

Xencor Inc  
Form 10-Q  
November 10, 2014  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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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, 2014

or

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

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Commission file number: 001-36182

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Xencor, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation

20-1622502

(I.R.S. Employer Identification No.)

or Organization)

111 West Lemon Avenue, Monrovia, CA  
(Address of Principal Executive Offices)

91016

(Zip Code)

(626) 305-5900

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

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Indicate the number of shares of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at November 6, 2014
Common stock, \$0.01 par value	31,395,626

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Table of Contents

Xencor, Inc.

Quarterly Report on FORM 10-Q for the quarter ended September 30, 2014

Table of Contents

	Page
<u>SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS</u>	3
<u>PART I. FINANCIAL INFORMATION</u>	4
<u>Item 1. Condensed Financial Statements (unaudited)</u>	4
<u>Condensed Balance Sheets as of September 30, 2014 and December 31, 2013</u>	4
<u>Condensed Statements of Operations for the Three Months and Nine Months Ended September 30, 2014 and 2013</u>	5
<u>Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	6
<u>Notes to Condensed Financial Statements</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	29
<u>PART II. OTHER INFORMATION</u>	31
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	31
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
<u>Item 3. Defaults Upon Senior Securities</u>	55
<u>Item 4. Mine Safety Disclosures</u>	55
<u>Item 5. Other Information</u>	55
<u>Item 6. Exhibits</u>	56
<u>Signatures</u>	57

In this report, unless otherwise stated or the context otherwise indicates, references to “Xencor,” “the Company,” “we,” “us,” “our” and similar references refer to Xencor, Inc. The Xencor logo is a registered trademark of Xencor, Inc. This report also contains registered marks, trademarks and trade names of other companies. All other trademarks, registered marks and trade names appearing in this report are the property of their respective holders.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of federal securities laws. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Forward-looking statements can often be identified by the use of terminology such as “subject to”, “believe”, “anticipate”, “plan”, “expect”, “intend”, “estimate”, “project”, “may”, “will”, “should”, “would”, “could”, “can”, the negatives thereof, variations thereon and similar expressions, discussions of strategy.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations, and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others (including those set forth under “Risk Factors”), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- our plans to develop and commercialize our product candidates;
- our ongoing and planned clinical trials;
- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- our ability to identify additional products or product candidates with significant commercial potential that are consistent with our business objectives;
- the rate and degree of market acceptance and clinical utility of our products;
- the capabilities and strategy of our suppliers and vendors including key manufacturers of our clinical drug supplies;
- significant competition in our industry;

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- costs of litigation and the failure to successfully defend lawsuits and other claims against us;
- our partners' ability to advance drug candidates into, and successfully complete, clinical trials;
- our ability to receive research funding and achieve anticipated milestones under our collaborations;
- our intellectual property position;
- loss or retirement of key members of management;
- costs of compliance and our failure to comply with new and existing governmental regulations;
- failure to successfully execute our growth strategy, including any delays in our planned future growth; and
- our failure to maintain effective internal controls.

Consequently, forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance or achievements. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events.

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

Xencor, Inc.

Condensed Balance Sheets

(In thousands, except share amounts)

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets		
Cash	\$ 60,923	\$ 77,975
Accounts receivable	20	59
Prepaid expenses and other current assets	162	60
Total current assets	61,105	78,094
Property and equipment		
Computers, software and equipment	4,053	3,514
Furniture and fixtures	97	89
Leasehold improvements	3,083	3,081
Less accumulated depreciation and amortization	(6,489)	(6,377)
Property and equipment, net	744	307
Other assets		
Patents, licenses, and other intangible assets, net	8,957	8,814
Other assets	60	100
Total other assets	9,017	8,914
Total assets	\$ 70,866	\$ 87,315
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 2,098	\$ 2,633
Accrued expenses	1,764	1,393
Current portion of deferred revenue	6,066	3,444
Current portion of capital lease obligations	2	9
Total current liabilities	9,930	7,479
Deferred revenue, less current portion	1,227	6,302
Capital lease obligations, less current portion	—	1
Total liabilities	11,157	13,782
Commitments and contingencies	—	—
Stockholders' equity	314	314

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Common stock, \$0.01 par value: 200,000,000 authorized shares at September 30, 2014 and December 31, 2013; 31,395,626 issued and outstanding at September 30, 2014 and 31,354,467 issued and outstanding shares at December 31, 2013

Additional paid-in capital	302,039	300,790
Accumulated deficit	(242,644)	(227,571)
Total stockholders' equity	59,709	73,533
Total liabilities and stockholders' equity	\$ 70,866	\$ 87,315



Table of Contents

The accompanying notes are an integral part of these unaudited condensed financial statements.

Xencor, Inc.

Condensed Statements of Operations

(unaudited)

(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue				
Collaborations, licenses and milestones	\$ 848	\$ 3,162	\$ 3,856	\$ 8,428
Operating expenses				
Research and development	4,953	4,163	13,464	12,857
General and administrative	2,182	842	5,499	2,381
Total operating expenses	7,135	5,005	18,963	15,238
Loss from operations	(6,287)	(1,843)	(15,107)	(6,810)
Other income (expenses)				
Interest income	2	4	31	7
Interest expense	(2)	—	(7)	(1,212)
Other income	9	4	10	15
Loss on settlement of notes	—	—	—	(48,556)
Total other income (expense), net	9	8	34	(49,746)
Net loss	\$ (6,278)	\$ (1,835)	\$ (15,073)	\$ (56,556)
Deemed contribution (dividend) on exchange of preferred stock	—	(2,349)	—	144,765
Net income (loss) attributable to common stockholders	\$ (6,278)	\$ (4,184)	\$ (15,073)	\$ 88,209
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.20)	\$ (57.87)	\$ (0.48)	\$ 1,220.01
Diluted	\$ (0.20)	\$ (57.87)	\$ (0.48)	\$ (4.10)
Weighted average shares used to compute net income (loss) per share attributable to common				

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stockholders:

Basic	31,395,626	72,302	31,376,502	72,302
Diluted	31,395,626	72,302	31,376,502	13,794,138

The accompanying notes are an integral part of these unaudited condensed financial statements.

5

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Table of Contents

Xencor, Inc.

Condensed Statements of Cash Flows

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Net loss	\$ (15,073)	\$ (56,556)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	621	433
Stock-based compensation	1,110	54
Abandonment of capitalized intangible assets	496	241
Gain on disposal of assets	(1)	(16)
Accrued interest on convertible promissory notes (See Note 3)	—	1,211
Loss on exchange of notes for preferred stock	—	48,556
Changes in operating assets and liabilities:		
Accounts receivable	40	354
Prepaid expenses and other assets	(62)	(981)
Accounts payable	(536)	2,046
Accrued expenses	372	(497)
Deferred revenue	(2,454)	3,850
Net cash used in operating activities	(15,487)	(1,305)
Cash flows from investing activities		
Purchase of intangible assets	(1,137)	(1,147)
Purchase of property and equipment	(560)	(136)
Proceeds from sale of property and equipment	1	16
Net cash used in investing activities	(1,696)	(1,267)
Cash flows from financing activities		
Proceeds from issuance of common stock upon exercise of stock awards	8	—
Proceeds from issuance of common stock under the Employee Stock Purchase Plan	130	—
Proceeds from the sale of Series A-1 preferred	—	10,000
Preferred stock issuance costs	—	(116)
Payments on capital lease obligations	(7)	(3)
Net cash provided by financing activities	131	9,881
Net increase (decrease) in cash	(17,052)	7,309
Cash, beginning of period	77,975	2,312
Cash, end of period	\$ 60,923	\$ 9,621

The accompanying notes are an integral part of these unaudited condensed financial statements.



Table of Contents

Xencor, Inc.

Notes to Condensed Financial Statements

September 30, 2014

1. Description of Business

Xencor, Inc. (we, us, our, or the Company) was incorporated in California in 1997 and reincorporated in Delaware in September 2004. We are a clinical-stage biopharmaceutical company focused on discovering and developing engineered monoclonal antibodies to treat severe and life-threatening diseases with unmet medical needs. We use our proprietary XmAb technology platform to create next-generation antibody product candidates designed to treat autoimmune and allergic diseases, cancer, and other conditions. Our engineered Fc domains, the XmAb technology, are applied to our pipeline of antibody-based drug candidates to increase immune inhibition, improve cytotoxicity, or extend half-life. We also enter into collaborations with pharmaceutical companies to allow them to use our XmAb technology in their drug development activities.

Our operations are based in Monrovia and San Diego, California. We operate in one segment.

Unaudited Interim Financial Information

The accompanying unaudited interim financial statements for Xencor, Inc. have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. The Condensed Financial Statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that our management considers necessary for the fair statement of results of operations for the interim periods covered and of the financial condition of the Company at the date of the interim balance sheet. December 31, 2013 balances were derived from the audited Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 31, 2014. The accompanying Condensed Financial Statements do not include all the disclosures required by generally accepted accounting principles in the United States of America (GAAP). The results for interim periods are not necessarily indicative of the results for the entire year or any other interim period. The accompanying Condensed Financial Statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2013 included in the Company’s Annual Report on Form 10-K.

## Initial Public Offering

We completed our initial public offering (IPO) in December 2013, pursuant to which we issued 14,639,500 shares of common stock which included shares we issued pursuant to our underwriters' exercise of their over-allotment option, and received net proceeds of \$72.5 million, after underwriting discounts, commissions and estimated offering expenses. In addition, in connection with the completion of our IPO, all then outstanding convertible preferred stock converted into common stock.

## 2. Summary of Significant Accounting Policies

### Use of Estimates

The preparation of the financial statements in accordance with GAAP requires the Company to make estimates and judgments in certain circumstances that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, fair values of assets, impairment of long-lived assets, convertible preferred stock and common stock, income taxes, pre-clinical study and clinical trial accruals and other contingencies. Management bases its estimates on historical experience or on various other assumptions that it believes to be reasonable under the circumstances. Actual results could materially differ from these estimates.

## Table of Contents

### Reverse Stock Split

On November 1, 2013, the Company affected a 1 for 3.1 reverse stock split. All information in this report relating to the number of shares, price per share and per share amounts of stock prior to November 1, 2013 gives retroactive effect to the 1 for 3.1 reverse stock split of the Company's stock.

### Research and Development Expenses

Costs incurred in research and development activities are expensed as incurred, including expenses that may or may not be reimbursed under research and development collaboration agreements. Research and development costs include, but are not limited to, salaries, benefits, stock-based compensation, laboratory supplies and equipment, allocated overhead, fees for professional service providers and costs associated with product development efforts, including preclinical studies and clinical trials.

The Company estimates preclinical study and clinical trial expenses based on the services performed, pursuant to contracts with research institutions and clinical research organizations that conduct and manage preclinical studies and clinical trials on its behalf. In accruing service fees, the Company estimates the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company will adjust the accrual accordingly. Payments made to third parties under these arrangements in advance of the receipt of the related services are recorded as prepaid expenses until the services are rendered.

### Fair Value of Financial Instruments

Our financial instruments primarily consist of cash, trade accounts receivable, accounts payable and accrued expenses. The fair value of cash, trade accounts receivable, accounts payable and accrued expenses closely approximate their carrying value due to their short maturities.

We determine the fair value of the principal amount of financial and nonfinancial assets and liabilities using the fair value hierarchy, which describes three levels of inputs that may be used to measure fair value, as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities;

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities 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; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The assets recorded at fair value are classified within the hierarchy as follows for the periods reported (in millions):

	September 30, 2014		September 30, 2013	
	Total	Level 1	Total	Level 1
Money Market Funds	\$ —	\$ —	\$ 6.9	\$ 6.9

There were no transfers between Level 1, Level 2 or Level 3 during the periods presented.



Table of Contents

## Net Loss Per Share of Common Stock

We compute net loss per common share by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Potentially dilutive securities consisting of stock issuable under options, convertible preferred stock and our 2013 Employee Stock Purchase Plan (ESPP) are not included in the diluted net loss per common share calculation where the inclusion of such shares would have had an antidilutive effect. The unaudited diluted (loss) income per share calculation assumes the conversion of outstanding shares of convertible preferred stock into common stock using the as-if converted method.

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
	(in thousands, except per share data)							
Basic numerator:								
Net loss	\$ (6,278)		\$ (1,835)		\$ (15,073)		\$ (56,556)	
Deemed contribution (dividend) on exchange of preferred stock	—		(2,349)		—		144,765	
Net income (loss) attributable to common stockholders for basic income (loss) per share	\$ (6,278)		\$ (4,184)		\$ (15,073)		\$ 88,209	
Denominator:								
Weighted-average common shares outstanding	31,395,626		72,302		31,376,502		72,302	
Basic net income (loss) per common share	\$ (0.20)		\$ (57.87)		\$ (0.48)		\$ 1,220.01	

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
	(in thousands, except per share data)							
Diluted numerator:								
Net income (loss) attributable to common stockholders for basic income (loss) per share	\$ (6,278)		\$ (4,184)		\$ (15,073)		\$ 88,209	
Deemed contribution	—		—		—		(144,765)	
Net loss attributable to common stockholders for diluted net loss per share	\$ (6,278)		\$ (4,184)		\$ (15,073)		\$ (56,556)	
Denominator:								