companies, such as Amgen, AstraZeneca PLC, BMS, Celgene, GlaxoSmithKline plc, Merck & Co., Inc. Novartis AG, Pfizer, Roche Holding Ltd. and Sanofi SA. Many large and mid-sized biotech companies, including BeiGene, Incyte, TESARO, Inc., Nektar, and Alkermes have ongoing efforts in cancer immunotherapy. Finally, numerous small companies are also working in the space. Several companies, including Akriveia, Amgen, Amunix, BioAtla, Halozyme, Maverick Therapeutics, Revitope, Roche, and Seattle Genetics are exploring antibody masking and/or conditional activation strategies, which could compete with our Probody Platform. We are also aware of several companies that are developing ADCs, such as Abbvie, Immunomedics, Pfizer, Roche Holding Ltd. and Taekda. In addition, two mid-sized companies, ImmunoGen and Seattle Genetics, Inc. are also leaders in the development of ADCs and we are aware of numerous small companies with ongoing efforts in this field. Furthermore, several large pharmaceutical companies, including Amgen, Novartis AG and Roche Holding Ltd., are developing T-cell engaging immunotherapies, and we are aware of several mid-sized biotech companies, such as Macrogenics and Xencor, and

small companies with ongoing efforts to develop T-cell engaging immunotherapies. Any of these companies may be well-capitalized and may have significant clinical experience. In addition, these companies include our collaborators.

Many of our competitors have significantly greater financial, technical, manufacturing, marketing, sales and supply resources or experience than we do. If we successfully obtain approval for any product candidate, we will face competition based on many different factors, including the safety and effectiveness of our products, the ease with which our products can be administered and the extent to which patients accept relatively new routes of administration, the timing and scope of regulatory approvals for these products, the availability and cost of manufacturing, marketing and sales capabilities, price, reimbursement coverage and patent position. Competing products could present superior treatment alternatives, including by being more effective, safer, less expensive or marketed and sold more effectively than any products we may develop. Competitive products may make any products we develop less differentiated or noncompetitive before we recover the expense of developing and commercializing our product candidates. Such competitors could also recruit our employees, which could negatively impact our level of expertise and our ability to execute our business plan.

Any inability to attract and retain qualified key management and technical personnel would impair our ability to implement our business plan.

Our success largely depends on the continued service of key management, advisors and other specialized personnel, including Sean A. McCarthy, D.Phil., our president and chief executive officer, W. Michael Kavanaugh, M.D., our chief scientific officer and Rachel W. Humphrey, M.D., our chief medical officer. The loss of one or more members of our management team or other key employees or advisors could delay our research and development programs and have a material and adverse effect on our business, financial condition, results of operations and prospects. The relationships that our key managers have cultivated within our industry make us particularly dependent upon their continued employment with us. We are dependent on the continued service of our technical personnel because of the highly technical nature of our product candidates and technologies and the specialized nature of the regulatory approval process. Because our management team and key employees are not obligated to provide us with continued service, they could terminate their employment with us at any time without penalty. Our future success will depend in large part on our continued ability to attract and retain other highly qualified scientific, technical and management personnel, as well as personnel with expertise in clinical testing, manufacturing, governmental regulation and commercialization. We face competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations, especially as job opportunities in the biotechnology industry have recently increased significantly in the San Francisco Bay Area.

If any of our product candidates are approved for marketing and commercialization and we are unable to develop sales, marketing and distribution capabilities on our own or enter into agreements with third parties to perform these functions on acceptable terms, we will be unable to commercialize successfully any such future products.

We currently have no sales, marketing or distribution capabilities or experience. If any of our product candidates is approved, we will need to develop internal sales, marketing and distribution capabilities to commercialize such products, which would be expensive and time-consuming, or enter into collaborations with third parties to perform these services. If we decide to market our products directly, we will need to commit significant financial and managerial resources to develop a marketing and sales force with technical expertise and supporting distribution, administration and compliance capabilities. If we rely on third parties with such capabilities to market our products or decide to co-promote products with collaborators, we will need to establish and maintain marketing and distribution arrangements with third parties, and there can be no assurance that we will be able to enter into such arrangements on acceptable terms or at all. In entering into third-party marketing or distribution arrangements, any revenue we receive will depend upon the efforts of the third parties and there can be no assurance that such third parties will establish adequate sales and distribution capabilities or be successful in gaining market acceptance of any approved product. If we are not successful in commercializing any product approved in the future, either on our own or through third parties, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our future growth may depend, in part, on our ability to operate in foreign markets, where we would be subject to additional regulatory burdens and other risks and uncertainties.

Our future growth may depend, in part, on our ability to develop and commercialize our product candidates in foreign markets for which we may rely on collaboration with third parties. We are not permitted to market or promote any of our product candidates before we receive regulatory approval from the applicable regulatory authority in that foreign market, and we may never receive such regulatory approval for any of our product candidates. To obtain separate regulatory approval in many other countries we must comply with numerous and varying regulatory requirements of such countries regarding safety and efficacy and governing, among other things, clinical trials and commercial sales, pricing and distribution of our product candidates, and we cannot predict success in these jurisdictions. If we obtain approval of our product candidates and ultimately commercialize our product candidates in foreign markets, we would

be subject to the risks and uncertainties, including the burden of complying with complex and changing foreign regulatory, tax, accounting and legal requirements and the reduced protection of intellectual property rights in some foreign countries. We may need to rely on third parties to market, distribute and sell our products in foreign markets.

Price controls imposed in foreign markets may adversely affect our future profitability.

In some countries, particularly member states of the European Union, the pricing of prescription drugs is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after receipt of marketing approval for a product. In addition, there can be considerable pressure by governments and other stakeholders on prices and reimbursement levels, including as part of cost containment measures. Political, economic and regulatory developments may further complicate pricing negotiations, and pricing negotiations may continue after reimbursement has been obtained. Reference pricing used by various European Union member states and parallel distribution, or arbitrage between low-priced and high-priced member states, can further reduce prices. In some countries, we or future collaborators may be required to conduct a clinical trial or other studies that compare the cost-effectiveness of our Probody therapeutic candidates to other available therapies in order to obtain or maintain reimbursement or pricing approval. Publication of discounts by third-party payors or authorities may lead to further pressure on the prices or reimbursement levels within the country of publication and other countries. If reimbursement of any product candidate approved for marketing is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business, financial condition, results of operations or prospects could be materially and adversely affected. We currently do not know how the exit of the United Kingdom from the European Union will affect the pricing of prescription drugs, either in the United Kingdom or in the remaining European Union member states.

Our business entails a significant risk of product liability and our ability to obtain sufficient insurance coverage could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We are exposed to significant product liability risks inherent in the development, testing, manufacturing and marketing of therapeutic treatments, including as a result of the clinical testing of CX-072, CX-2009, CX-2029, CX-188 and BMS-986249 and any other product candidates we or our collaborators may conduct clinical trials for. Product liability claims could delay or prevent completion of our development programs. If we succeed in marketing product candidates, such claims could result in an FDA investigation of the safety and effectiveness of our product candidates, our manufacturing processes and facilities (or the manufacturing processes and facilities of our third-party manufacturer) or our marketing programs and potentially a recall of our products or more serious enforcement action, limitations on the approved indications for which they may be used or suspension or withdrawal of approvals. Regardless of the merits or eventual outcome, liability claims may also result in decreased demand for our products, injury to our reputation, costs to defend the related litigation, a diversion of management's time and our resources, substantial monetary awards to trial participants or patients and a decline in our stock price. We currently have insurance that we believe is appropriate for our stage of development and may need to obtain higher levels of insurance prior to marketing any of our product candidates. Any insurance we have or may obtain may not provide sufficient coverage against potential liabilities. Furthermore, clinical trial and product liability insurance is becoming increasingly expensive. As a result, we may be unable to obtain sufficient insurance at a reasonable cost to protect us against losses caused by product liability claims that could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our employees and independent contractors may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements.

We are exposed to the risk of fraud or other misconduct by our employees or independent contractors. Misconduct by these parties could include intentional failures to comply with FDA regulations, provide accurate information to the FDA, comply with manufacturing standards we may establish, comply with federal and state data privacy, security, fraud and abuse, and other healthcare laws and regulations, report financial information or data accurately or disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive

practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Activities subject to these laws could also involve the improper use or misrepresentation of information obtained in the course of clinical trials, which could result in regulatory sanctions and cause serious harm to our reputation. It is not always possible to identify and deter misconduct by employees and other third parties, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. Additionally, we are subject to the risk that a person or government could allege such fraud or other misconduct, even if none occurred. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a material and adverse effect on our business, financial condition, results of operations and prospects, including the imposition of significant fines or other sanctions.

Our internal computer systems, or those of our CROs or other contractors or consultants we may utilize, may fail or suffer security breaches, which could result in a material disruption of our product development programs.

Despite the implementation of security measures, our internal computer systems and those of our CROs and other contractors and consultants we may utilize, may be vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Such events could cause interruptions of our operations. For instance, the loss of data from any current or future clinical trial or data from any preclinical studies involving our product candidates could result in delays in our development and regulatory filing efforts and significantly increase our costs. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data, or inappropriate disclosure of confidential or proprietary information, we could incur liability, recovery of our data could take a prolonged period of time, and the development of our product candidates could be delayed.

If we do not comply with laws regulating the protection of the environment and health and human safety, our business could be adversely affected.

Our research and development activities involve the use of hazardous materials and various chemicals. We maintain quantities of various flammable and toxic chemicals in our facilities in South San Francisco, California that are required for our research and development activities. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. We believe our procedures for storing, handling and disposing these materials in our South San Francisco facilities comply with the relevant guidelines of South San Francisco, the state of California and the Occupational Safety and Health Administration of the U.S. Department of Labor. Although we believe that our safety procedures for handling and disposing of these materials comply with the standards mandated by applicable regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. If an accident occurs, we could be held liable for resulting damages, which could be substantial. We are also subject to numerous environmental, health and workplace safety laws and regulations, including those governing laboratory procedures, exposure to blood-borne pathogens and the handling of animals and biohazardous materials. Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of these materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological or hazardous materials. Additional federal, state and local laws and regulations affecting our operations may be adopted in the future. We may incur substantial costs to comply with, and substantial fines or penalties if we violate, any of these laws or regulations.

Our information technology systems could face serious disruptions that could adversely affect our business.

Our information technology and other internal infrastructure systems, including corporate firewalls, servers, leased lines and connection to the Internet, face the risk of systemic failure, including as the result of cybersecurity incidents that could disrupt our operations. A significant disruption in the availability of our information technology and other internal infrastructure systems could cause interruptions and delays in our research and development work.

Cybersecurity breaches could expose us to liability, damage our reputation, compromise our confidential information or otherwise adversely affect our business.

We maintain sensitive company data on our computer networks, including our intellectual property and proprietary business information. We face a number of threats to our networks from unauthorized access, security breaches and

other system disruptions. Despite our security measures, our infrastructure may be vulnerable to attacks by hackers or other disruptive problems. Any such security breach may compromise information stored on our networks and may result in significant data losses or theft of our intellectual property or proprietary business information. A cybersecurity breach could adversely affect our reputation and could result in other negative consequences, including disruption of our internal operations, increased cyber security protection costs, lost revenues or litigation.

Our current operations are concentrated in one location, and we or the third parties upon whom we depend may be adversely affected by earthquakes or other natural disasters and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

Our current operations are located in our facilities in South San Francisco, California. Any unplanned event, such as flood, fire, explosion, earthquake, extreme weather condition, medical epidemics, power shortage, telecommunication failure or other natural or manmade accidents or incidents that result in us being unable to fully utilize our facilities, or the manufacturing facilities of our third-party contract manufacturers, may have a material and adverse effect on our ability to operate our business, particularly on a daily basis, and have significant negative consequences on our financial and operating conditions. Loss of access to these facilities may result in increased costs, delays in the development of our product candidates or interruption of our business operations. Earthquakes or other natural disasters could further disrupt our operations, and have a material and adverse effect on our business, financial

condition, results of operations and prospects. If a natural disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, such as our research facilities or the manufacturing facilities of our third-party contract manufacturers, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The disaster recovery and business continuity plans we have in place may prove inadequate in the event of a serious disaster or similar event. We may incur substantial expenses as a result of the limited nature of our disaster recovery and business continuity plans, which, could have a material and adverse effect on our business. As part of our risk management policy, we maintain insurance coverage at levels that we believe are appropriate for our business. However, in the event of an accident or incident at these facilities, we cannot assure you that the amounts of insurance will be sufficient to satisfy any damages and losses. If our facilities, or the manufacturing facilities of our third-party contract manufacturers, are unable to operate because of an accident or incident or for any other reason, even for a short period of time, any or all of our research and development programs may be harmed. Any business interruption may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the U.S.

We prepare our financial statements in conformity with accounting principles generally accepted in the U.S. These accounting principles are subject to interpretation by the Financial Accounting Standards Board (“FASB”) and the Securities and Exchange Commission. A change in these policies or interpretations could have a significant effect on our reported financial results, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations, and may require us to make costly changes to our operational processes and accounting systems. In May 2014, the 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 replaced most existing revenue recognition guidance in the U.S. GAAP when it became effective. The new standard was effective at the beginning of our fiscal year 2018 with early adoption permitted for our fiscal year 2017. We have evaluated the impact of ASU 2014-09 on our financial statements. Adoption of the standard had a significant impact on our financial statements and retroactively affected the accounting treatment of transactions completed before adoption. See “Note 2 – Basis of Presentation and Summary of Significant Accounting Policies” for additional discussion of the accounting changes and the impact of this accounting standard upon adoption.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “IRC”), if a corporation undergoes an “ownership change” (generally defined as a greater than 50 percentage points change (by value) in the ownership of its equity over a rolling three-year period), the corporation’s ability to use its pre-change net operating loss carryforwards and certain other pre-change tax attributes to offset its post-change income and taxes may be limited. California has similar rules. We have performed an IRC Section 382 analysis and determined there was an ownership change in 2017. As a result, the federal and state carryforwards associated with the net operating loss and credit deferred tax assets were reduced by the amount of tax attributes estimated to expire during their respective carryforward periods. We may experience ownership changes in the future as a result of shifts in our stock ownership, some of which are outside our control. As of December 31, 2017, we had federal and state net operating loss carryforwards of approximately $105.6 million and $58.5 million, respectively, and our ability to utilize those net operating loss carryforwards could be limited by an “ownership change” as described above, which could result in increased tax liability to our company.

Recent U.S. tax legislation and future changes to applicable U.S. or foreign tax laws and regulations may have a material adverse effect on our business, financial condition and results of operations.

We are subject to income and other taxes in the U.S. and foreign jurisdictions. Changes in laws and policy relating to taxes or trade may have an adverse effect on our business, financial condition and results of operations. For example, the U.S. government recently enacted significant tax reform, and certain provisions of the new law may adversely affect us. Changes include, but are not limited to, a federal corporate tax rate decrease from 34% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a more generally territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, and will be subject to interpretations and implementing regulations by the Treasury and Internal Revenue Service, any of which could mitigate or increase certain adverse effects of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation. Generally, future changes in applicable U.S. or foreign tax laws and regulations, or their interpretation and application could have an adverse effect on our business, financial conditions and results of operations.

Risks Related to Intellectual Property

If we are not able to obtain and enforce patent protection for our technologies or product candidates, development and commercialization of our product candidates may be adversely affected.

Our success depends in part on our ability to obtain and maintain patents and other forms of intellectual property rights, including in-licenses of intellectual property rights of others, for our product candidates, methods used to manufacture our product candidates and methods for treating patients using our product candidates, as well as our ability to preserve our trade secrets, to prevent third parties from infringing upon our proprietary rights and to operate without infringing upon the proprietary rights of others. We have more than 60 issued patents (8 of which are co-owned with a third party), and more than 245 pending patent applications (14 of which are co-owned with a third party) covering our Probody platforms and products as well as methods of use and production thereof; we have exclusively licensed UCSB's interest in the patent family co-owned with UCSB (currently comprising 6 issued patents and 7 pending applications) that covers Probody and other pro-protein technology in the fields of therapeutics, in vivo diagnostics and prophylactics. In addition, we have exclusively licensed a patent portfolio of three patent families from UCSB that includes 23 issued patents and eight pending patent applications that cover compositions and methods related to the screening for and identification of the masks and protease-cleavable linkers that we incorporate into our Probody candidates. We may not be able to apply for patents on certain aspects of our product candidates in a timely fashion or at all. Our existing issued and granted patents and any future patents we obtain may not be sufficiently broad to prevent others from using our technology or from developing competing products and technology. There is no guarantee that any of our pending patent applications will result in issued or granted patents, that any of our issued or granted patents will not later be found to be invalid or unenforceable or that any issued or granted patents will include claims that are sufficiently broad to cover our product candidates or to provide meaningful protection from our competitors. Moreover, the patent position of biotechnology and biopharmaceutical companies can be highly uncertain because it involves complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our current and future proprietary technology and product candidates are covered by valid and enforceable patents or are effectively maintained as trade secrets. If third parties disclose or misappropriate our proprietary rights, it may materially and adversely affect our position in the market.

The U.S. Patent and Trademark Office ("USPTO") and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other provisions during the patent process. There are situations in which noncompliance can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, competitors might be able to enter the market earlier than would otherwise have been the case. The standards applied by the USPTO and foreign patent offices in granting patents are not always applied uniformly or predictably. For example, there is no uniform worldwide policy regarding patentable subject matter or the scope of claims allowable in biotechnology and biopharmaceutical patents. As such, we do not know the degree of future protection that we will have on our proprietary products and technology. While we will endeavor to try to protect our product candidates with intellectual property rights such as patents, as appropriate, the process of obtaining patents is time-consuming, expensive and sometimes unpredictable.

In addition, there are numerous recent changes to the patent laws and proposed changes to the rules of the USPTO that may have a significant impact on our ability to protect our technology and enforce our intellectual property rights. For example, the America Invents Act ("AIA") enacted within the last several years involves significant changes in patent legislation. The Supreme Court has ruled on several patent cases in recent years, some of which cases either narrow the scope of patent protection available in certain circumstances or weaken the rights of patent owners in certain

situations. The recent decision by the Supreme Court in Association for Molecular Pathology v. Myriad Genetics, Inc. precludes a claim to a nucleic acid having a stated nucleotide sequence that is identical to a sequence found in nature and has not been modified. We currently are not aware of an immediate impact of this decision on our patents or patent applications because we are developing product candidates that contain modifications, such as our Probody substrates and masks, that we believe are not found in nature. However, this decision has yet to be clearly interpreted by courts and by the USPTO. We cannot assure you that the interpretations of this decision or subsequent rulings will not adversely impact our patents or patent applications. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents, once obtained. Depending on decisions by the U.S. Congress, the federal courts and the USPTO, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future.

Once granted, patents may remain open to opposition, interference, re-examination, post-grant review, inter partes review, nullification or derivation action in court or before patent offices or similar proceedings for a given period after allowance or grant, during which time third parties can raise objections against such initial grant. In the course of such proceedings, which may continue for a protracted period of time, the patent owner may be compelled to limit the scope of the allowed or granted claims thus attacked, or may lose the allowed or granted claims altogether. In addition, there can be no assurance that:

- Others will not or may not be able to make, use or sell compounds that are the same as or similar to our product candidates but that are not covered by the claims of the patents that we own or license.
- We or our licensors, or our collaborators are the first to make the inventions covered by each of our issued patents and pending patent applications that we own or license.
- We or our licensors, or our collaborators are the first to file patent applications covering certain aspects of our inventions.
- Others will not independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights.
- A third party may not challenge our patents and, if challenged, a court would hold that our patents are valid, enforceable and infringed.
- Any issued patents that we own or have licensed will provide us with any competitive advantages, or will not be challenged by third parties.
- We may develop additional proprietary technologies that are patentable.
- The patents of others will not have a material or adverse effect on our business, financial condition, results of operations and prospects.
- Our competitors do not conduct research and development activities in countries where we do not have enforceable patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets.

Other companies or organizations may challenge our or our licensors' patent rights or may assert patent rights that prevent us from developing and commercializing our products.

Probody therapeutics are a relatively new scientific field. We have obtained grants and issuances of Probody therapeutic patents and have licensed one patent family comprising several of these patents from a third party on an exclusive basis for therapeutics applications. The issued patents and pending patent applications in the United States and in key markets around the world that we own or license claim many different methods, compositions and processes relating to the discovery, development, manufacture and commercialization of antibody and immunoregulatory therapeutics. Specifically, we own and have licensed a portfolio of patents, patent applications and other intellectual property covering Probody compositions of matter as well as their methods of manufacturing and use.

As the field of antibody and immunoregulatory therapeutics matures, patent applications are being processed by national patent offices around the world. There is uncertainty about which patents will issue, and, if they do, as to when, to whom, and with what claims. In addition, third parties may attempt to invalidate our intellectual property rights. Even if our rights are not directly challenged, disputes could lead to the weakening of our intellectual property rights. Our defense against any attempt by third parties to circumvent or invalidate our intellectual property rights could be costly to us, could require significant time and attention of our management and could have a material and adverse effect on our business, financial condition, results of operations and prospects or our ability to successfully compete.

There are many issued and pending patents that claim aspects of our product candidates and modifications that we may need to apply to our product candidates. There are also many issued patents that claim antibodies or portions of antibodies that may be relevant for Probody products we wish to develop. Thus, it is possible that one or more

organizations will hold patent rights to which we will need a license. If those organizations refuse to grant us a license to such patent rights on reasonable terms, we may not be able to market products or perform research and development or other activities covered by these patents.

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

Obtaining a valid and enforceable issued or granted patent covering our technology in the U.S. and worldwide can be extremely costly. In jurisdictions where we have not obtained patent protection, competitors may use our technology to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but where it is more difficult to enforce a patent as compared to the U.S. Competitor products may compete with our future products in jurisdictions where we do not have issued or granted patents or where our issued or granted patent claims or other intellectual property rights are not sufficient to prevent competitor activities in these jurisdictions. The legal systems of certain countries, particularly certain developing countries, make it difficult to enforce patents and such countries may not recognize other types of intellectual property protection, particularly that relating to biopharmaceuticals. This could make it difficult for us to prevent the infringement of our patents or marketing of competing products in violation of our proprietary rights generally in certain jurisdictions. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

We generally file a provisional patent application first (a priority filing) at the USPTO. An international application under the Patent Cooperation Treaty ("PCT") is usually filed within twelve months after the priority filing. Based on the PCT filing, national and regional patent applications may be filed in the United States, Europe, Japan, Australia and Canada and, depending on the individual case, also in any or all of, inter alia, Brazil, China, Hong Kong, India, Indonesia, Israel, Malaysia, Mexico, New Zealand, Russia or Eurasian Patent Organization, Singapore, South Africa, South Korea and other jurisdictions. We have so far not filed for patent protection in all national and regional jurisdictions where such protection may be available. In addition, we may decide to abandon national and regional patent applications before grant. Finally, the grant proceeding of each national or regional patent is an independent proceeding which may lead to situations in which applications might in some jurisdictions be refused by the relevant registration authorities, while granted by others. It is also quite common that depending on the country, various scopes of patent protection may be granted on the same product candidate or technology.

The laws of some jurisdictions do not protect intellectual property rights to the same extent as the laws in the U.S., and many companies have encountered significant difficulties in protecting and defending such rights in such jurisdictions. If we or our licensors encounter difficulties in protecting, or are otherwise precluded from effectively protecting, the intellectual property rights important for our business in such jurisdictions, the value of these rights may be diminished and we may face additional competition from others in those jurisdictions. Many countries have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of such patent. If we or any of our licensors are forced to grant a license to third parties with respect to any patents relevant to our business, our competitive position in the relevant jurisdiction may be impaired and our business and results of operations may be adversely affected.

We or our licensors, or any future strategic partners may become subject to third party claims or litigation alleging infringement of patents or other proprietary rights or seeking to invalidate patents or other proprietary rights, and we may need to resort to litigation to protect or enforce our patents or other proprietary rights, all of which could be costly, time consuming, delay or prevent the development and commercialization of our product candidates, or put our patents and other proprietary rights at risk.

We or our licensors, or any future strategic partners may be subject to third-party claims for infringement or misappropriation of patent or other proprietary rights. We are generally obligated under our license or collaboration agreements to indemnify and hold harmless our licensors or collaborators for damages arising from intellectual property infringement by us. If we or our licensors, or any future strategic partners are found to infringe a third-party

patent or other intellectual property rights, we could be required to pay damages, potentially including treble damages, if we are found to have willfully infringed. In addition, we or our licensors, or any future strategic partners may choose to seek, or be required to seek, a license from a third party, which may not be available on acceptable terms, if at all. Even if a license can be obtained on acceptable terms, the rights may be non-exclusive, which could give our competitors access to the same technology or intellectual property rights licensed to us. If we fail to obtain a required license, we or our collaborators may be unable to effectively market product candidates based on our technology, which could limit our ability to generate revenue or achieve profitability and possibly prevent us from generating revenue sufficient to sustain our operations. In addition, we may find it necessary to pursue claims or initiate lawsuits to protect or enforce our patent or other intellectual property rights. The cost to us in defending or initiating any litigation or other proceeding relating to patent or other proprietary rights, even if resolved in our favor, could be substantial, and litigation would divert our management's attention. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could delay our research and development efforts and limit our ability to continue our operations.

If we were to initiate legal proceedings against a third party to enforce a patent covering one of our products or our technology, the defendant could counterclaim that our patent is invalid or unenforceable. In patent litigation in the U.S., defendant counterclaims alleging invalidity or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, for example, lack of novelty, obviousness or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the USPTO, or made a misleading statement, during prosecution. The outcome following legal assertions of invalidity and unenforceability during patent litigation is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity or unenforceability, we would lose at least part, and perhaps all, of the patent protection on one or more of our products or certain aspects of our platform technology. Such a loss of patent protection could have a material and adverse effect on our business, financial condition, results of operations and prospects. Patents and other intellectual property rights also will not protect our technology if competitors design around our protected technology without legally infringing our patents or other intellectual property rights.

Intellectual property rights of third parties could adversely affect our ability to commercialize our product candidates, and we might be required to litigate or obtain licenses from third parties in order to develop or market our product candidates. Such litigation or licenses could be costly or not available on commercially reasonable terms.

Because the antibody landscape is still evolving, including the masked antibody landscape, it is difficult to conclusively assess our freedom to operate without infringing on third-party rights. There are numerous companies that have pending patent applications and issued patents broadly covering antibodies generally or covering antibodies directed against the same targets as, or targets similar to, those we are pursuing. There are many issued patents and patent applications covering antibodies targeted against PD-1 and PD-L1, and the intellectual property covering PD-1 and PD-L1 antibodies has been the subject of litigation and licensing, especially regarding how broadly certain claims should be construed. If the claims were to be construed broadly by the courts, we may need to obtain a license to some of such intellectual property, covering PD-1 and/or PD-L1 antibodies, which would decrease the profits we would realize from the sale of such products. An increasing number of third parties are filing masked antibody patent applications, several of which contain claims that are patterned after our own patent claims. Our competitive position may suffer if patents issued to third parties or other third-party intellectual property rights cover our products or product candidates or elements thereof, or our manufacture or uses relevant to our development plans. In such cases, we may not be in a position to develop or commercialize products or product candidates unless we successfully pursue litigation to nullify or invalidate the third-party intellectual property right concerned, or enter into a license agreement with the intellectual property right holder, if available on commercially reasonable terms. There may be issued patents of which we are not aware, held by third parties that, if found to be valid and enforceable, could be alleged to be infringed by our Probody therapeutic technologies. There also may be pending patent applications of which we are not aware that may result in issued patents, which could be alleged to be infringed by our Probody therapeutic technologies. If such an infringement claim should be brought and be successful, we may be required to pay substantial damages, be forced to abandon our product candidates or seek a license from any patent holders. No assurances can be given that a license will be available on commercially reasonable terms, if at all.

It is also possible that we have failed to identify relevant third-party patents or applications. For example, U.S. applications filed before November 29, 2000 and certain U.S. applications filed after that date that will not be filed outside the U.S. remain confidential until patents issue. Patent applications in the U.S. and elsewhere are published approximately 18 months after the earliest filing for which priority is claimed, with such earliest filing date being commonly referred to as the priority date. Therefore, patent applications covering our products or platform technology could have been filed by others without our knowledge. Additionally, pending patent applications that have been published can, subject to certain limitations, be later amended in a manner that could cover our platform technologies, our products or the use of our products. Third-party intellectual property right holders may also actively bring

infringement claims against us. We cannot guarantee that we will be able to successfully settle or otherwise resolve such infringement claims. If we are unable to successfully settle future claims on terms acceptable to us, we may be required to engage in or continue costly, unpredictable and time-consuming litigation and may be prevented from or experience substantial delays in marketing our products. If we fail in any such dispute, in addition to being forced to pay damages, we may be temporarily or permanently prohibited from commercializing any of our product candidates that are held to be infringing. We might, if possible, also be forced to redesign product candidates so that we no longer infringe the third-party intellectual property rights. Any of these events, even if we were ultimately to prevail, could require us to divert substantial financial and management resources that we would otherwise be able to devote to our business.

Intellectual property litigation could cause us to spend substantial resources and distract our personnel from their normal responsibilities.

Litigation or other legal proceedings relating to intellectual property claims, with or without merit, is unpredictable and generally expensive and time consuming and is likely to divert significant resources from our core business, including distracting our technical and management personnel from their normal responsibilities. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Such litigation or proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities.

We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources and more mature and developed intellectual property portfolios. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating or from successfully challenging our intellectual property rights. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material and adverse effect on our ability to compete in the marketplace.

If we fail to comply with our obligations under any license, collaboration or other agreements, we may be required to pay damages and could lose our rights to intellectual property rights that are necessary for developing and protecting our product candidates or we could lose certain rights to grant sublicenses.

Our licenses from Amgen, ImmunoGen and UCSB impose, and any future licenses we enter into are likely to impose, various development, commercialization, funding, diligence, sublicensing, insurance, patent prosecution and enforcement and/or other obligations on us, including various payment obligations such as milestone and royalty payments and payments based on sublicensing revenues. Our rights under our agreements with our licensors or collaborators may be limited or modified according to their terms. Additionally, if we breach any of these obligations, or use the intellectual property licensed to us in an unauthorized manner, we may be required to pay damages and the licensor may have the right to terminate the license, which could result in us being unable to develop, manufacture and sell products that are covered by the licensed technology or enable a competitor to gain access to the licensed technology. Moreover, our licensors and collaborators may own or control intellectual property that has not been licensed to us and, as a result, we may be subject to claims, regardless of their merit, that we are infringing or otherwise violating the licensor’s rights. In addition, while we cannot currently determine the amount of the royalty or sublicense revenue payment obligations we would be required to pay on development or sales of future products, if any, the amounts may be significant. The amount of our future royalty or sublicense revenue payment obligations will depend on the technology and intellectual property we use in products that we successfully develop and commercialize, if any. Therefore, even if we successfully develop and commercialize products, we may be unable to achieve or maintain profitability.

Our intellectual property agreements with our licensors, collaborators and third parties may be subject to disagreements over contract interpretation, which could narrow the scope of, or result in termination of, our rights to the relevant intellectual property or technology or increase our financial or other obligations to such third parties.

Certain provisions in our intellectual property agreements may be susceptible to multiple interpretations. For example, we may disagree with our licensors or collaborators regarding whether, when and to what extent various obligations under these agreements apply to certain of our product candidates and products, including various payment, development, commercialization, funding, diligence, sublicensing, insurance, patent prosecution and enforcement and/or other obligations. The resolution of any contract interpretation disagreement that may arise could affect the scope of our rights to the relevant intellectual property or technology, or affect financial or other obligations under the relevant agreement. In either case, such disagreement could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, while it is our policy to require our employees and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact conceives or develops intellectual property that we regard as our own. Our assignment agreements may not be self executing or may be breached, and we may be forced to bring claims against third parties, or defend claims they may bring against us, to determine the ownership of what we regard as our intellectual property.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

In addition to seeking patent protection for certain aspects of our product candidates, we also consider trade secrets, including confidential and unpatented know-how important to the maintenance of our competitive position. We protect trade secrets and confidential and unpatented know-how, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to such knowledge, such as our employees, corporate collaborators, outside scientific collaborators, CROs, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants that obligate them to maintain confidentiality and assign their inventions to us.

Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts in the U.S. and certain foreign jurisdictions are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed.

We may be subject to claims that we or our employees or consultants have wrongfully used or disclosed alleged trade secrets of our employees' or consultants' former employers or their clients. These claims may be costly to defend and if we do not successfully do so, we may be required to pay monetary damages and may lose valuable intellectual property rights or personnel.

Many of our employees were previously employed at universities or biotechnology or biopharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper our ability to commercialize, or prevent us from commercializing, our product candidates, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Our trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names or may be forced to stop using these names, which we need for name recognition by potential partners or customers in our markets of interest. If we are unable to establish name recognition based on our trademarks and trade names, we may not be able to compete effectively and our business may be adversely affected.

Risks Related to Government Regulation

We may be unable to obtain U.S. or foreign regulatory approval and, as a result, unable to commercialize our product candidates.

Our product candidates are subject to extensive governmental regulations relating to, among other things, research, testing, development, manufacturing, safety, efficacy, approval, recordkeeping, reporting, labeling, storage, packaging, advertising and promotion, pricing, marketing and distribution of drugs and therapeutic biologics. Rigorous preclinical testing and clinical trials and an extensive regulatory approval process are required to be successfully completed in the U.S. and in many foreign jurisdictions before a new drug or therapeutic biologic can be marketed. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. It is possible that none of the product candidates we may develop will obtain the regulatory approvals necessary for us or our existing or future collaborators to begin selling them.

As a company, we have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approvals, including approval by the FDA. The time required to obtain FDA and other approvals is unpredictable but typically takes many years following the commencement of clinical trials, depending upon the type, complexity and novelty of the product candidate. The standards that the FDA and its foreign counterparts use when regulating us require judgment and can change, which makes it difficult to predict with certainty how they will be applied. Any analysis we perform of data from preclinical and clinical activities is subject to confirmation and interpretation by regulatory authorities, which could delay, limit or prevent regulatory approval. We may also encounter unexpected delays or increased costs due to new government regulations, for example, from future legislation or administrative action, or from changes in FDA policy during the period of product development, clinical trials and FDA regulatory review. It is impossible to predict whether legislative changes will be enacted, or whether FDA or foreign regulations, guidance or interpretations will be changed, or what the impact of such changes, if any, may be.

Because the product candidates we are developing may represent a new class of therapeutic biologics, the FDA and its foreign counterparts have not yet established any definitive policies, practices or guidelines in relation to these product candidates. While we believe the product candidates that we are currently developing are regulated as therapeutic biologics that are subject to requirements for review and approval of a BLA by the FDA's Center for Drug Evaluation and Research ("CDER"), the FDA could decide to regulate them as drugs that are subject to requirements for review and approval of an NDA by CDER or as biological products that are subject to requirements for review and approval of a BLA by the FDA's Center for Biologics Evaluation and Research ("CBER"). The lack of policies, practices or guidelines may hinder or slow review by the FDA of any regulatory filings that we may submit. Moreover, the FDA may respond to these submissions by defining requirements we may not have anticipated. Such responses could lead to significant delays in the clinical development of our product candidates. In addition, because there may be approved treatments for some of the diseases for which we may seek approval, in order to receive regulatory approval, we may need to demonstrate through clinical trials that the product candidates we develop to treat these diseases, if any, are not only safe and effective, but safer or more effective than existing products. Furthermore, in recent years, there has been increased public and political pressure on the FDA with respect to the approval process for new drugs and therapeutic biologics, and the FDA's standards, especially regarding product safety, appear to have become more stringent.

Any delay or failure in obtaining required approvals could have a material and adverse effect on our ability to generate revenues from the particular product candidate for which we are seeking approval. Furthermore, any regulatory approval to market a product may be subject to limitations on the approved uses for which we may market the product or the labeling or other restrictions. In addition, the FDA has the authority to require a risk evaluation and mitigation strategies ("REMS") plan as part of an NDA or BLA or after approval, which may impose further requirements or restrictions on the distribution or use of an approved drug or biologic, such as limiting prescribing to certain physicians or medical centers that have undergone specialized training, limiting treatment to patients who meet certain safe-use criteria and requiring treated patients to enroll in a registry. These limitations and restrictions may limit the size of the market for the product and affect reimbursement by third-party payors.

We are also subject to numerous foreign regulatory requirements governing, among other things, the conduct of clinical trials, manufacturing and marketing authorization, pricing and third-party reimbursement. The foreign regulatory approval process varies among countries and may include all of the risks associated with FDA approval described above as well as risks attributable to the satisfaction of local regulations in foreign jurisdictions. Moreover, the time required to obtain approval may differ from that required to obtain FDA approval. Approval by the FDA does not ensure approval by regulatory authorities outside the U.S. and vice versa.

Even if we receive regulatory approval for any of our product candidates, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense. Additionally, our product candidates, if approved, could be subject to labeling and other restrictions and market withdrawal and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products.

Any regulatory approvals that we or our collaborators obtain for our product candidates may also be subject to limitations on the approved indicated uses for which a product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including "Phase 4" clinical trials, and surveillance to monitor the safety and efficacy of the product candidate. In addition, if the FDA or a comparable foreign regulatory authority approves any of our product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, import, export, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMPs and good clinical practices for any clinical trials that we conduct post-approval. Later discovery of previously unknown problems with a

product, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

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

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

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

Healthcare legislative reform measures may have a material and adverse effect on our business and results of operations.

In the United States, there have been and continue to be a number of legislative initiatives to contain healthcare costs. For example, in March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (together, the "ACA"), was passed, which substantially changed the way healthcare is financed by both governmental and private insurers, and significantly impacts the U.S. pharmaceutical industry. The ACA, among other things, subjected therapeutic biologics to potential competition by lower-cost biosimilars, addressed a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs and therapeutic biologics that are inhaled, infused, instilled, implanted or injected, increased the minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and extended the rebate program to individuals enrolled in Medicaid managed care organizations, established annual fees and taxes on manufacturers of certain branded prescription drugs and therapeutic biologics, and created a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts, which, through subsequent legislative amendments, will be increased to 70% starting in 2019, off negotiated prices of applicable brand drugs and therapeutic biologics to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs and therapeutic biologics to be covered under Medicare Part D.

Since its enactment, there have been judicial and Congressional challenges to certain aspects of the ACA, and we expect there will be additional challenges and amendments to the ACA in the future. The current Presidential Administration and U.S. Congress will likely continue to seek to modify, repeal, or otherwise invalidate all, or certain provisions of, the ACA. Since taking office, President Trump has continued to support the repeal of all or portions of the ACA. On October 12, 2017, President Trump issued an executive order that expands the use of association health plans and allows anyone to purchase short-term health plans that provide temporary, limited insurance. This executive order also calls for the halt of federal payments to health insurers for cost-sharing reductions previously available to lower-income Americans to afford coverage. There is still uncertainty with respect to the impact this executive order could have on coverage and reimbursement for healthcare items and services covered by plans that were authorized by the ACA. In addition, the Tax Cuts and Jobs Act was enacted, which, among other things, removes penalties for not complying with the Affordable Care Act's individual mandate to carry health insurance. On January 22, 2018, President Trump signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain mandated fees under the Affordable Care Act, including the so-called "Cadillac" tax on certain high cost

employer-sponsored insurance plans, the annual fee imposed on certain health insurance providers based on market share, and the medical device excise tax on non-exempt medical devices. Congress may consider other legislation to repeal or replace other elements of the Affordable Care Act. It is uncertain the extent to which any such changes may impact our business or financial condition.

In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted to reduce healthcare expenditures. The Budget Control Act of 2011, among other things, included aggregate reductions of Medicare payments to providers of 2% per fiscal year. These reductions went into effect on April 1, 2013 and, due to subsequent legislative amendments to the statute, will remain in effect through 2027 unless additional Congressional action is taken. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law, which, among other things, further reduced Medicare payments to several types of providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. If federal spending is further reduced, anticipated budgetary shortfalls may also impact the ability of relevant agencies, such as the FDA or the National Institutes of Health to continue to function at current levels. Amounts allocated to federal grants and contracts may be reduced or eliminated. These reductions may also impact the ability of relevant agencies to timely review and approve research and development, manufacturing, and marketing activities, which may delay our ability to develop, market and sell any products we may develop.

Moreover, payment methodologies, including payment for companion diagnostics, may be subject to changes in healthcare legislation and regulatory initiatives. For example, the Centers for Medicare & Medicaid Services ("CMS") has begun bundling the Medicare payments for certain laboratory tests ordered while a patient received services in a hospital outpatient setting and, beginning in 2018, CMS will pay for clinical laboratory services based on a weighted average of reported prices that private payors, Medicare Advantage plans, and Medicaid Managed Care plans pay for laboratory services. Further, in March 2018, CMS finalized a national coverage determination extending coverage under the Medicare program for certain diagnostic laboratory tests using next generation sequencing ("NGS") that are approved by the FDA as a companion in vitro diagnostic and used in a cancer with an FDA-approved companion diagnostic indication. Under the national coverage determination, diagnostic tests that meet these criteria are covered only in patients with recurrent, metastatic, relapsed, refractory or stages III or IV cancer if the test has an FDA-approved or cleared indication for use in that patient's cancer and results are provided to the treating physician for management of the patient using a report template to specify treatment options. Although the Medicare program increasingly is used as a model for how private payors and other governmental payors develop their coverage and reimbursement policies, it is difficult to predict at this time what third-party payors will decide with respect to the coverage and reimbursement for any companion diagnostics associated with our product candidates.

In addition, recently there has been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed bills designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drug products. For example, the 21st Century Cures Act changed the reimbursement methodology for infusion drugs and biologics furnished through durable medical equipment in an attempt to remedy over- and underpayment of certain products. Individual states in the United States have also become increasingly active in passing legislation and implementing regulations designed to control pharmaceutical product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. In addition, regional healthcare authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other healthcare programs. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our product candidates or companion diagnostics or additional pricing pressures.

If we or our collaborators, manufacturers or service providers fail to comply with healthcare laws and regulations, we or they could be subject to enforcement actions, which could affect our ability to develop, market and sell our products and may harm our reputation.

Although we do not currently have any products on the market, once we begin commercializing our product candidates, we will be subject to additional healthcare statutory and regulatory requirements and enforcement by the federal government and the states and foreign governments in which we conduct our business. Healthcare providers, physicians and third-party payors play a primary role in the recommendation and prescription of any product candidates for which we obtain marketing approval. Our future arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute our product candidates for which we obtain marketing approval. In addition, we may be subject to patient data privacy and security regulation by both the U.S. federal government and the states in which we conduct our business. Restrictions under applicable federal and state healthcare laws and regulations, include the following:

- the U.S. federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind to induce or reward

either the referral of an individual for, or the purchase, or order or recommendation of, any good or service, for which payment may be made under federal and state healthcare programs such as Medicare and Medicaid. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation;

- the U.S. federal False Claims Act, which imposes criminal and civil penalties, including through civil whistleblower or qui tam actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent, knowingly making, using or causing to be made or used, a false record or statement material to a false or fraudulent claim, or from knowingly making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government. In addition, the government may assert that a claim including items and services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act;

- the U.S. federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), which imposes criminal and civil liability for, among other things, knowingly and willfully executing, or attempting to execute a scheme to defraud any healthcare benefit program, or knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services; similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), which imposes obligations on certain covered entity healthcare providers, health plans, and healthcare clearinghouse as well as their business associates that perform certain services involving the use or disclosure of individually identifiable health information, including mandatory contractual terms, with respect to safeguarding the privacy, security, and transmission of individually identifiable health information, and require notification to affected individuals and regulatory authorities of certain breaches of security of individually identifiable health information;
- The new EU General Data Protection Regulation ("GDPR") which came into effect on May 25, 2018 and imposes obligations and restrictions on how we collect and use personal data relating to individuals located in the EU (including health data), and introduces fines of up to 4% total worldwide annual turnover or up to €20 million (whichever is higher) for non-compliance with its requirements. The GDPR also provides that EU member states may make their own further laws and regulations limiting the processing of special categories of personal data such as genetic, biometric or health data;
- the U.S. federal legislation commonly referred to as Physician Payments Sunshine Act, enacted as part of the ACA, and its implementing regulations, which requires certain manufacturers of drugs, devices, biologics and medical supplies that are reimbursable under Medicare, Medicaid, or the Children's Health Insurance Program to report annually to the CMS information related to certain payments and other transfers of value to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, as well as ownership and investment interests held by the physicians described above and their immediate family members; and
- analogous state laws and regulations, such as state anti-kickback and false claims laws that may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government in addition to requiring drug and therapeutic biologics manufacturers to report information related to payments to physicians and other healthcare providers or marketing expenditures and pricing information; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Ensuring that our future business arrangements with third-parties comply with applicable healthcare laws and regulations could involve substantial costs. It is possible that governmental authorities will conclude that our business practices do not comply with current or future statutes, regulations, agency guidance or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any such requirements, we may be subject to penalties, including civil or criminal penalties, monetary damages, the curtailment or restructuring of our operations, loss of eligibility to obtain approvals from the FDA, or exclusion from participation in government contracting, healthcare reimbursement or other government programs, including Medicare and Medicaid, any of which could adversely our financial results. Although effective compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, these risks cannot be entirely eliminated. Any action against us for an alleged or suspected violation could cause us to incur significant legal expenses and could divert our management's attention from the operation of our business, even if our defense is successful. In addition, achieving and sustaining compliance with applicable laws and regulations may be costly to us in terms of money, time and resources.

If we or future collaborators, manufacturers or service providers fail to comply with applicable federal, state or foreign laws or regulations, we could be subject to enforcement actions, which could affect our ability to develop, market and

sell our products successfully and could harm our reputation and lead to reduced acceptance of our products by the market. These enforcement actions include, among others:

- adverse regulatory inspection findings;
- warning letters;
- voluntary or mandatory product recalls or public notification or medical product safety alerts to healthcare professionals;
- restrictions on, or prohibitions against, marketing our products;

- restrictions on, or prohibitions against, importation or exportation of our products;
- suspension of review or refusal to approve pending applications or supplements to approved applications;
- exclusion from participation in government-funded healthcare programs;
- exclusion from eligibility for the award of government contracts for our products;
- suspension or withdrawal of product approvals;
- seizures or administrative detention of products;
- injunctions; and
- civil and criminal penalties and fines.

If we fail to comply with U.S. and foreign regulatory requirements, regulatory authorities could limit or withdraw any marketing or commercialization approvals we may receive and subject us to other penalties that could materially harm our business.

Even if we receive marketing and commercialization approval of a product candidate, we will be subject to continuing regulatory requirements, including in relation to adverse patient experiences with the product and clinical results that are reported after a product is made commercially available, both in the U.S. and any foreign jurisdiction in which we seek regulatory approval. The FDA has significant post-market authority, including the authority to require labeling changes based on new safety information and to require post-market studies or clinical trials to evaluate safety risks related to the use of a product or to require withdrawal of the product from the market. The FDA also has the authority to require a REMS plan after approval, which may impose further requirements or restrictions on the distribution or use of an approved drug or therapeutic biologic. The manufacturer and manufacturing facilities we use to make a future product, if any, will also be subject to periodic review and inspection by the FDA and other regulatory agencies, including for continued compliance with cGMP requirements. The discovery of any new or previously unknown problems with our third-party manufacturers, manufacturing processes or facilities may result in restrictions on the product, manufacturer or facility, including withdrawal of the product from the market. If we rely on third-party manufacturers, we will not have control over compliance with applicable rules and regulations by such manufacturers. Any product promotion and advertising will also be subject to regulatory requirements and continuing regulatory review. If we or our collaborators, manufacturers or service providers fail to comply with applicable continuing regulatory requirements in the U.S. or foreign jurisdictions in which we seek to market our products, we or they may be subject to, among other things, fines, warning letters, holds on clinical trials, delay of approval or refusal by the FDA to approve pending applications or supplements to approved applications, suspension or withdrawal of regulatory approval, product recalls and seizures, administrative detention of products, refusal to permit the import or export of products, operating restrictions, injunction, civil penalties and criminal prosecution.

We face regulation and potential liability related to the privacy, data protection and information security which may require significant resources and may adversely affect our business, operations and financial performance.

The regulatory environment surrounding information security, data collection and privacy is increasingly demanding. We are subject to numerous U.S. federal and state laws and non-U.S. regulations governing the protection of personal and confidential information of our clinical subjects, clinical investigators, employees and vendors/business contacts, including in relation to medical records, credit card data and financial information. For example, on May 25, 2018, the European General Data Protection Regulation, or GDPR, became effective, implementing more stringent requirements in relation to our use of personal data relating to individuals located in the E.U. (and E.E.A.). The GDPR repeals the Data Protection Directive (95/46/EC) and is directly applicable in all E.U. member states. The GDPR significantly increased fining levels to up to 4% total worldwide annual turnover or up to €20 million (whichever is higher) for non-compliance with its requirements. We will be subject to the GDPR where we have an E.U. presence or "establishment" (e.g., E.U. based subsidiary or operations), when conducting clinical trials with E.U. based data subjects (whether the trials are conducted directly by us or through a clinical vendor or collaborator) or offering approved

products or services (if relevant) to E.U. based data subjects (regardless of whether involving our E.U. based subsidiary or operations).

The GDPR sets out a number of requirements that must be complied with when handling the personal data of such E.U. based data subjects including: providing expanded disclosures about how their personal data will be used; higher standards for organizations to demonstrate that they have obtained valid consent or have another legal basis in place to justify their data processing activities; the obligation to appoint data protection officers in certain circumstances; new rights for individuals to be "forgotten" and rights to data portability, as well as enhanced current rights (e.g., access requests); the principal of accountability and demonstrating compliance through policies, procedures, training and audit; the new mandatory data breach regime. In particular, medical or health data, genetic data and biometric data where the latter is used to uniquely identify an individual (even, in certain situations, where such data is key coded) are all classified as "special category" data under GDPR and afford greater protection and require additional compliance obligations. Further, E.U. member states have a broad right to impose additional conditions – including restrictions – on these data categories. This is because the GDPR allows E.U. member states to derogate from the requirements of the GDPR mainly in regard to specific processing situations (including special category data and processing for scientific or statistical purposes). As the E.U. member states reframe their national legislation to harmonize with the GDPR, we will need to monitor compliance with all relevant E.U. member states' laws and regulations, including where permitted derogations from the GDPR are introduced.

We will also be subject to evolving E.U. laws on data export, where we transfer data outside the E.U. (or E.E.A.) to group companies or third parties. The GDPR only permits exports of data outside the E.U. (and E.E.A.) where there is a suitable data transfer solution in place to safeguard personal data (e.g., the EU Commission approved Standard Contractual Clauses). Some of the approved current data transfer mechanisms are under review in the E.U. courts and by the E.U. Commission and therefore we need to monitor this space for any future changes.

Where we rely on third parties to carry out a number of services for us, including processing personal data on our behalf, we are required under GDPR to enter into contractual arrangements to help ensure that these third parties only process such data according to our instructions and have sufficient security measures in place. Any security breach or non-compliance with our contractual terms or breach of applicable law by such third parties could result in enforcement actions, litigation, fines and penalties or adverse publicity and could cause our customers to lose trust in us, which could have an adverse impact on our reputation and business.

In recent years, U.S. and European lawmakers and regulators have expressed concern over electronic marketing and the use of third-party cookies, web beacons and similar technology for online behavioral advertising. In the E.U., marketing is defined broadly to include any promotional material and the rules specifically on e-marketing are currently set out in the ePrivacy Directive which will be replaced by a new ePrivacy Regulation. While the ePrivacy Regulation was originally intended to be adopted on May 25, 2018 (alongside the GDPR), it is still going through the European legislative process and commentators now expect it to be adopted during the middle or second half of 2019. The current draft of the ePrivacy Regulation imposes strict opt-in e-marketing rules with limited exceptions to business to business communications and significantly increases fining powers to the same levels as GDPR (see above).

We may find it necessary or desirable to join self-regulatory bodies or other privacy-related organizations, particularly relating to biopharmacy and/or scientific research, that require compliance with their rules pertaining to privacy and data security.

The introduction of the GDPR, and any resultant changes in E.U. member states' national laws and regulations and the ePrivacy Regulation, will increase our compliance obligations and will necessitate the review and implementation of policies and processes relating to our collection and use of data. This increase in compliance obligations could also lead to an increase in compliance costs which may have an adverse impact on our business, financial condition or results of operations.

If any person, including any of our employees, clinical vendors or collaborators or those with whom we share such information, negligently disregards or intentionally breaches our established controls with respect to our clinical subject, clinical investigator or employee data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions. As above, under the GDPR there are significant new punishments for non-compliance which could result in a penalty of up to 4% of a firm's global annual revenue. In addition, a data breach could result in negative publicity which could damage our reputation and have an adverse effect on our business, financial condition or results of operations.

We strive to comply with all applicable laws, but they may conflict with each other, and by complying with the laws or regulations of one jurisdiction, we may find that we are violating the laws or regulations of another jurisdiction. Despite our efforts, we may not have fully complied in the past and may not in the future. If we become liable under laws or regulations applicable to us, we could be required to pay significant fines and penalties, our reputation may be harmed and we may be forced to change the way we operate. That could require us to incur significant expenses or to discontinue certain services, which could negatively affect our business.

Even if we are able to commercialize any product candidate, such product candidate may become subject to unfavorable pricing regulations or third-party coverage and reimbursement policies, which would harm our business.

The regulations that govern regulatory approvals, pricing and reimbursement for new drugs and therapeutic biologics vary widely from country to country. Some countries require approval of the sale price of a drug or therapeutic biologic before it can be marketed. In many countries, the pricing review period begins after marketing approval is granted. In some foreign markets, prescription biopharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain regulatory approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods and negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if our product candidates obtain regulatory approval.

Our ability to commercialize any products successfully also will depend in part on the extent to which coverage and reimbursement for these products and related treatments will be available from government authorities, private health insurers and other organizations. Even if we succeed in bringing one or more products to the market, these products may not be considered cost-effective, and the amount reimbursed for any products may be insufficient to allow us to sell our products on a competitive basis. Because our programs are in the early stages of development, we are unable at this time to determine their cost effectiveness or the likely level or method of reimbursement. Increasingly, the third-party payors who reimburse patients or healthcare providers, such as government and private insurance plans, are requiring that drug companies provide them with predetermined discounts from list prices, and are seeking to reduce the prices charged or the amounts reimbursed for biopharmaceutical products. If the price we are able to charge for any products we develop, or the reimbursement provided for such products, is inadequate in light of our development and other costs, our return on investment could be adversely affected. There may be significant delays in obtaining reimbursement for newly-approved drugs or therapeutic biologics, and coverage may be more limited than the purposes for which the drug or therapeutic biologic is approved by the FDA or similar regulatory authorities outside of the United States. Moreover, eligibility for reimbursement does not imply that any drug or therapeutic biologic will be reimbursed in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Interim reimbursement levels for new drugs or therapeutic biologics, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may be based on payments allowed for lower-cost drugs or therapeutic biologics that are already reimbursed, may be incorporated into existing payments for other services and may reflect budgetary constraints or imperfections in Medicare data. Net prices for drugs or therapeutic biologics may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs or therapeutic biologics from countries where they may be sold at lower prices than in the U.S. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement rates. Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for new drugs or therapeutic biologics that we develop and for which we obtain regulatory approval could have a material and adverse effect on our operating results, our ability to raise capital needed to commercialize products and our financial condition.

A Breakthrough Therapy Designation by the FDA for any of our product candidates may not lead to a faster development or regulatory review or approval process, and it does not increase the likelihood that our product candidates will receive marketing approval.

We may seek a Breakthrough Therapy Designation for some of our product candidates. A breakthrough therapy is defined as a product that is intended, alone or in combination with one or more other products, to treat a serious or life-threatening disease or condition, and preliminary clinical evidence indicates that the product may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial

treatment effects observed early in clinical development. For products that have been designated as breakthrough therapies, interaction and communication between the FDA and the sponsor of the trial can help to identify the most efficient path for clinical development while minimizing the number of patients placed in ineffective control regimens. Products designated as breakthrough therapies by the FDA can also be eligible for accelerated approval.

Designation as a breakthrough therapy is within the discretion of the FDA. Accordingly, even if we believe one of our product candidates meets the criteria for designation as a breakthrough therapy, the FDA may disagree and instead determine not to make such designation. In any event, the receipt of a Breakthrough Therapy Designation for a product candidate may not result in a faster development process, review or approval compared to products considered for approval under conventional FDA procedures and does not assure ultimate approval by the FDA. In addition, even if one or more of our product candidates qualify as breakthrough therapies, the FDA may later decide that the products no longer meet the conditions for qualification and rescind the breakthrough designation.

A Fast Track Designation by the FDA for any of our product candidates may not actually lead to a faster development or regulatory review or approval process.

We may seek Fast Track Designation for some of our product candidates. If a product is intended for the treatment of a serious or life-threatening condition and the product demonstrates the potential to address unmet medical needs for this condition, the product sponsor may apply for Fast Track Designation. The FDA has broad discretion whether or not to grant this designation, so even if we believe a particular product candidate is eligible for this designation, we cannot assure you that the FDA would decide to grant it. Even if we do receive Fast Track Designation, we may not experience a faster development process, review or approval compared to conventional FDA procedures. The FDA may withdraw Fast Track Designation if it believes that the designation is no longer supported by data from our clinical development program.

We may seek Orphan Drug Designation for some of our product candidates, and we may be unsuccessful or may be unable to maintain the benefits associated with Orphan Drug Designation, including the potential for market exclusivity.

As part of our business strategy, we may seek Orphan Drug Designation for our product candidates, and we may be unsuccessful. Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs and therapeutic biologics for relatively small patient populations as orphan drugs. Under the Orphan Drug Act, the FDA may designate a drug or therapeutic biologic as an orphan drug if it is a drug or therapeutic biologic intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals annually in the United States, or a patient population greater than 200,000 in the United States where there is no reasonable expectation that the cost of developing the drug or therapeutic biologic will be recovered from sales in the United States. In the United States, Orphan Drug Designation entitles a party to financial incentives such as opportunities for grant funding toward clinical trial costs, tax advantages and user-fee waivers. In addition, if a product that has Orphan Drug Designation subsequently receives the first FDA approval for the disease for which it has such designation, the product is entitled to orphan drug exclusivity, which means that the FDA may not approve any other applications, including a full NDA or BLA, to market the same product for the same indication for seven years, except in limited circumstances, such as a showing of clinical superiority to the product with orphan drug exclusivity or where the manufacturer is unable to assure sufficient product quantity.

Even if we obtain Orphan Drug Designation for our product candidates in specific indications, we may not be the first to obtain marketing approval of these product candidates for the orphan-designated indication due to the uncertainties associated with developing pharmaceutical products. In addition, exclusive marketing rights in the United States may be limited if we seek approval for an indication broader than the orphan-designated indication or may be lost if the FDA later determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantities of the product to meet the needs of patients with the rare disease or condition. Further, even if we obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different drugs or therapeutic biologics with different active moieties can be approved for the same condition. Even after an orphan product is approved, the FDA can subsequently approve the same drug or therapeutic biologic with the same active moiety for the same condition if the FDA concludes that the later drug or therapeutic biologic is safer, more effective or makes a major contribution to patient care. Orphan Drug Designation neither shortens the development time or regulatory review time of a drug or therapeutic biologic nor gives the drug or therapeutic biologic any advantage in the regulatory review or approval process. In addition, while we may seek Orphan Drug Designation for our product candidates, we may never receive such designations.

The recent tax reform legislation, which was signed into law on December 22, 2017 reduced the amount of the qualified clinical research costs for a designated orphan product that a sponsor may claim as a credit from 50% to 25%. Thus, further limiting the advantage and may impact our future business strategy of seeking the Orphan Drug

Designation.

Risks Related to Ownership of Our Common Stock

Our quarterly operating results may fluctuate significantly or may fall below the expectations of investors or securities analysts, each of which may cause our stock price to fluctuate or decline.

We expect our operating results to be subject to quarterly fluctuations. Our net loss and other operating results will be affected by numerous factors, including:

- variations in the level of expense related to the ongoing development of our Probody platform, our product candidates or future development programs;
- results of clinical trials, or the addition or termination of clinical trials or funding support by us, or existing or future collaborators or licensing partners;

- our execution of any additional collaboration, licensing or similar arrangements, and the timing of payments we may make or receive under existing or future arrangements or the termination or modification of any such existing or future arrangements;
- developments or disputes concerning patents or other proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our products;
- any intellectual property infringement lawsuit or opposition, interference or cancellation proceeding in which we may become involved;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- if any of our product candidates receives regulatory approval, the terms of such approval and market acceptance and demand for such product candidates;
- regulatory developments affecting our product candidates or those of our competitors; and
- changes in general market and economic conditions.

If our quarterly operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Furthermore, any quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

Our stock price may be volatile and purchasers of our common stock could incur substantial losses.

Our stock price is volatile. From October 8, 2015, the first day of trading our common stock, through November 2, 2018, our stock had high and low sales prices in the range of $9.01 and $35.00 per share. The market price for our common stock may be influenced by many factors, including the other risks described in this section titled “Risk Factors” and the following:

- results of clinical trials and preclinical studies of our product candidates, or those of our competitors or our collaborators;
- regulatory or legal developments in the U.S. and other countries, especially changes in laws or regulations applicable to our products;
- the success of competitive products or technologies;
- introductions and announcements of new products by us, our future commercialization partners, or our competitors, and the timing of these introductions or announcements;
- actions taken by regulatory agencies with respect to our products, clinical studies, manufacturing process or sales and marketing terms;
- actual or anticipated variations in our financial results or those of companies that are perceived to be similar to us;
- the success of our efforts to acquire or in-license additional technologies, products or product candidates;
- developments concerning any future collaborations, including but not limited to those with our sources of manufacturing supply and our commercialization partners;
- market conditions in the pharmaceutical and biotechnology sectors;
- announcements by us or our competitors of significant acquisitions, strategic collaborations, joint ventures or capital commitments;
- developments or disputes concerning patents or other proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our products;
- our ability or inability to raise additional capital and the terms on which we raise it;
- the recruitment or departure of key personnel;
- changes in the structure of healthcare payment systems;

- actual or anticipated changes in earnings estimates or changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry generally;
- our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- announcement and expectation of additional financing efforts;
- speculation in the press or investment community;
- trading volume of our common stock;
- sales of our common stock by us or our stockholders;
- the concentrated ownership of our common stock;
- changes in accounting principles;
- terrorist acts, acts of war or periods of widespread civil unrest;
- natural disasters and other calamities; and
- general economic, industry and market conditions.

In addition, the stock markets in general, and the markets for pharmaceutical, biopharmaceutical and biotechnology stocks in particular, have experienced extreme volatility that has been often unrelated to the operating performance of the issuer. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance.

The future issuance of equity or of debt securities that are convertible into equity will dilute our share capital.

We may choose to raise additional capital in the future, depending on market conditions, strategic considerations and operational requirements. To the extent that additional capital is raised through the issuance of shares or other securities convertible into shares, our stockholders will be diluted. Future issuances of our common stock or other equity securities, or the perception that such sales may occur, could adversely affect the trading price of our common stock and impair our ability to raise capital through future offerings of shares or equity securities. No prediction can be made as to the effect, if any, that future sales of common stock or the availability of common stock for future sales will have on the trading price of our common stock.

The employment agreements with our executive officers may require us to pay severance benefits to officers in connection with termination of employment or upon a change of control of us, which could harm our financial condition.

Each of our executive officers is entitled to receive a lump sum payment equal to nine months or one year of his or her base salary as well as continued medical and dental coverage for a period of nine months or one year following his or her termination of employment due to good reason or without cause. In the event of a change in control and a termination of employment without cause or due to good reason, each of our executive officers would similarly receive nine months or one year of his or her base salary as well as continued medical and dental coverage for a period of nine months or one year, as well as an additional lump sum payment equal to three-fourths or 100% of his or her target annual bonus for the calendar year in which his or her employment is terminated and full vesting of his or her outstanding option awards. The accelerated vesting of options could result in dilution to our existing stockholders and harm the market price of our common stock. Furthermore, the payment of these severance benefits could harm our financial condition. In addition, these potential severance payments may discourage or prevent third parties from seeking a business combination with us.

An active market for our common stock may not be maintained.

Prior to our IPO in October 2015, there had been no public market for shares of our common stock. Our stock began trading on The Nasdaq Global Select Market in 2015, and we can provide no assurance that we will be able to maintain an active trading market on The Nasdaq Global Select Market or any other exchange in the future. If an active market for our common stock is not maintained, it may be difficult for our stockholders to sell shares without depressing the market price for the shares or at all. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other businesses, applications or technologies using our shares as consideration.

If securities or industry analysts do not publish research or reports about our business, or if they issue adverse or misleading opinions regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our target studies and operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

As of September 30, 2018, our executive officers, directors, holders of 5% or more of our capital stock based on publicly available filings made with the SEC and their respective affiliates beneficially owned approximately 33.6% of our outstanding common stock. Therefore, these stockholders have the ability to influence us through this ownership position. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that our stockholders may feel are in their best interest.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may delay or prevent an acquisition of us or a change in our management. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. These provisions include:

- a prohibition on actions by our stockholders by written consent;
- a requirement that special meetings of stockholders, which our company is not obligated to call more than once per calendar year, be called only by the chairman of our board of directors, our chief executive officer, our board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors, or, subject to certain conditions, by our secretary at the request of the stockholders holding of record, in the aggregate, shares entitled to cast not less than ten percent of the votes at a meeting of the stockholders (assuming all shares entitled to vote at such meeting were present and voted);
- advance notice requirements for election to our board of directors and for proposing matters that can be acted upon at stockholder meetings;
- division of our board of directors into three classes, serving staggered terms of three years each; and
- the authority of the board of directors to issue preferred stock with such terms as the board of directors may determine.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, as amended, which prohibits a person who owns in excess of 15 percent of our

outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15 percent of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. These provisions would apply even if the proposed merger or acquisition could be considered beneficial by some stockholders.

We incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives and corporate governance practices.

As a public company, and particularly after we are no longer an emerging growth company, we incur significant legal, accounting and other expenses. The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of The Nasdaq Global Select Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, which in turn could make it more difficult for us to attract and retain qualified members of our board of directors. However, these rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

If we are not able to implement the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner or with adequate compliance, we may be subject to sanctions by regulatory authorities.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on the internal control over financial reporting. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We will be evaluating our internal controls systems to allow management to report on, and eventually our independent auditors will attest to, the effectiveness of the operation of our internal controls. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and eventual auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Based on our market capitalization at June 30, 2018, we will cease to be an emerging growth company at December 31, 2018 and, accordingly, we will be required to comply with the auditor attestation requirements of Section 404 to include an opinion from our independent registered public accounting firm on the effectiveness of our internal controls over financial reporting for our 2018 Annual Report.

We cannot be certain as to the timing of completion of our evaluation, testing and remediation action or the impact of the same on our operations. If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal controls that are deemed to be material weaknesses, we could be subject to sanctions or investigations by The Nasdaq Global Select Market, the SEC or other regulatory authorities, which would entail expenditure of additional financial and management resources and could materially adversely affect our stock price. Deficient internal controls could also cause us to fail to meet our reporting obligations or cause investors to lose confidence in our reported financial information, which could have a negative effect on our stock price.

Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

We may incur significant costs from class action litigation due to our expected stock volatility.

Our stock price may fluctuate for many reasons, including as a result of public announcements regarding the progress of our development efforts or the development efforts of future collaborators or competitors, the addition or departure of our key personnel, variations in our quarterly operating results and changes in market valuations of biopharmaceutical and biotechnology companies.

This risk is especially relevant to us because biopharmaceutical and biotechnology companies have experienced significant stock price volatility in recent years. When the market price of a stock has been volatile as our stock price may be, holders of that stock have occasionally brought securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit of this type against us, even if the lawsuit is without merit, we could incur substantial costs defending the lawsuit. The lawsuit could also divert the time and attention of our management.

Our amended and restated bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated bylaws provide that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law, as amended, our amended and restated certificate of incorporation or our amended and restated bylaws, any action to interpret, apply, enforce or determine the validity of our amended and restated certificate of incorporation or our amended and restated bylaws or any other action asserting a claim against us that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our amended and restated certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

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

None

Use of Proceeds

None

Repurchases of Shares or of Company Equity Securities

None

Item 3. Defaults Upon Senior Securities.
None

Item 4. Mine Safety Disclosures.
Not applicable

Item 5. Other Information.
None

72

Item 6. Exhibits

Exhibit		Incorporated by Reference			Filed
Number	Exhibit Description	Form	Date	Number	Herewith
3.1	Amended and Restated Certificate of Incorporation.	8-K	10/19/2015	3.1	
3.2	Amended and Restated Bylaws.	8-K	10/19/2015	3.2	
4.1	Reference is made to Exhibits 3.1 through 3.2.				
4.2	Specimen Common Stock Certificate	S-1/A	9/28/2015	4.1	
4.3	Amended and Restated Investors' Rights Agreement dated as of June 12, 2015, by and among CytomX Therapeutics, Inc. and the investors named therein.	S-1	8/28/2015	4.2	
10.1†	First Amendment to the CD71 Co-Development and License Agreement by and between CytomX Therapeutics, Inc. and AbbVie Ireland Unlimited Company, dated as of October 5, 2016.				X
10.2†	Second Amendment to the CD71 Co-Development and License Agreement by and between CytomX Therapeutics, Inc. and AbbVie Ireland Unlimited Company, dated as of March 31, 2017.				X
10.3†	Third Amendment to the CD71 Co-Development and License Agreement by and between CytomX Therapeutics, Inc. and AbbVie Ireland Unlimited Company, dated as of January 3, 2018.				X
10.4†	License Agreement by and between CytomX Therapeutics, Inc. and ImmunoGen Inc., dated as of February 12,2016.				X
10.5†	Second Amendment to the Research Collaboration Agreement by and between CytomX Therapeutics, Inc. and ImmunoGen Inc., dated as of February 12,2016.				X
10.6†	Third Amendment to the Research Collaboration Agreement by and between CytomX Therapeutics, Inc. and ImmunoGen Inc., dated as of March 3, 2017.				X
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).				X
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).				X

32.1*	Certification of Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350).	X
32.2*	Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350).	X
101.INS	XBRL Instance Document.	X

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
101.SCH	XBRL Taxonomy Extension Schema Document.				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				X

†Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.

*The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the SEC and are not to be incorporated by reference into any filing of CytomX Therapeutics, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

CytomX Therapeutics, Inc.

Date: November 6, 2018 By: /s/ Sean A. McCarthy
Sean A. McCarthy, D. Phil.
President, Chief Executive Officer and Director

(principal executive officer)

Date: November 6, 2018 By: /s/ Debanjan Ray
Debanjan Ray
Chief Financial Officer

(principal financial officer and principal accounting officer)