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# 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 March 31, 2021**

**or**

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

**For the transition period from _____ to _____**

**Commission file number: 001-36182**

# Xencor, Inc.
(Exact name of registrant as specified in its charter)

| **Delaware** | **20-1622502** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **111 West Lemon Avenue, Monrovia, CA** | **91016** |
| (Address of principal executive offices) | (Zip Code) |

**(626) 305-5900**
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class: | Trading Symbol(s) | Name of each exchange on which registered: |
|---|---|---|
| Common Stock, par value $0.01 per share | XNCR | Nasdaq Global Market |

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 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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 Securities Exchange Act of 1934). Yes ☐ No ☒

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

| Class | Outstanding at April 26, 2021 |
|---|---|
| Common stock, $0.01 par value | 58,224,616 |

**Xencor, Inc.**

**Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2021**

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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.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You should not place undue reliance on these statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under Part II, Item 1A, "Risk Factors" in this Quarterly Report. These statements, which represent our current expectations or beliefs concerning various future events, may contain words such as "may," "will," "expect," "anticipate," "intend," "plan," "believe," "estimate," the negative of such terms or other words indicating future results.

These forward-looking statements should, therefore, be considered in light of various important factors, including but not limited to, the following:

- the effects of the ongoing COVID-19 pandemic on our financial condition, results of operations, cash flows and performance;
- our ability to execute on our plans to research, develop and commercialize our product candidates;
- the success of our ongoing and planned clinical trials;
- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;
- our ability to accurately estimate 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;
- our ability to receive research funding and achieve anticipated milestones under our collaborations;
- our ability to attract collaborators with development, regulatory, and commercial expertise;
- our ability to protect our intellectual property position;
- the rate and degree of market acceptance and clinical utility of our products;
- costs of compliance and our failure to comply with new and existing governmental regulations;
- the capabilities and strategy of our suppliers and vendors including key manufacturers of our clinical drug supplies;
- significant competition in our industry;
- costs of litigation and the failure to successfully defend lawsuits and other claims against us;
- the potential loss or retirement of key members of management;
- our failure to successfully execute our growth strategy, including any delays in our planned future growth;
- our failure to maintain effective internal controls; and

- our ability to accurately estimate expenses, future revenues, capital requirements and needs for additional financing.

The factors, risks and uncertainties referred to above and others are more fully described under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and this Quarterly Report on Form 10-Q. Forward-looking statements should be regarded solely as our current plans, estimates and beliefs. 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.

## PART I — FINANCIAL INFORMATION

**Item1. Financial Statements**

**Xencor, Inc.**
**Balance Sheets**
**(in thousands, except share and per share data)**

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| | (unaudited) | |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 176,965 | $ 163,544 |
| Marketable securities | 368,878 | 434,156 |
| Equity securities | 6,136 | 5,303 |
| Accounts receivable | 12,525 | 11,443 |
| Contract asset | 12,500 | 12,500 |
| Prepaid expenses and other current assets | 14,164 | 10,726 |
| Total current assets | 591,168 | 637,672 |
| Property and equipment, net | 22,301 | 21,682 |
| Patents, licenses, and other intangible assets, net | 15,550 | 15,977 |
| Marketable securities - long term | 25,082 | 1,030 |
| Equity securities - long term | 28,219 | 16,071 |
| Other assets | 10,417 | 10,812 |
| Total assets | $ 692,737 | $ 703,244 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities | | |
| Accounts payable | $ 7,663 | $ 8,954 |
| Accrued expenses | 12,513 | 17,603 |
| Lease liabilities | 1,934 | 1,889 |
| Deferred revenue | 77,821 | 92,615 |
| Total current liabilities | 99,931 | 121,061 |
| Lease liabilities, net of current portion | 9,194 | 9,739 |
| Total liabilities | 109,125 | 130,800 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Preferred stock, $0.01 par value: 10,000,000 authorized shares; -0- issued and outstanding shares at March 31, 2021 and December 31, 2020 | — | — |
| Common stock, $0.01 par value: 200,000,000 authorized shares at March 31, 2021 and December 31, 2020; 58,221,953 issued and outstanding at March 31, 2021 and 57,873,444 issued and outstanding at December 31, 2020 | 583 | 580 |
| Additional paid-in capital | 951,154 | 937,525 |
| Accumulated other comprehensive income | 97 | 74 |
| Accumulated deficit | (368,222) | (365,735) |
| Total stockholders' equity | 583,612 | 572,444 |
| Total liabilities and stockholders' equity | $ 692,737 | $ 703,244 |

*See accompanying notes.*

**Xencor, Inc.**
**Statements of Comprehensive Income (Loss)**
**(unaudited)**
**(in thousands, except share and per share data)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Revenue** | | |
| Collaborations, licenses, milestones, and royalties | $ 33,965 | $ 32,385 |
| **Operating expenses** | | |
| Research and development | 41,411 | 33,943 |
| General and administrative | 8,226 | 7,219 |
| **Total operating expenses** | 49,637 | 41,162 |
| **Loss from operations** | (15,672) | (8,777) |
| **Other income (expenses)** | | |
| Interest income, net | 215 | 3,039 |
| Other income (expense), net | 12,970 | (2,336) |
| **Total other income, net** | 13,185 | 703 |
| **Net loss** | (2,487) | (8,074) |
| | | |
| **Other comprehensive income (loss)** | | |
| Net unrealized gain (loss) on marketable securities | 23 | (105) |
| **Comprehensive loss** | $ (2,464) | $ (8,179) |
| | | |
| Basic and diluted net loss per common share | $ (0.04) | $ (0.14) |
| | | |
| Basic and diluted weighted average common shares outstanding | 57,997,313 | 56,946,714 |

*See accompanying notes.*

**Xencor, Inc.**
**Statements of Stockholders' Equity**
**(unaudited)**
**(in thousands, except share data)**

| Stockholders' Equity | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2020** | 57,873,444 | 580 | 937,525 | 74 | (365,735) | 572,444 |
| Issuance of common stock upon exercise of stock awards | 230,701 | 2 | 5,337 | — | — | 5,339 |
| Issuance of restricted stock units | 117,808 | 1 | (1) | — | — | — |
| Comprehensive income (loss) | — | — | — | 23 | (2,487) | (2,464) |
| Stock-based compensation | — | — | 8,293 | — | — | 8,293 |
| **Balance, March 31, 2021** | 58,221,953 | $ 583 | $ 951,154 | $ 97 | $ (368,222) | $ 583,612 |

| Stockholders' Equity | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2019** | 56,902,301 | 569 | 887,873 | 1,161 | (296,402) | 593,201 |
| Issuance of common stock upon exercise of stock awards | 79,930 | 1 | 1,470 | — | — | 1,471 |
| Issuance of restricted stock units | 19,022 | — | — | — | — | — |
| Comprehensive loss | — | — | — | (105) | (8,074) | (8,179) |
| Stock-based compensation | — | — | 6,512 | — | — | 6,512 |
| **Balance, March 31, 2020** | 57,001,253 | $ 570 | $ 895,855 | $ 1,056 | $ (304,476) | $ 593,005 |

*See accompanying notes.*

**Xencor, Inc.**
**Statements of Cash Flows**
**(unaudited)**
**(in thousands)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Cash flows from operating activities** | | |
| Net loss | $ (2,487) | $ (8,074) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 1,638 | 1,373 |
| Amortization of premium (accretion of discount) on marketable securities | 865 | (573) |
| Stock-based compensation | 8,293 | 6,512 |
| Abandonment of capitalized intangible assets | 193 | 28 |
| Equity received in connection with license agreement | — | (4,589) |
| Change in fair value of equity security | (12,980) | 2,336 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,082) | 14,749 |
| Interest receivable | 311 | 215 |
| Contract asset and deposits | (62) | — |
| Prepaid expenses and other assets | (3,438) | 71 |
| Accounts payable | (1,291) | 124 |
| Accrued expenses | (5,090) | (1,703) |
| Lease liabilities and right of use (ROU) assets | (42) | (54) |
| Deferred revenue | (14,794) | (955) |
| Net cash (used in) provided by operating activities | (29,966) | 9,460 |
| **Cash flows from investing activities** | | |
| Purchase of marketable securities | (84,139) | (142,477) |
| Purchase of intangible assets | (72) | (538) |
| Purchase of property and equipment | (1,951) | (2,073) |
| Proceeds from maturities and sale of marketable securities | 124,210 | 157,653 |
| Net cash provided by investing activities | 38,048 | 12,565 |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of common stock upon exercise of stock awards | 5,339 | 1,471 |
| Net cash provided by financing activities | 5,339 | 1,471 |
| **Net increase in cash and cash equivalents** | 13,421 | 23,496 |
| **Cash and cash equivalents**, beginning of period | 163,544 | 50,312 |
| **Cash and cash equivalents**, end of period | $ 176,965 | $ 73,808 |
| | | |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid during the period for: | | |
| Interest | $ 4 | $ 6 |
| **Supplemental disclosures of non-cash investing activities** | | |
| Unrealized gain (loss) on marketable securities | $ 23 | $ (105) |

*See accompanying notes.*

**Xencor, Inc.**

**Notes to Financial Statements**
**(unaudited)**

**March 31, 2021**

## 1. Summary of Significant Accounting Policies

### *Basis of Presentation*

The accompanying unaudited interim financial statements for Xencor, Inc. (the Company, Xencor, we or us) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments) that the management of the Company believes are necessary for a fair presentation of the periods presented. The preparation of interim financial statements requires the use of management's estimates and assumptions that affect reported amounts of assets and liabilities at the date of the interim financial statements and the reported revenues and expenditures during the reported periods. These interim financial results are not necessarily indicative of the results expected for the full fiscal year or for any subsequent interim period.

The accompanying unaudited interim financial statements and related notes should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2020 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 24, 2021.

### *Use of Estimates*

The preparation of interim financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, other comprehensive gain (loss) and the related disclosures. On an ongoing basis, management evaluates its estimates, including estimates related to its accrued clinical trial and manufacturing development expenses, stock-based compensation expense, intangible assets and related amortization. Significant estimates in these interim financial statements include estimates: made for royalty revenue, accrued research and development expenses, stock-based compensation expenses, intangible assets and related amortization, estimated standalone selling price of performance obligations, estimated time for completing delivery of performance obligations under certain arrangements, the likelihood of recognizing variable consideration, and recoverability of deferred tax assets.

### *Intangible Assets*

The Company maintains definite-lived intangible assets related to certain capitalized costs of acquired licenses and third-party costs incurred in establishing and maintaining its intellectual property rights to its platform technologies and development candidates. These assets are amortized over their useful lives, which are estimated to be the remaining patent life or the contractual term of the license. The straight-line method is used to record amortization expense. The Company assesses its intangible assets for impairment if indicators are present or changes in circumstances suggest that impairment may exist. There were no impairment charges recorded for the three months ended March 31, 2021 and 2020.

The Company capitalizes certain in-process intangible assets that are then abandoned when they are no longer pursued or used in current research activities. There was no material abandonment of in-process intangible assets during the three months ended March 31, 2021 and 2020.

***Marketable and Equity Securities***

The Company has an investment policy that includes guidelines on acceptable investment securities, minimum credit quality, maturity parameters, and concentration and diversification. The Company invests its excess cash primarily in marketable debt securities issued by investment grade institutions.

The Company considers its marketable debt securities to be available-for-sale and does not intend to sell these securities, and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost basis. These assets are carried at fair value and any impairment losses and recoveries related to the underlying issuer's credit standing are recognized within other income (expense), while non-credit related impairment losses and recoveries are recognized within accumulated other comprehensive income (loss). There were no impairment losses or recoveries recorded for the three months ended March 31, 2021 and 2020, respectively. Accrued interest on marketable debt securities is included in marketable securities' carrying value. Each reporting period, the Company reviews its portfolio of marketable debt securities, using both quantitative and qualitative factors, to determine if each security's fair value has declined below its amortized cost basis.

The Company receives equity securities in connection with certain licensing transactions with its partners. These investments in an equity security are carried at fair value with changes in fair value recognized each period and reported within other income (expense). For equity securities with a readily determinable fair value, the Company remeasures these equity investments at each reporting period until such time that the investment is sold or disposed. If the Company sells an investment, any realized gains or losses on the sale of the securities will be recognized within other income (expense) in the Statements of Comprehensive Income (Loss) in the period of sale.

The Company also has investments in equity securities without readily determinable fair values, where the Company elects the measurement alternative to record at its initial cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

***Recent Accounting Pronouncements***

*Pronouncements Adopted in 2021*

Effective January 1, 2021, the Company adopted ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which removes specific exceptions to the general principles in Topic 740 and simplifies the accounting for income taxes. The adoption of this standard did not have a significant impact on the Company's financial statements.

Effective January 1, 2021, the Company adopted ASU No. 2020-01, which clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investment – Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321, Investments – Equity Securities immediately before applying or upon discontinuing the equity method. The adoption of this standard did not have a significant impact on the Company's financial statements.

Effective January 1, 2021, the Company adopted ASU No. 2020-10, *Codification Improvements*, which amends a variety of topics in the Accounting Standards Codification to improve consistency and clarify guidance. The adoption of this standard did not have a significant impact on the Company's financial statements.

There have been no other material changes to the significant accounting policies previously disclosed in the Company's 2020 Annual Report on Form 10-K.

**2. Fair Value of Financial Instruments**

Financial instruments included in the financial statements include cash and cash equivalents, marketable debt securities, accounts receivable, accounts payable and accrued expenses. Marketable debt securities and cash equivalents are carried at fair value. The fair value of the other financial instruments closely approximates their fair value due to their short-term maturities.

The Company accounts for recurring and non-recurring fair value measurements in accordance with FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a fair value hierarchy for assets and liabilities measured at fair value, and requires expanded disclosure about fair value measurements. The ASC 820 hierarchy ranks the quality of reliable inputs, or assumptions, used in the determination of fair value and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

*Level 1*—Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets or liabilities.

*Level 2*—Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets that are not active. Related inputs can also include those used in valuation or other pricing models, such as interest rates and yield curves that can be corroborated by observable market data.

*Level 3*—Fair value is determined by inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgments to be made by the reporting entity – e.g. determining an appropriate discount factor for illiquidity associated with a given security.

The Company measures the fair value of financial assets using the highest level of inputs that are reasonably available as of the measurement date. The assets recorded at fair value are classified within the hierarchy as follows for the periods reported (in thousands):

| | March 31, 2021 (unaudited) | | | | December 31, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Fair Value | Level 1 | Level 2 | Level 3 | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Money Market Funds | $ 165,350 | $ 165,350 | $ — | $ — | $ 158,937 | $ 158,937 | $ — | $ — |
| Corporate Securities | 73,929 | — | 73,929 | — | 119,833 | — | 119,833 | — |
| Government Securities | 320,031 | — | 320,031 | — | 315,353 | — | 315,353 | — |
| Equity Securities with Readily Determinable Fair Value | 6,136 | 6,136 | — | — | 5,303 | 5,303 | — | — |
| Equity Securities without Readily Determinable Fair Value | 28,219 | — | — | 28,219 | 16,071 | — | — | 16,071 |
| | $ 593,665 | $ 171,486 | $ 393,960 | $ 28,219 | $ 615,497 | $ 164,240 | $ 435,186 | $ 16,071 |

Our policy is to record transfers of assets between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. During the three months ended March 31, 2021 and 2020, there were no transfers between Level 1 and Level 2. During the three months ended March 31, 2021, an equity investment without a readily determinable fair value was transferred to Level 1 from Level 3.

The Company held equity securities without readily determinable fair value at March 31, 2021 and December 31, 2020, respectively. The Company elects the measurement alternative to record at its initial cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

**3. Net Loss Per Share**

Basic net loss per common share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period without consideration of common stock equivalents. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common stock equivalents outstanding for the period. Potentially dilutive securities consisting of stock issuable under options, ESPP and RSUs and are not included in the per common share calculation in periods when the inclusion of such shares would have an anti-dilutive effect.

Basic and diluted net loss per common share is computed as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| | (in thousands, except share and per share data) | |
| Numerator: | | |
| Net loss attributable to common stockholders | $ (2,487) | $ (8,074) |
| Denominator: | | |
| Weighted-average common shares outstanding used in computing basic and diluted net loss | 57,997,313 | 56,946,714 |
| Basic and diluted net loss per common share | $ (0.04) | $ (0.14) |

For the three months ended March 31, 2021 and 2020, all outstanding potentially dilutive securities have been excluded from the calculation of diluted net loss per common share as the effect of including such securities would have been anti-dilutive.

**4. Comprehensive Loss**

Comprehensive loss is comprised of net loss and other comprehensive income (loss). For the three months ended March 31, 2021 and 2020, the only component of other comprehensive income (loss) is net unrealized gain (loss) on marketable securities. There were no material reclassifications out of accumulated other comprehensive income (loss) during the three months ended March 31, 2021 and 2020.

**5. Marketable and Equity Securities**

The Company's marketable debt securities held as of March 31, 2021 and December 31, 2020 are summarized below:

| March 31, 2021 (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Money Market Funds | $ 165,350 | $ — | $ — | $ 165,350 |
| Corporate Securities | 73,922 | 12 | (5) | 73,929 |
| Government Securities | 319,931 | 107 | (7) | 320,031 |
| | $ 559,203 | $ 119 | $ (12) | $ 559,310 |
| Reported as | | | | |
| Cash and cash equivalents | | | | $ 165,350 |
| Marketable securities | | | | 393,960 |
| Total investments | | | | $ 559,310 |

| December 31, 2020 (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Money Market Funds | $ 158,937 | $ — | $ — | $ 158,937 |
| Corporate Securities | 119,782 | 57 | (6) | 119,833 |
| Government Securities | 315,319 | 37 | (3) | 315,353 |
| | $ 594,038 | $ 94 | $ (9) | $ 594,123 |
| Reported as | | | | |
| Cash and cash equivalents | | | | $ 158,937 |
| Marketable securities | | | | 435,186 |
| Total investments | | | | $ 594,123 |

The maturities of the Company's marketable debt securities are as follows:

| March 31, 2021 (in thousands) | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Mature in one year or less | $ 368,762 | $ 368,878 |
| Mature within two years | 25,091 | 25,082 |
| | $ 393,853 | $ 393,960 |

The unrealized losses on available-for-sale investments and their related fair values as of March 31, 2021 and December 31, 2020 are as follows:

| | Less than 12 months | | 12 months or greater | |
|---|---|---|---|---|
| March 31, 2021 | Fair value | Unrealized losses | Fair value | Unrealized losses |
| (in thousands) | | | | |
| Corporate Securities | $ 4,102 | $ (2) | $ 3,066 | $ (3) |
| Government Securities | — | — | 14,990 | (7) |
| | $ 4,102 | $ (2) | $ 18,056 | $ (10) |

| | Less than 12 months | | 12 months or greater | |
|---|---|---|---|---|
| December 31, 2020 | Fair value | Unrealized losses | Fair value | Unrealized losses |
| (in thousands) | | | | |
| Corporate Securities | $ 15,843 | $ (6) | $ — | $ — |
| Government Securities | 40,802 | (3) | — | — |
| | $ 56,645 | $ (9) | $ — | $ — |

The unrealized losses from the listed securities are primarily due to a change in the interest rate environment and not a change in the credit quality of the securities.

In 2020, the Company received shares of common stock of Aimmune Therapeutics, Inc. (Aimmune) and shares of common stock of Viridian Therapeutics, Inc. (Viridian, formerly MiRagen Therapeutics, Inc.) in connection with the Aimmune and Viridian licensing arrangements (both as defined below). The Aimmune common stock was redeemed for cash within the same year; the Viridian common stock is classified as equity securities with a readily determinable fair value at March 31, 2021. In 2020, the Company also received equity of Zenas BioPharma Limited (Zenas), a private company, in connection with a licensing agreement. The Company elected the measurement alternative to carry the Zenas equity at cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. There has not been any impairment or observable price changes related to this investment. In 2018, the Company received equity shares in Quellis Biosciences, Inc. (Quellis), a private company, in connection with a licensing transaction. The Company recorded the Quellis equity as securities not having a readily determinable fair value, and the investment was recorded at its original cost. In 2021, Quellis merged into Catabasis Pharmaceuticals, Inc. (Catabasis), and the Company received equity shares in Catabasis, which common shares have a readily determinable fair value. The adjustment in the fair value of the Catabasis equity has been recorded in other income (loss) for the three months ended March 31, 2021.

Net gains and losses during the year ended March 31, 2021 and 2020 consist of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net gains (losses) recognized on equity securities | $ 12,981 | $ (2,336) |
| Less: net gains recognized on equity securities redeemed | (1) | — |
| Unrealized gains (losses) recognized on equity securities | $ 12,980 | $ (2,336) |

**6. Stock Based Compensation**

Our Board of Directors (the Board) and the requisite stockholders previously approved the 2010 Equity Incentive Plan (the 2010 Plan). In October 2013, the Board approved the 2013 Equity Incentive Plan (the 2013 Plan), and in November 2013, our stockholders approved the 2013 Plan, which became effective as of December 3, 2013. As of December 2, 2013, we suspended the 2010 Plan, and no additional awards may be granted under the 2010 Plan. Any shares of common stock covered by awards granted under the 2010 Plan that terminate after December 2, 2013 by expiration, forfeiture, cancellation or other means without the issuance of such shares will be added to the 2013 Plan reserve.

As of March 31, 2021, the total number of shares of common stock available for issuance under the 2013 Plan is 13,445,524, which includes 2,684,456 shares of common stock that were available for issuance under the 2010 Plan as of the effective date of the 2013 Plan. Unless otherwise determined by the Board, beginning January 1, 2014, and continuing until the expiration of the 2013 Plan, the total number of shares of common stock available for issuance under the 2013 Plan will automatically increase annually on January 1 of each year by 4% of the total number of issued and outstanding shares of common stock as of December 31 of the immediately preceding year. Pursuant to approval by the Board, the total number of shares of common stock available for issuance under the 2013 Plan was increased by 2,314,937 shares on January 1, 2021. As of March 31, 2021, a total of 11,894,756 options have been granted under the 2013 Plan.

In November 2013, the Board and our stockholders approved the 2013 Employee Stock Purchase Plan (ESPP), which became effective as of December 5, 2013. We have reserved a total of 581,286 shares of common stock for issuance under the ESPP. Unless otherwise determined by the Board, beginning on January 1, 2014, and continuing until the expiration of the ESPP, the total number of shares of common stock available for issuance under the ESPP will automatically increase annually on January 1 by the lesser of (i) 1% of the total number of issued and outstanding shares of common stock as of December 31 of the immediately preceding year, or (ii) 621,814 shares of common stock. Pursuant to approval by our Board of Directors, there was no increase in the number of authorized shares in the ESPP from 2015 to 2020. As of March 31, 2021, we have issued a total of 467,595 shares of common stock under the ESPP.

During the three months ended March 31, 2021, the Company awarded 247,050 restricted stock units (RSUs) to certain employees. The standard vesting of these awards is generally in three equal annual installments and is contingent on continued service to the Company. The fair value of these awards is determined based on the intrinsic value of the stock on the date of grant and will be recognized as stock-based compensation expense over the requisite service period. As of March 31, 2021, we have granted a total of 700,837 shares of common stock issuable upon the vesting of RSUs.

Total employee, director and non-employee stock-based compensation expense recognized for the three months ended March 31, 2021 and 2020 are as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| General and administrative | $ 2,737 | $ 2,291 |
| Research and development | 5,556 | 4,221 |
| | $ 8,293 | $ 6,512 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Stock options | $ 6,530 | $ 5,882 |
| ESPP | 248 | 194 |
| RSUs | 1,515 | 436 |
| | $ 8,293 | $ 6,512 |

The following table summarizes option activity under our stock plans and related information:

| | Number of Shares Subject to Outstanding Options | Weighted Average Exercise Price (Per Share) | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Balance at December 31, 2020 | 7,751,789 | $ 26.23 | 7.00 | $ 134,941 |
| Options granted | 1,321,917 | $ 43.24 | | |
| Options forfeited | (64,824) | $ 33.00 | | |
| Options exercised | (230,701) | $ 23.14 | | |
| Balance at March 31, 2021 | 8,778,181 | $ 28.82 | 7.25 | $ 125,395 |
| Exercisable | 4,963,607 | $ 22.73 | 5.95 | $ 100,938 |

We calculate the intrinsic value as the difference between the exercise price of the options and the closing price of common stock of $43.06 per share as of March 31, 2021.

Weighted-average fair value of options granted during the three-month periods ended March 31, 2021 and 2020 were $22.83 and $16.64 per share, respectively. There were 1,137,420 options granted during the three-month period ended March 31, 2020. We estimated the fair value of each stock option using the Black-Scholes option-pricing model based on the date of grant of such stock option with the following weighted average assumptions for the three months ended March 31, 2021 and 2020:

| | Options | |
|---|---|---|
| | Three Months Ended March 31, | |
| | 2021 | 2020 |
| Expected term (years) | 6.2 | 6.3 |
| Expected volatility | 55.6 % | 53.9 % |
| Risk-free interest rate | 1.02 % | 1.71 % |
| Expected dividend yield | — % | — % |

| | ESPP | |
|---|---|---|
| | Three Months Ended March 31, | |
| | 2021 | 2020 |
| Expected term (years) | 0.5 - 2.0 | 0.5 - 2.0 |
| Expected volatility | 50.8 - 66.4 % | 50.8 % |
| Risk-free interest rate | 0.09 - 1.65 % | 1.56 - 1.65 % |
| Expected dividend yield | — % | — % |

As of March 31, 2021, the unamortized compensation expense related to unvested stock options was $71.4 million. The remaining unamortized compensation expense will be recognized over the next 3.0 years. As of March 31, 2021, the unamortized compensation expense under our ESPP was $0.7 million. The remaining unamortized expense will be recognized over the next 0.7 years.

The following table summarizes the RSU activity for the three-month period ended March 31, 2021:

| | Restricted Stock Units | Weighted Average Grant Date Fair Value (Per unit) |
|---|---|---|
| Unvested RSUs at December 31, 2020 | 358,825 | $ 33.04 |
| Granted | 247,050 | 43.11 |
| Vested | (117,808) | 31.75 |
| Forfeited | (9,071) | 32.36 |
| Unvested RSUs at March 31, 2021 | 478,996 | $ 38.56 |

As of March 31, 2021, the unamortized compensation expense related to unvested RSUs was $17.3 million. The remaining unamortized expense will be recognized over the next 2.6 years.

**7. Leases**

The Company leases office and laboratory space in Monrovia, CA under a lease that expires in December 2025 with an option to renew for an additional five years at then market rates. In July 2017, under a separate lease agreement, the Company entered into a lease for additional space in the same building with a lease that continues through September 2022, also with an option to renew for an additional five years. The Company assesses that it is likely to exercise both options of the lease term extensions.

The Company leases additional office space in San Diego, CA through August 2022, with an option to extend for an additional five years. The Company assesses that it is unlikely to exercise the option to extend the lease term.

The Company's lease agreements do not contain any residual value guarantees or restrictive covenants. As of March 31, 2021, the Company did not have additional operating leases that have not yet commenced.

The following table reconciles the undiscounted cash flows for the operating leases at March 31, 2021 to the operating lease liabilities recorded on the balance sheet (in thousands):

| **Years ending December 31,** | |
|---|---|
| For the remainder of 2021 | $ 1,773 |
| 2022 | 2,269 |
| 2023 | 1,415 |
| 2024 | 1,436 |
| 2025 | 1,396 |
| 2026 | 1,480 |
| Thereafter | 3,861 |
| Total undiscounted lease payments | 13,630 |
| Less: Imputed interest | (2,502) |
| Present value of lease payments | $ 11,128 |
| | |
| Lease liabilities - short-term | $ 1,934 |
| Lease liabilities - long-term | 9,194 |
| Total lease liabilities | $ 11,128 |

The following table summarizes lease costs and cash disclosures for the three months ended March 31, 2021 and 2020 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Operating lease cost | $ 614 | $ 648 |
| Variable lease cost | 10 | 22 |
| Total lease costs | $ 624 | $ 670 |
| Cash paid for amounts included in the measurement of lease liabilities | $ 499 | $ 557 |

As of March 31, 2021, the weighted-average remaining lease term for operating leases is 7.3 years, and the weighted-average discount rate for operating leases is 5.5%

**8. Commitments and Contingencies**

From time to time, the Company may be subject to various litigation and related matters arising in the ordinary course of business. The Company does not believe it is currently subject to any material matters where there is at least a reasonable possibility that a material loss may be incurred.

The Company is obligated to make future payments to third parties under in-license agreements, including sublicense fees, royalties, and payments that become due and payable on the achievement of certain development and commercialization milestones. As the amount and timing of sublicense fees and the achievement and timing of these milestones are not probable and estimable, such commitments have not been included on the Company's balance sheet. The Company has also entered into agreements with third-party vendors which will require us to make future payments upon the delivery of goods and services in future periods.

**9. Collaboration and Licensing Agreements**

The following is a summary description of the material revenue arrangements, including arrangements that generated revenue in the three months ended March 31, 2021 and 2020.

***Aimmune Therapeutics, Inc.***

On February 4, 2020, the Company entered into a License, Development and Commercialization Agreement (the Aimmune Agreement) with Aimmune pursuant to which the Company granted Aimmune an exclusive worldwide license to XmAb7195, which was renamed AIMab7195. Under the Aimmune Agreement, Aimmune will be responsible for all further development and commercialization activities for XmAb7195. The Company received an upfront payment of $5.0 million and 156,238 shares of Aimmune common stock with an aggregate value of $4.6 million on the closing date. Under the Aimmune Agreement, the Company is also eligible to receive up to $385.0 million in milestones, which include $22.0 million in development milestones, $53.0 million in regulatory milestones and $310.0 million in sales milestones, and tiered royalties on net sales of approved products from high-single to mid-teen percentage range.

Under the Aimmune Agreement, Aimmune received exclusive worldwide rights to manufacture, develop and commercialize XmAb7195. They also received the rights to all data, information and research materials related to the XmAb7195 program.

The Company determined the transaction price at inception of the Aimmune Agreement and allocated it to the performance obligation, delivery of the XmAb7195 license. In March 2020, the Company completed delivery of its performance obligations when the license to XmAb7195 was transferred to Aimmune.

No revenue was recognized in the three months ended March 31, 2021. The Company recognized $9.6 million of revenue related to the agreement for the three months ended March 31, 2020. There is no deferred revenue as of March 31, 2021 related to this agreement.

***Alexion Pharmaceuticals, Inc.***

In January 2013, the Company entered into an Option and License Agreement (the Alexion Agreement) with Alexion Pharmaceuticals, Inc. (Alexion). Under the terms of the Alexion Agreement, the Company granted to Alexion an exclusive research license, with limited sublicensing rights, to make and use the Company's Xtend technology to evaluate and advance compounds. Alexion exercised its rights to one target program, ALXN1210, which is now marketed as Ultomiris®.

The Company is eligible to receive contractual milestones for certain commercial achievements and is also entitled to receive royalties based on a percentage of net sales of Ultomiris sold by Alexion, its affiliates or its sublicensees, which percentage is in the low single digits. Alexion's royalty obligations continue on a product-by-product and country-by-country basis until the expiration of the last-to-expire valid claim in a licensed patent covering the applicable product in such country.

At December 31, 2020, the Company recorded a contract asset of $10.0 million related to a contractual sales milestone; the Company received payment for this milestone during the three-month period ended March 31, 2021.

Under ASC 606, *Revenue from Contracts with Customers* (ASC 606), the Company recognizes revenue for sales-based royalties upon the subsequent sale of the product. The Company recognized $5.3 million and $3.3 million of royalty revenue under this arrangement for the three months ended March 31, 2021 and 2020, respectively. As of March 31, 2021, there is a receivable of $9.5 million related to royalties due under the arrangement. There is no deferred revenue related to this agreement.

***Amgen Inc.***

In September 2015, the Company entered into a research and license agreement (the Amgen Agreement) with Amgen Inc. (Amgen) to develop and commercialize bispecific antibody product candidates using the Company's proprietary XmAb bispecific Fc technology. Under the Amgen Agreement, the Company granted an exclusive license to Amgen to the rights to our CD38 x CD3 preclinical program and developed AMG 424. Amgen also applied our bispecific Fc technology to create AMG 509, a STEAP1 x CD3 XmAb 2+1 bispecific antibody.

In May 2020, Amgen notified the Company that it was terminating its rights with respect to the CD38 x CD3 program, including AMG 424 (now XmAb698). Under the terms of the Amgen Agreement, the rights to the AMG 424 program reverted to the Company in connection with the termination. The Company plans to support studies of XmAb698 in 2021.

No revenue was recognized under the arrangement during the three months ended March 31, 2021 or 2020. As of March 31, 2021, there is no deferred revenue related to the arrangement.

***Astellas Pharma Inc.***

Effective March 29, 2019, the Company entered into a Research and License Agreement (the Astellas Agreement) with Astellas Pharma Inc. (Astellas) pursuant to which the Company and Astellas will conduct a discovery program to characterize compounds and products for development and commercialization. Under the Astellas Agreement, Astellas was granted a worldwide exclusive license, with the right to sublicense products in the field created by the research activities.

Pursuant to the Astellas Agreement, the Company applied its bispecific Fc technology to research antibodies provided by Astellas to generate bispecific antibody candidates and returned the candidates to Astellas for further development and commercialization. Pursuant to the Astellas Agreement, the Company received an upfront payment of $15.0 million and is eligible to receive up to $240.0 million in milestones, which include $32.5 million in development milestones, $57.5 million in regulatory milestones and $150.0 million in sales milestones.

The Company recognized the $13.6 million allocated to the bispecific antibodies when it satisfied its performance obligation and transferred the bispecific antibodies to Astellas in June 2019. The $1.4 million allocated to the research activities is being recognized as the research services are being completed over the period of time the Company expects to complete the activities under the research plan. The Company completed the remaining activities under the research plan during the second quarter of 2020.

At December 31, 2020, the Company recorded a contract asset of $2.5 million related to a development milestone; the Company received payment for this milestone in the three-month period ended March 31, 2021.

The Company did not recognize revenue related to the arrangement for the three months ended March 31, 2021. The Company recognized $0.3 million revenue for the three months ended March 31, 2020. There is no deferred revenue as of March 31, 2021 related to the arrangement.

***Atreca, Inc.***

In July 2020, the Company entered into a Collaboration and License Agreement (the Atreca Agreement) with Atreca, Inc. (Atreca), to research, develop and commercialize novel CD3 bispecific antibodies as potential therapeutics in oncology. Under the Atreca Agreement, the companies will engage in a three-year research program in which Atreca will provide antibodies against novel tumor targets through its discovery platform from which the Company will engineer XmAb bispecific antibodies that also bind to the CD3 receptor on T cells. The two companies will share research costs equally during the research term. Up to two joint programs are eligible to be mutually selected for further development and commercialization, with each partner sharing fifty percent of costs and profits. Each company has the option to lead development, regulatory and commercialization activities for one of the joint programs. In addition, the agreement allows each partner the option to pursue up to two programs independently, with a mid-to high-single digit percentage royalty payable on net sales to the other partner.

***Catabasis Pharmaceuticals, Inc. / Quellis Biosciences, Inc.***

In May 2018, the Company entered into an agreement with Quellis, pursuant to which the Company provided Quellis a non-exclusive license to its Xtend Fc technology to apply to an identified antibody. Quellis is responsible for all development and commercialization activities. The Company received an equity interest in Quellis and is eligible to receive up to $66.0 million in milestones, which include $6.0 million in development milestones, $30.0 million in regulatory milestones and $30.0 million in sales milestones. In addition, the Company is eligible to receive royalties in the mid-single digit percentage range on net sales of approved products.

In January 2021, Quellis merged into Catabasis, and the Company received common and preferred stock of Catabasis stock in exchange for its equity in Quellis. The Company recognized an increase in the fair value of its equity interest for the exchange of shares which is recorded as other income for the three months ended March 31, 2021.

The Company recognized other income of $12.9 million for the three months ended March 31, 2021. There is no deferred revenue as of March 31, 2021 related to this agreement.

***Genentech, Inc. and F. Hoffmann-La Roche Ltd.***

In February 2019, the Company entered into a collaboration and license agreement (the Genentech Agreement) with Genentech, Inc. and F. Hoffman-La Roche Ltd (collectively, Genentech) for the development and commercialization of novel IL-15 collaboration products (Collaboration Products), including XmAb306 (also named RG6323), the Company's IL-15/IL-15Ra candidate. The Genentech Agreement became effective March 8, 2019.

Pursuant to the Genentech Agreement, XmAb306 is designated as a development program and all costs incurred for developing XmAb306 from March 8, 2019, the effective date of the Genentech Agreement, are being shared with Genentech under the initial cost-sharing percentage of 45%. In October 2020, a second candidate, a targeted IL-15 candidate, was designated as a development candidate, and all development costs incurred from the date of designation are also being shared with Genentech under the initial cost-sharing percentage of 45%.

Pursuant to the Genentech Agreement, the Company and Genentech are conducting joint research activities for a two-year period to identify and discover additional IL-15 candidates developed from the Company's cytokine and bispecific technologies. The two-year research term may be extended an additional year if both parties agree. The Company and Genentech are currently in negotiations to extend the research term for an additional year. The Company and Genentech are each responsible for their own costs in conducting the research activities. The Company is eligible for clinical milestone payments for new Collaboration Products identified from the research efforts.

The Company recognized the $111.7 million allocated to the license when it satisfied its performance obligation and transferred the license to Genentech in March 2019. A total of $8.3 million of the transaction price was allocated to the research activities and is being recognized over a period of time through the end of the research term that services are rendered.

For the three months ended March 31, 2021 and 2020, the Company recognized $0.2 million and $0.7 million of income, respectively, from the Genentech Agreement. As of March 31, 2021, there is a $2.9 million payable related to cost-sharing development activities during the first quarter of 2021 for the XmAb306 and the targeted IL-15 program. There is $2.3 million in deferred revenue as of March 31, 2021, which reflects the Company's obligation to perform research services.

***Gilead Sciences, Inc.***

In January 2020, the Company entered into a Technology License Agreement (the Gilead Agreement) with Gilead Sciences, Inc. (Gilead), in which the Company provided an exclusive license to its Cytotoxic Fc and Xtend Fc technologies for an initial identified antibody and options for up to three additional antibodies directed to the same molecular target. The Company retains the right to grant licenses for other antibodies directed to the target, subject to the Company's approval. Gilead is responsible for all development and commercialization activities for all target candidates. The Company received an upfront payment of $6.0 million and is eligible to receive up to $67.0 million in milestones, which include $10.0 million in development milestones, $27.0 million in regulatory milestones and $30.0 million in sales milestones for each product incorporating the antibodies selected. In addition, the Company is eligible to receive royalties in the low-single digit percentage range on net sales of approved products.

The Company did not recognize any revenue related to the Gilead Agreement for the three months ended March 31, 2021. The Company recognized $6.0 million revenue for the three months ended March 31, 2020. There is no deferred revenue as of March 31, 2021 related to this agreement.

***INmune Bio, Inc.***

In October 2017, the Company entered into a License Agreement (the INmune Agreement) with INmune Bio, Inc. (INmune). Under the terms of the INmune Agreement, the Company provided INmune with an exclusive license to certain rights to a proprietary protein, XPro1595. In connection with the agreement the Company received 1,585,000 shares of INmune common stock and an option to acquire additional shares of INmune.

The option has a six-year term from the date of the INmune Agreement and provides the Company the option to purchase up to 10% of the fully diluted outstanding shares of INmune for $10.0 million. The Company has recorded its equity interest in INmune at cost pursuant to ASC 323, *Investments – Equity Method and Joint Ventures*. The Company did not record its share of the net loss from INmune during the three months ended March 31, 2021 or 2020, respectively, as the carrying value of this investment has been reduced to zero.

The Company did not recognize any revenue related to the INmune Agreement for the three months ended March 31, 2021 or 2020. There is no deferred revenue as of March 31, 2021 related to this agreement.

***Janssen Biotech, Inc.***

In November 2020, the Company entered into a Collaboration and License Agreement (the Janssen Agreement) with Janssen Biotech, Inc. (Janssen) pursuant to which Xencor and Janssen will conduct research and development activities to discover novel CD28 bispecific antibodies for the treatment of prostate cancer. Janssen and Xencor will conduct joint research activities for up to a three-year period to discover XmAb bispecific antibodies against CD28 and against an undisclosed prostate tumor-target with Janssen maintaining exclusive worldwide rights to develop and commercialize licensed products identified from the research activities.

Under the Janssen Agreement, the Company will conduct research activities and apply its bispecific Fc technology to antibodies targeting prostate cancer provided by Janssen. Upon completion of the research activities Janssen will have a candidate selection option to advance an identified candidate for development and commercialization. The activities will be conducted under a research plan agreed to by both parties. Janssen will assume full responsibility for development and commercialization of the CD28 bispecific antibody candidate. Pursuant to the Janssen Agreement, the Company received an upfront payment of $50.0 million and is eligible to receive up to $662.5 million in milestones which include $161.9 million in development milestones, $240.6 million in regulatory milestones and $260.0 million in sales milestones. If commercialized, the Company is eligible to receive royalties on net sales that range from the high-single to low-double digit percentages.

The Company evaluated the Janssen Agreement under ASC 606 and identified the performance obligation under the Agreement to be delivery of CD28 bispecific antibodies to Janssen from the research activities outlined in the research plan. The Company determined that the license to the bispecific antibodies is not a separate performance obligation because it is not capable of being distinct; the license to the antibodies cannot be separated from the underlying antibodies.

The Company determined that the transaction price of the Janssen Agreement at inception was $50.0 million consisting of the upfront payment. The potential milestones are not included in the transaction price as these are contingent on future events, and the Company would not recognize these in revenue until it is not probable that these would not result in significant reversal of revenue amounts in future periods. The candidate selection option payment is substantive and is a separate performance obligation. The Company will re-assess the transaction price at each reporting period and when event outcomes are resolved or changes in circumstances occur.

The Company allocated the transaction price to the single performance obligation, delivery of CD28 bispecific antibodies to Janssen.

The Company is recognizing the $50.0 million transaction price as it satisfies its performance obligation to deliver CD28 bispecific antibodies to Janssen. The Company is using the expected input method, which considers an estimate of the Company’s efforts to complete the research activities outlined in the Janssen Agreement.

The Company recognized $14.6 million of revenue under this arrangement for the three months ended March 31, 2021, and there is $35.4 million in deferred revenue as of March 31, 2021 related to our obligation to complete research activities and deliver CD28 bispecific antibodies under the Janssen Agreement.

***MiRagen Therapeutics, Inc./Viridian Therapeutics, Inc.***

In December 2020, the Company entered into a Technology License Agreement (Viridian Agreement) with Viridian (formerly MiRagen), pursuant to which the Company provided Viridian a non-exclusive license to its Xtend Fc technology and an exclusive license to apply its Xtend Fc technology to antibodies targeting IGF-1R. Viridian is responsible for all development and commercialization activities. The Company received an upfront payment of 322,407 shares of Viridian common stock valued at $6.0 million and is eligible to receive up to $55.0 million in milestones, which include $10.0 million in development milestones, $20.0 million in regulatory milestones and $25.0 million in sales milestones. If commercialized, the Company is eligible to receive royalties on net sales in the mid-single digit percentage range.

The Company recognized revenue of $6.0 million from the Viridian Agreement in 2020, which includes the upfront payment of 322,407 Viridian shares at their fair value at the date of the Agreement. The shares are recorded at their fair value and adjusted to their fair value at the end of each reporting period. The Company reported unrealized gain in other income of $0.1 million for the three months ended March 31, 2021 related to the Viridian shares.

The Company did not recognize revenue for the three months ended March 31, 2021, and there is no deferred revenue as of March 31, 2021, related to this agreement.

***MorphoSys AG***

In June 2010, the Company entered into a Collaboration and License Agreement with MorphoSys AG (MorphoSys), which was subsequently amended. Under the agreement, we granted MorphoSys an exclusive worldwide license to the Company's patents and know-how to research, develop and commercialize the XmAb5574 product candidate (subsequently renamed MOR208 and tafasitamab) with the right to sublicense under certain conditions. If certain developmental, regulatory and sales milestones are achieved, the Company is eligible to receive future milestone payments and royalties.

In February 2020, the U.S. Food and Drug Administration (FDA) accepted MorphoSys' Biologics License Application (BLA) for tafasitamab and the Company received a milestone payment of $12.5 million. The Company recognized the payment as revenue in the period that the milestone event occurred.

On July 31, 2020, the FDA granted accelerated approval to MorphoSys' BLA for tafasitamab (now Monjuvi®) for marketing in the United States. In connection with the approval, the Company received a milestone payment of $25.0 million.

In the three months ended March 31, 2021, MorphoSys reported to us its plans to initiate additional clinical studies of Monjuvi, and the Company recorded a contract asset of $12.5 million as an adjustment to the total transaction price. In April 2021, MorphoSys and Incyte announced the dosing of the first patient in one of their planned clinical studies – a Phase 3 study (inMIND) evaluating the addition of tafasitamab to lenalidomide and rituximab in patients with relapsed or refractory follicular lymphoma or marginal zone lymphoma, and the contract asset was recorded as a receivable.

The Company is eligible to receive royalties in the high-single to low-double digit percentage range on approved sales of Monjuvi. Under ASC 606, the Company recognizes revenue for sales-based royalties upon the subsequent sale of the product. The Company recorded royalties for Monjuvi based on an estimate of sales to be reported by MorphoSys for the three months ended March 31, 2021.

The Company recognized $12.5 million of milestone revenue under this arrangement for the three months ended March 31, 2020. The Company recognized $1.4 million of royalty revenue and an additional $12.5 million of milestone revenue during the three months ended March 31, 2021. As of March 31, 2021, there is a contract asset of $12.5 million for a development milestone and a receivable of $1.4 million related to estimated royalties due under the arrangement. As of March 31, 2021, there is no deferred revenue related to this agreement.

***Novartis Institute for Biomedical Research, Inc.***

In June 2016, the Company entered into a Collaboration and License Agreement (the Novartis Agreement) with Novartis Institutes for BioMedical Research, Inc. (Novartis), to develop and commercialize bispecific and other Fc engineered antibody drug candidates using the Company's proprietary XmAb technologies and drug candidates.

Under the Novartis Agreement, the Company and Novartis are co-developing vibecotamab worldwide and sharing development costs.

No revenue was recognized during the three months ended March 31, 2021 or 2020 from the Novartis Agreement. As of March 31, 2021, there is a receivable of $0.9 million related to cost-sharing of development activities for the first quarter of 2021 for the vibecotamab program and $40.1 million in deferred revenue related to the obligation to deliver two additional Global Discovery Programs to Novartis under the arrangement.

***Omeros Corporation***

In August 2020, the Company entered into a Technology License Agreement (the Omeros Agreement) with Omeros Corporation. (Omeros), in which the Company provided a non-exclusive license to its Xtend Fc technology, an exclusive license to apply its Xtend technology to an initial identified antibody and options to apply its Xtend technology to three additional antibodies. Omeros is responsible for all development and commercialization activities for all target candidates. The Company received an upfront payment of $5.0 million and is eligible to receive up to $65.0 million in milestones, which include $15.0 million in development milestones, $25.0 million in regulatory milestones and $25.0 million in sales milestones for each product incorporating the antibodies selected. In addition, the Company is eligible to receive royalties in the mid-single digit percentage range on net sales of approved products.

The Company did not recognize any revenue related to the Omeros Agreement for the three months ended March 31, 2021. There is no deferred revenue as of March 31, 2021 related to this agreement.

***Vir Biotechnology, Inc.***

In the third quarter of 2019, the Company entered into a Patent License Agreement (the Vir Agreement) with Vir Biotechnology, Inc. (Vir) pursuant to which the Company provided a non-exclusive license to its Xtend technology for up to two targets. Under the terms of the Vir Agreement, the Company received an upfront payment and is eligible to receive total milestones of $155.0 million which include $5.0 million of development milestones, $30.0 million of regulatory milestones and $120.0 million of sales milestones. In addition, the Company is eligible to receive royalties on the net sales of approved products in the low single digit percentage range.

The Company evaluated the Vir Agreement and determined that the single performance obligation was access to a non-exclusive license to certain patents of the Company, which were transferred to Vir upon execution of the Vir Agreement in July 2019.

In March 2020, the Company entered into a second Patent License Agreement (the Second Vir Agreement) with Vir pursuant to which the Company provided a non-exclusive license to its Xtend technology to extend the half-life of novel antibodies Vir is investigating as potential treatments for patients with COVID-19. Under the terms of the Second Vir Agreement, Vir is responsible for all research, development, regulatory and commercial activities for the antibodies, and the Company is eligible to receive royalties on the net sales of approved products in the mid-single digit percentage range.

The Company determined that the Second Vir Agreement was a modification of the original agreement and the transfer of the license occurred at inception of the Vir Agreement. The total consideration under the arrangement did not change with the Second Vir Agreement as the Company will potentially receive additional royalty revenue which is variable consideration and is not included in the transaction price.

In February 2021, the Company entered into the Vir Amendment No. 1 to the Vir Agreement and the Vir Amendment No. 1 to the Second Vir Agreement (collectively, the Vir Amendments), in which the Company provided a non-exclusive license to additional Fc technology for the targets previously identified in the Vir Agreement and the Second Vir Agreement. If Vir incorporates additional Fc technologies in the identified targets, the Company is eligible to receive additional royalties on net sales of approved products from low to mid-single digit range.

The Company determined that the Second Vir Agreement and the Vir Amendments were modifications of the original Vir Agreement, and the transfer of the license occurred at inception of the Vir Agreement. The total consideration under the arrangement did not change with the Amended Vir Agreement as the Company will potentially receive additional royalty revenue which is variable consideration and is not included in the transaction price.

The Company did not recognize revenue for the three months ended March 31, 2021 or 2020, and there is no deferred revenue as of March 31, 2021 related to this agreement.

***Zenas BioPharma Limited License Agreement***

In November 2020, the Company entered into a License Agreement (the Zenas Agreement) with Zenas, pursuant to which the Company granted Zenas exclusive worldwide rights to develop and commercialize three preclinical-stage Fc-engineered drug candidates: XmAb6755, XPro9523 and XmAb10717. Under the Zenas Agreement, Zenas will be responsible for all further development and commercialization activities for the candidates. The Company received a 15% equity interest in Zenas with a fair value of $16.1 million, and the Company is eligible to receive royalties on net sales of approved products in the mid-single digit to mid-teen percentage range.

The total transaction price is $16.1 million, which includes the upfront payment of 15% of the equity of Zenas at its fair value at the date of the Zenas Agreement. The Company recorded licensing revenue of $16.1 million for the Zenas Agreement for the three months ended December 31, 2020. The equity in Zenas is recorded at the fair value at the date of the Zenas Agreement and is reviewed each reporting period for impairment or other evidence of change in value. The Company did not record an impairment or change in the value of the Zenas equity at March 31, 2021.

The Company did not recognize any revenue related to the agreement for the three months ended March 31, 2021. There is no deferred revenue as of March 31, 2021 related to this agreement.

**Revenue earned**

The revenues recorded for the three months ended March 31, 2021 and 2020 were earned principally from the following licensees (in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| Aimmune | $ — | $ 9.6 |
| Alexion | 5.3 | 3.3 |
| Astellas | — | 0.3 |
| Genentech | 0.2 | 0.7 |
| Gilead | — | 6.0 |
| Janssen | 14.6 | — |
| MorphoSys | 13.9 | 12.5 |
| Total | $ 34.0 | $ 32.4 |

The table below summarizes the disaggregation of revenue recorded for the three months ended March 31, 2021 and 2020 (in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Research collaboration | $ 14.8 | $ 1.0 |
| Milestone | 12.5 | 12.5 |
| Licensing | — | 15.6 |
| Royalties | 6.7 | 3.3 |
| Total | $ 34.0 | $ 32.4 |

**Remaining Performance Obligations and Deferred Revenue**

The Company's remaining performance obligations are delivery of two Global Discovery Programs under the Novartis Agreement and conducting research activities pursuant to research plans under the Genentech and Janssen Agreements. The Company has completed its performance obligations for research activities pursuant to the Astellas Agreement in the second quarter of 2020. As of March 31, 2021 and 2020, the Company has deferred revenue of $77.8 million and $46.2 million, respectively. All deferred revenue is classified as current liabilities as the Company's obligations to perform services are due on demand when requested by Novartis under the Novartis Agreement and by Janssen under the Janssen Agreement. The Company's obligation to perform research services to Genentech will end upon expiration of the research term.

**10. Income taxes**

There was no provision for income taxes for the three months ended March 31, 2021 or 2020. As of March 31, 2021, the Company's deferred income tax assets, consisting primarily of net operating loss and tax credit carryforwards, have been fully offset by a valuation allowance. On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021; these provisions are not expected to have a material impact on the Company's income tax provision.

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

*The following discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes thereto for the fiscal year ended December 31, 2020 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2020. See also "Special Note Regarding Forward-Looking Statements" included in this Quarterly Report on Form 10-Q.*

**Company Overview**

We are a clinical-stage biopharmaceutical company focused on discovering and developing engineered monoclonal antibody and cytokine therapeutics to treat patients with cancer and autoimmune diseases who have unmet medical needs. We are advancing a broad portfolio of clinical-stage drug candidates from our proprietary XmAb® technology platforms. We use our protein engineering capabilities to increase our understanding of protein structure and interactions and to design new XmAb technologies and development candidates with improved properties. In contrast to conventional approaches to antibody design, which focus on the segment of antibodies that interact with target antigens, our protein engineering efforts and the XmAb technologies are focused on the Fc domain, the part of an antibody that interacts with multiple segments of the immune system and controls antibody structure. The Fc domain is constant and interchangeable among antibodies, and our engineered Fc domains, the XmAb technology, can be readily substituted for natural Fc domains.

Our protein engineering capabilities and XmAb technologies enable us and our partners to develop antibodies and biotherapeutic drug candidates with improved properties and function, which can provide innovative approaches to treating disease and potential clinical advantage over other treatment options. For example, our capabilities have enabled us to develop an antibody scaffold to rapidly create novel bispecific antibodies that bind two different targets simultaneously, creating entirely new biological mechanisms. Other applications of our XmAb technologies enhance antibody performance by increasing immune inhibitory activity, improving cytotoxicity, extending circulating half-life and stabilizing novel protein structures, such as engineered cytokines. Currently, there are two marketed drugs that have been developed with our XmAb technologies.

Refer to Part I, Item 1, “XmAb Bispecific Technologies” and “Other XmAb Fc Technologies” in the description of our business included in our Annual Report on Form 10-K for the year ended December 31, 2020 for a discussion of our core Fc technology platforms.

**COVID-19**

We are closely monitoring the COVID-19 pandemic and continue to evaluate its impact on all aspects of our business including how it will affect our partners, collaborations, supply chains and research and development operations. While the pandemic did not significantly disrupt our business during the three months ended March 31, 2021, the evolving nature of the pandemic prevents us from reasonably predicting how the pandemic will affect our financial condition, results of operations and cash flows due to numerous uncertainties. These uncertainties include the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impacts and the direct and indirect economic effects of the pandemic and containment measures, among others. Many states, including California, where we are headquartered and where our principal place of business is located, and cities therein have instituted quarantines, restrictions, rules and guidelines that affect the continued operation of businesses. Other countries and states where we conduct manufacturing of our drug product, testing activities and clinical sites where patients are enrolled in our clinical trials have enacted similar restrictions that could affect our ability to conduct our drug candidate development and clinical operations.

The potential impacts on our business, revenue, clinical studies and research and development activities of the COVID-19 pandemic include:

- Business: Our broad protein engineering capabilities and technologies are uniquely suited to provide us with opportunities to identify and enhance compounds that may target the novel coronavirus and potentially treat patients with COVID-19. For example, our partner, Vir Biotechnology, Inc. is evaluating VIR-7831, an antibody that targets the SARS-CoV-2 in Phase 3 development. VIR-7831 incorporates our Xtend Fc technology for longer duration of action. VIR-7832, which also targets the SARS-CoV-2 virus, also incorporates Xtend technology as well as other XmAb Fc technologies, and it is in the preclinical stages of development. We are eligible to receive a mid-single digit percentage royalty on the net sales.

- Revenue: We receive upfront payments, milestone payments and royalties from licensing our XmAb technologies and drug candidates. The COVID-19 pandemic has not adversely affected our revenues for the

quarter ended March 31, 2021. During the quarter, for example, we generated approximately $34.0 million in revenue from our partnerships and collaborations including Janssen, MorphoSys, and Alexion, recognizing $14.6 million, $13.9 million, and $5.3 million of revenue, respectively.

Our ability to earn revenue from these and other partnerships is dependent on the ability of our partners to generate sales from products, such as Ultomiris and Monjuvi, the ability of our partners to advance our partnered programs through regulatory approval and the ability of our partners to advance our partnered programs into later stages of development, which provide us with potential milestone payments. If the COVID-19 pandemic continues for an extended period and adversely affects the sales or clinical, development and regulatory progress of partnered programs, the amount of revenue we could earn would be adversely affected.

- Clinical studies: We are currently enrolling patients in seven clinical programs, and our partner Genentech is enrolling patients in the Phase 1 study of XmAb306 (also known as RG6323), our co-development program with Genentech. Many partners are also enrolling patients in clinical trials with drug candidates that incorporate one or more XmAb technologies. Although the pandemic has not materially affected our clinical development for the period ended March 31, 2021, some of our clinical programs have experienced slower patient enrollment as a result of the pandemic. These delays have not broadly affected the status of our portfolio programs and have been limited to specific trials and specific sites. Many clinical sites have delayed starting new clinical trials and others have postponed enrollment to address the pandemic.

- Research and development activities: We require all non-laboratory employees to work remotely, and we have implemented additional health, safety and environmental procedures for all onsite laboratory research employees. We have also offered reimbursement of costs incurred and time off to employees to receive vaccinations that have been authorized. We believe we provide a safe and healthy environment for our onsite employees who have been able to continue research operations, following an initial period of reduced onsite activities while new policies and procedures were developed and implemented. As of March 31, 2021, these activities have continued without interruption from the COVID-19 pandemic.

  Our development activities include conducting investigational new drug (IND)-enabling studies for XmAb819. Several other bispecific antibody and cytokine programs are in earlier stages of development. During the third quarter of 2020, the manufacturers of our drug supplies notified us of critical shortages of materials used in their manufacturing processes due to pandemic-related reallocation of resources. The shortages will not affect our current clinical programs as we have sufficient supply of drug material to continue the ongoing trials without interruption. However, the shortages have extended the development timelines of early-stage development candidates, including XmAb819, by three to six months based on current information from our vendors. The development timelines for additional early-stage programs and ongoing clinical programs could be affected if the supply interruption extends longer than current estimates.

**Clinical-Stage XmAb Bispecific Antibody and Cytokine Drug Candidate Updates**

Our modular XmAb bispecific technology and protein engineering capabilities enable us to rapidly advance multiple drug candidates into clinical development. We and our partners are currently enrolling Phase 1 studies for seven wholly owned or co-development candidates to treat patients with many different types of cancer, and an eighth, in development for patients with autoimmune disease, entered clinical development in April 2021.

*Plamotamab (CD20 x CD3):* Plamotamab is a bispecific antibody that targets CD20, an antigen on B-cell tumors, and CD3, an activating receptor on T cells. Preliminary safety and anti-tumor activity from the ongoing Phase 1 dose-escalation study of plamotamab in B-cell malignancies, including from patients with relapsed or refractory non-Hodgkin's lymphoma (NHL), indicate that plamotamab was generally well tolerated and demonstrated encouraging clinical activity as a monotherapy. We are currently enrolling patients in this study. In November 2020, we entered a strategic clinical collaboration with MorphoSys AG to investigate the chemotherapy-free triple combination of

plamotamab, tafasitamab and lenalidomide in patients with relapsed or refractory diffuse large B cell lymphoma (DLBCL), first-line DLBCL and relapsed or refractory follicular lymphoma (FL). We plan to initiate the first of these studies, in patients with relapsed or refractory DLBCL, an aggressive type of NHL, in late 2021 or early 2022.

*XmAb717 (PD-1 x CTLA-4):* XmAb717 is a bispecific antibody that targets PD-1 and CTLA-4, two immune checkpoint receptors, to selectively activate the tumor microenvironment, and it is being developed in multiple types of solid tumors, including for patients with castration-resistant prostate cancer. Data from the ongoing Phase 1 study indicate that XmAb717 was generally well-tolerated, and the most common treatment-related adverse events were immune-related adverse events (irAEs); however, rates of irAEs, including colitis, were lower than typically observed with CTLA-4 blockade. Clinical responses were observed in all expansion cohorts, and the objective response rate across cohorts was 19.0%. In mid-2021, we plan to initiate a Phase 2 study of XmAb717 for patients with certain molecular subtypes of CRPC, as a monotherapy or in combination depending on the subtype, as these patients represent a high unmet medical need.

*Vibecotamab (CD123 x CD3):* Vibecotamab is a bispecific antibody that targets CD123, an antigen on acute myeloid leukemia (AML) cells and leukemic stem cells, and CD3, an activating receptor on T cells. We continue enrolling patients with AML in an ongoing Phase 1 dose escalation study and are reviewing data with our partner, Novartis, in planning additional studies of vibecotamab.

*Tidutamab (SSTR2 x CD3):* Tidutamab is a bispecific antibody that targets somatostatin receptor 2, (SSTR2), a target on many neuroendocrine-like tumor types, and CD3. Initial dose-escalation data from the ongoing Phase 1 study in patients with neuroendocrine tumors (NET) indicate that tidutamab was generally well tolerated at the recommended dose identified for the expansion portion of the study. Because tidutamab induced sustained activation of cytotoxic T cells and engagement of the SSTR2 target and has an encouraging safety profile, we plan to initiate a clinical study for tidutamab in patients with Merkel cell carcinoma and small cell lung cancer, SSTR2-expressing tumor types known to be responsive to immunotherapy, in mid-2021.

*XmAb306/RO7310729 (IL15/IL15Rα-Fc Cytokine):* XmAb306 is an IL15/IL15Rα-Fc fusion protein that incorporates our Xtend extended half-life technology, and we are co-developing this program, as well as other potential IL-15 programs, in collaboration with Genentech. Genentech has dosed cohorts of the Phase 1 study of XmAb306 as a single agent and in combination with atezolizumab.

*XmAb564 (IL2-Fc Cytokine)*: XmAb564 is a wholly owned, monovalent interleukin-2 Fc (IL-2-Fc) fusion protein, engineered to selectively activate and expand regulatory T cells (Tregs) for the potential treatment of patients with autoimmune diseases. XmAb564 is engineered with reduced binding affinity for IL-2's beta receptor and increased binding affinity for its alpha receptor. In preclinical studies, XmAb574 was well-tolerated, promoted the selective and sustained expansion of Tregs and exhibited a favorable pharmacokinetic profile. In April 2021, the first subject was dosed in a randomized, double-blind, placebo-controlled Phase 1 clinical study that will evaluate the safety and tolerability of XmAb564, administered subcutaneously in healthy adult volunteers.

Additional wholly owned XmAb bispecific antibody programs in Phase 1 clinical studies include XmAb841 (CTLA-4 x LAG-3) and XmAb104 (PD-1 x ICOS). We continue enrolling patients with advanced solid tumors to these studies. A new study of XmAb698 (CD38 x CD3) is currently being planned to start later in 2021.

**Advancements Expanding XmAb Bispecific Platforms**

We conduct further research into the function and application of antibody Fc domains in order to expand the scope of our XmAb technology platforms and identify additional XmAb drug candidates. We use the modularity of our XmAb bispecific Fc technology to build bispecific antibodies and cytokines in a variety of formats, and we recently introduced CD3 bispecific antibodies of a mixed valency format, the XmAb 2+1 bispecific antibody. XmAb 2+1 bispecific antibodies may preferentially kill tumor cells with high target expression, which may be especially beneficial in designing antibodies that target solid tumors. This selectivity potentially empowers CD3 bispecifics to address an expanded set of tumor antigens. Our lead XmAb 2+1 bispecific antibody candidate is XmAb819, a first-in-class ENPP3 x CD3 bispecific antibody. ENPP3 is a tumor-associated antigen in renal cell carcinoma (RCC) and exhibits low level

expression on normal tissues. We plan to submit an IND application for XmAb819 in 2021 and initiate a Phase 1 study in early 2022.

Additionally, we have engineered CD28 bispecific antibodies to provide conditional CD28 co-stimulation of T cells, activating them when bound to tumor cells. Targeted CD28 bispecific antibodies may provide conditional co-stimulation of T cells, for example, to T cells recognizing neoantigens or in concert with CD3 T-cell engaging bispecific antibodies. Our CD28 platform is also the subject of our collaboration with Janssen Biotech, Inc., announced in December 2020, where we are creating and characterizing CD28 bispecific antibody candidates against a prostate tumor target specified by Janssen. We are also advancing our wholly owned CD28 candidates including our lead candidate, a B7-H3 x CD28 bispecific antibody designed to be evaluated for the treatment of patients with a range of solid tumors, and it is currently advancing through preclinical development.

In April 2021, we presented emerging preclinical data from early-stage programs that highlight the potential of the XmAb 2+1 bispecific antibody format and the CD28 platform at the American Association for Cancer Research (AACR) Annual Meeting.

**Progress Across Partnerships**

A key part of our business strategy is to leverage our protein engineering capabilities, XmAb technologies and drug candidates with partnerships, collaborations and licenses. We have fifteen partnerships for the licensing of our XmAb technologies and drug candidates. Through these arrangements we generate revenues in the form of upfront payments, milestone payments and royalties. For partnerships for our drug candidates, we aim to retain a major economic interest in the form of keeping major geographic commercial rights; profit-sharing; co-development options; and the right to conduct studies with drug candidates developed in the collaboration. The types of arrangements that we have entered with partners include product licenses, novel bispecific antibody collaborations, technology licensing agreements and strategic collaborations.

*Product Licenses*

Product licenses are arrangements in which we have internally developed drug candidates and, based on a strategic review, licensed partial or full rights to third parties to continue development and potential commercialization. We seek partners that can provide infrastructure and resources to successfully develop our drug candidates, have a track record of successfully developing and commercializing medicines, or have a portfolio of development-stage candidates and commercialized medicines which could potentially be developed in rational combinations with our drug candidates.

The U.S. FDA approved Monjuvi® (tafasitamab-cxix), the second product with XmAb technology to be approved for commercial marketing, under accelerated approval in July 2020. Monjuvi is a CD19-directed cytolytic antibody indicated in combination with lenalidomide for the treatment of adult patients with relapsed or refractory diffuse large B-cell lymphoma (DLBCL) not otherwise specified , including DLBCL arising from low grade lymphoma, and who are not eligible for autologous stem cell transplant (ASCT). This indication is approved under accelerate approval based on overall response rate. Continued approval for this indication may be contingent upon verification and description of clinical benefit in a confirmatory trial(s). The antibody was created and initially developed by us. Monjuvi is co-commercialized in the U.S. by MorphoSys and Incyte. The European Marketing Authorization Application for tafasitamab is currently under review by the European Medicines Agency. In April 2021, MorphoSys and Incyte announced the initiation of a Phase 3 study (inMIND) evaluating the addition of tafasitamab to lenalidomide and rituximab in patients with relapsed or refractory follicular lymphoma or marginal zone lymphoma. In the first quarter of 2021, we earned $12.5 million for the development milestone and recognized royalty revenue of $1.4 million on net sales of Monjuvi. Monjuvi® is a registered trademark of MorphoSys AG.

A second IL-15 cytokine candidate, which is engineered with a target-specific binding arm, is in preclinical development under our Genentech collaboration. As a Collaboration Product under the agreement, we share in 45% of development and commercialization costs, while Genentech will pay for commercial launch costs, and we will receive a 45% share of net profits from sales from all collaboration products, while also sharing in the net losses at the same

percentage rate. We are eligible to receive up to $180.0 million in clinical milestone payments for this candidate. Genentech is currently conducting IND-enabling studies for this candidate.

In November 2020, we entered into an agreement with Zenas (previously undisclosed), to which we licensed the exclusive worldwide rights to develop and commercialize three preclinical-stage Fc-engineered drug candidates for autoimmune disease. Zenas is a cross-border biopharmaceutical company committed to becoming a global leader in the development and delivery of immune-based therapies for patients in China and around the world. XmAb6755, XPro9523 and XmAb10717 incorporate an Xtend Fc Domain, a Cytotoxic Fc Domain, or both. Zenas has indicated that these programs, which they have collectively named ZB002, ZB003 and ZB004, are undergoing IND-enabling studies to support clinical development for both new and established autoimmune disease indications. We received a 15% equity interest in the company, and we will also receive royalties on net sales of approved products in the mid-single digit to mid-teen percentage range.

*Technology License Agreements*

We enter into technology licensing agreements in which we license access to one or more of our XmAb Fc technologies on a restricted basis, typically to an XmAb Cytotoxic Fc Domain and/or the Xtend Fc Domain. Our partners are responsible for all research, development and commercialization activities of the drug candidates. The plug-and-play nature of XmAb technologies allows us to license access to our platforms with limited or no internal research and development activities.

Alexion's Ultomiris® uses Xtend Fc technology for longer half-life. Ultomiris has received marketing authorizations from regulatory agencies in the U.S., Europe and Japan for the treatment of adult patients with paroxysmal nocturnal hemoglobinuria (PNH) and for patients with atypical hemolytic uremic syndrome (aHUS). Alexion is also evaluating Ultomiris in a broad late-stage development program across many indications in neurology and nephrology. In the first quarter of 2021, we earned $5.3 million in royalties from Alexion.

Xencor previously entered into a technology license agreement with Vir, pursuant to which Vir has non-exclusive access to multiple Xencor Fc technologies, including Xtend™ Fc technology, designed to extend the half-life of novel antibodies that Vir is investigating as potential treatments for patients with COVID-19. Under the terms of the agreement, Vir is solely responsible for the activities and costs related to research, development, regulatory and commercial activities for their COVID-19 drug candidates, and Xencor is eligible to receive royalties on net sales in the mid-single digit percent range. Vir and its partner GlaxoSmithKline plc (GSK) are evaluating VIR-7831 in an extensive ongoing clinical development program. In March 2021, Vir and GSK submitted an EUA application to the FDA based on an interim analysis of the Phase 3 COMET-ICE (COVID-19 Monoclonal antibody Efficacy Trial - Intent to Care Early) trial, which demonstrated an 85% reduction in hospitalization or death in high-risk adult outpatients COVID-19 patients receiving VIR-7831 as monotherapy compared to placebo, the primary endpoint of the trial.

In February 2021, we amended the Vir licensing agreements to include a non-exclusive license to our XmAb Cytotoxic Fc Domain. If Vir incorporates both Xtend and Cytotoxic Fc Domains into their drug candidates, we are eligible for an increase in the royalty rates, in the mid-single digit percent range.

Refer to Part I, Item 1, Note 9, *Collaboration and Licensing Agreements* of the Notes to Financial Statements included in this Quarterly Report on Form 10-Q for a description of the key terms of our arrangements.

We have over 1,000 issued and pending patents worldwide to protect our XmAb technology platform and XmAb drug candidates.

Since we commenced active operations in 1998, we have devoted substantially all our resources to staffing our Company, business planning, raising capital, developing our technology platforms, identifying potential product candidates, undertaking pre-clinical and IND-enabling studies, and conducting clinical trials. We have no products approved for commercial sale and have not generated any revenues from product sales, and we continue to incur significant research and development expenses and other expenses related to our ongoing operations. To date, we have funded our operations primarily through the sale of stock and from payments generated from our product development partnerships and licensing arrangements.

As of March 31, 2021, we had an accumulated deficit of $368.2 million. Substantially all of the operating losses that we have incurred resulted from expenses incurred in connection with our product candidate development programs, our research activities and general and administrative costs associated with our operations.

**Results of Operations**

***Comparison of the Three Months Ended March 31, 2021 and 2020***

The following table summarizes our results of operations for the three months ended March 31, 2021 and 2020 (in millions):

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | Change |
| Revenues: | | | |
| Research collaboration | $ 14.8 | $ 1.0 | $ 13.8 |
| Milestone | 12.5 | 12.5 | — |
| Licensing | — | 15.6 | (15.6) |
| Royalties | 6.7 | 3.3 | 3.4 |
| Total revenues | 34.0 | 32.4 | 1.6 |
| Operating expenses: | | | |
| Research and development | 41.4 | 34.0 | 7.4 |
| General and administrative | 8.2 | 7.2 | 1.0 |
| Total operating expenses | 49.6 | 41.2 | 8.4 |
| Other income, net | 13.1 | 0.7 | 12.4 |
| Net loss | $ (2.5) | $ (8.1) | $ 5.6 |

*Revenues*

Revenues for the three months ended March 31, 2021 are primarily from the collaboration with Janssen, milestone revenue recognized from MorphoSys, and the royalty revenue from Alexion and MorphoSys. Revenues for the three months ended March 31, 2020 are primarily from milestone revenues recognized from our MorphoSys collaboration, royalty revenue from our Alexion collaboration, and licensing revenue recognized from the collaborations with Aimmune and Gilead.

*Research and Development Expenses*

The following tables summarize our research and development expenses for the three months ended March 31, 2021 and 2020 (in millions):

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | Change |
| **Product programs:** | | | |
| *Obexelimab (XmAb5871)* | $ 0.6 | $ 1.0 | $ (0.4) |
| | | | |
| Bispecific programs: | | | |
| CD3 programs: | | | |
| *Vibecotamab** | *2.9* | *2.7* | *0.2* |
| *Plamotamab* | *6.7* | *7.0* | *(0.3)* |
| *Tidutamab* | *4.3* | *3.2* | *1.1* |
| *XmAb819 (ENPP3 x CD3)* | *3.0* | *1.1* | *1.9* |
| Total CD3 programs | 16.9 | 14.0 | 2.9 |
| | | | |
| Tumor micro environment (TME) activator programs: | | | |
| *XmAb717* | *5.9* | *5.3* | *0.6* |
| *XmAb104* | *2.5* | *2.7* | *(0.2)* |
| *XmAb841* | *3.1* | *2.5* | *0.6* |
| Total TME activators programs | 11.5 | 10.5 | 1.0 |
| | | | |
| Cytokine programs: | | | |
| *XmAb306/RG6323 and second IL-15 candidate** | *3.9* | *2.0* | *1.9* |
| *XmAb564* | *3.2* | *1.9* | *1.3* |
| Total cytokine programs | 7.1 | 3.9 | 3.2 |
| | | | |
| Subtotal bispecific programs | 35.5 | 28.4 | 7.1 |
| | | | |
| Other, research and early stage programs | 5.3 | 4.6 | 0.7 |
| | | | |
| **Total research and development expenses** | $ 41.4 | $ 34.0 | $ 7.4 |

*Includes net payments to, and reimbursements from our partners pursuant to agreements that include cost-sharing arrangements.

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | Change |
| External research and development expenses | $ 20.8 | $ 17.2 | $ 3.6 |
| Internal research and development expenses | 15.0 | 12.6 | 2.4 |
| Stock based compensation | 5.6 | 4.2 | 1.4 |
| **Total research and development expenses** | $ 41.4 | $ 34.0 | $ 7.4 |

Research and development expenses increased by $7.4 million for the three months ended March 31, 2021 over the same period in 2020 primarily due to increased spending on our XmAb306, XmAb564, and XmAb819 programs.

*General and Administrative Expenses*

The following table summarizes our general and administrative expenses for the three months ended March 31, 2021 and 2020 (in millions):

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | Change |
| General and administrative | $ 8.2 | $ 7.2 | $ 1.0 |

General and administrative expenses increased by $1.0 million for the three months ended March 31, 2021 over the same period in 2020 primarily due to increased general and administrative staffing.

*Other Income, Net*

Other income was $13.2 million and $0.7 million for the three months ended March 31, 2021 and 2020, respectively. The increase in other income was primarily due to unrealized gain recognized with respect to the shares of Catabasis that we received from its merger with Quellis.

***Cash Flows***

The following table sets forth the primary sources and uses of cash for each of the periods presented below (in thousands):

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | Change |
| Net cash provided by (used in): | | | |
| Operating activities | $ (29,966) | $ 9,460 | $ (39,426) |
| Investing activities | 38,048 | 12,565 | 25,483 |
| Financing activities | 5,339 | 1,471 | 3,868 |
| Net increase in cash | $ 13,421 | $ 23,496 | $ (10,075) |

*Operating Activities*

Cash used in operating activities for the three months ended March 31, 2021 was $30.0 million while cash provided by operating activities for the three months ended March 31, 2020 was $9.5 million. The increase in cash used in operating activities is primarily due to increased research and development expenses.

*Investing Activities*

Investing activities consist primarily of investments in marketable securities available-for-sale, purchases of intangible assets, capitalization of patent and licensing costs and purchases of property and equipment.

*Financing Activities*

Net cash provided by financing activities for the three months ended March 31, 2021 increased by $3.9 million over the same period in 2020, which reflects additional proceeds received from the exercise of stock options.

**Liquidity and Capital Resources**

We have financed our operations primarily through private placements of our equity securities, the issuance of convertible notes, public offerings of our common stock, and payments received under our product development partnerships and licensing arrangements.

As of March 31, 2021, we had $577.1 million of cash, cash equivalents and marketable investment securities compared to $604.0 million as of December 31, 2020. The investments in marketable securities are further described above in Note 5, *Marketable and Equity Securities*, of Notes to Financial Statements included in this Quarterly Report on Form 10-Q. We expect to continue to receive additional payments from our collaborators for research and development services rendered, additional milestone, opt-in, contingent payments and royalties. Our ability to receive milestone payments and contingent payments from our partners is dependent upon either our ability or our partners' abilities to achieve certain levels of research and development activities and is therefore uncertain at this time.

**Funding Requirements**

We have not generated any revenue from product sales to date and do not expect to do so until we obtain regulatory approval of and commercialize one or more of our product candidates. As we are currently in the clinical stage of development, it will be some time before we expect to achieve this, and it is uncertain that we ever will commercialize one or more of our product candidates. We expect that we will continue to increase our operating expenses in connection with ongoing as well as additional clinical and preclinical development of product candidates in our pipeline.

Although it is difficult to predict our funding requirements, based upon our current operating plan, we expect that our existing cash, cash equivalents, marketable securities, and certain potential milestone payments will fund our operating expenses and capital expenditure requirements into 2024. We have based these estimates on assumptions that may prove to be wrong, and the COVID-19 pandemic could materially alter these estimates which would cause us to use our capital resources sooner than we currently expect.

**Off-Balance Sheet Arrangements**

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements.

**Contractual Obligations and Commitments**

There were no material changes outside of the ordinary course of business to our specific contractual obligations during the three months ended March 31, 2021.

**Critical Accounting Policies**

For a discussion of our material changes in critical accounting policies, see "Recent Accounting Pronouncements" in Note 1, *Summary of Significant Accounting Policies*, of the Notes to Financial Statements included in this Quarterly Report on Form 10-Q.

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes in the quantitative or qualitative aspects of our market risk profile. For additional information regarding the Company's exposure to certain market risks, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" included in the Form 10-K for the fiscal year ended December 31, 2020.

## ITEM 4. Controls and Procedures

### Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) of the Exchange Act, our management, with the supervision of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(b) and 15d-15(e)) as of March 31, 2021. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in this Quarterly Report on Form 10-Q has been appropriately recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level as of March 31, 2021.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable assurance, not absolute assurance, that the objectives of our disclosure control system are met and, as set forth above, our principal executive officer and principal financial officer have concluded, that based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that the objective of our disclosure control system were met.

### Changes in Internal Control

There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Beginning March 17, 2020, a majority of our business, accounting and financial reporting employees began working remotely due to the COVID-19 pandemic. Since that time, we have not experienced any material impact to our internal controls over financial reporting. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact to their design and operating effectiveness.

## PART II — OTHER INFORMATION

### ITEM 1. Legal Proceedings.

The disclosure in Note 8, *Commitments and Contingencies*, of the Notes to Financial Statements included in this Quarterly Report on Form 10-Q includes a discussion of our legal proceedings and is incorporated herein by reference.

### ITEM 1A. Risk Factors

You should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020, which could materially affect our business, financial position, or future results of operations. See also "Special Note Regarding Forward-Looking Statements" included in this Quarterly Report on Form 10-Q. In addition to the risks set forth in our Annual Report on Form 10-K for the year ended December 31, 2020, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business.

**ITEM 6. Exhibits**

| Exhibit Number | Description of Document |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 11, 2013). |
| 3.2 | Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on December 11, 2013). |
| 4.1 | Form of Common Stock Certificate of the Company (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, as amended (File No. 333-191689), originally filed with the SEC on October 25, 2013). |
| 4.2 | Third Amended and Restated Investor Rights Agreement, dated June 26, 2013, among the Company and certain of its stockholders incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1, as amended (File No. 333-191689), originally filed with the SEC on October 11, 2013). |
| 10.1 | First Amendment to the Collaboration and License Agreement, dated March 10, 2021, by and between the Company and Genentech, Inc. and F. Hoffmann-La Roche LTD. |
| 10.2* | Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on March 10, 2021). |
| 31.1 | Rule 13a-14(a) Certification of Principal Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Principal Financial Officer. |
| 32.1 | Section 1350 Certification of Principal Executive Officer and Principal Financial Officer. |
| 101.INS | Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document. |
| 101.SCH | Inline XBRL Schema Document |
| 101.CAL | Inline XBRL Calculation Linkbase Document |
| 101.DEF | Inline XBRL Definition Linkbase Document |
| 101.LAB | Inline XBRL Labels Linkbase Document |
| 101.PRE | Inline XBRL Presentation Linkbase Document |
| 104 | 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

* Indicates management contract or compensatory plan.

**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 thereunto duly authorized.

XENCOR, INC.

BY: /s/ BASSIL I. DAHIYAT
Bassil I. Dahiyat, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

BY: /s/ JOHN J. KUCH
John J. Kuch
Chief Financial Officer
(Principal Financial Officer)

Dated: May 5, 2021

**Exhibit 10.1**

# FIRST AMENDMENT

# TO THE COLLABORATION AND LICENSE AGREEMENT

**THIS FIRST AMENDMENT** (this "**Amendment**") to the Collaboration and License Agreement of February 4, 2019 (the "**Agreement**"), is made as of March 10, 2021 (the "**Amendment Effective Date**"), by and between, on the one hand, Xencor, Inc., a Delaware corporation, having its principal place of business at 111 West Lemon Avenue, Monrovia, California, 91016 ("**Xencor**"), and, on the other hand, Genentech, Inc., a Delaware corporation, having its principal place of business at 1 DNA Way, South San Francisco, California 94080 ("**GNE**"), and F. Hoffmann-La Roche Ltd, a corporation organized and existing under the laws of Switzerland, having its principal place of business at Grenzacherstrasse 124, CH 4070 Basel, Switzerland ("**Roche**") (GNE and Roche, collectively, "**Genentech**"). Xencor and Genentech are sometimes referred to herein individually as a "**Party**" and collectively as the "**Parties**." All capitalized terms not otherwise defined in this Amendment shall have the meanings defined in the Agreement.

**WHEREAS,** Genentech and Xencor wish to amend certain terms of the Agreement relating to certain intellectual property rights and their prosecution and maintenance.

**NOW THEREFORE,** in consideration of the foregoing premises and the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, Genentech and Xencor hereby agree as follows:

1. The following new Sections 1.213 to 1.228 shall be inserted into the Agreement immediately following Section 1.212:

"1.213 "**IL-15 Component**" means any IL-15 having one or more [***].

1.214 "**IL-15 Component Know-How**" means Know-How that relates to the IL-15 Component and is introduced, developed, conceived, or reduced to practice by or on behalf of, Genentech or Xencor solely or jointly in the course of conducting activities pursuant to a Research Plan.

1.215 "**PD1 Component**" means an anti-human PD1 antigen binding domain (including any form, such as, e.g., scFv, Fv, antibodies) that binds to human PD-1 and contains (a) a variant variable heavy domain consisting of or comprising amino acid substitutions [***], (a "**Variable Heavy Domain**") and (b) a variable light domain having the amino acid sequence of [***], or a variant thereof (e.g., a variant variable light domain consisting of or comprising amino acid substitutions [***]) (a "**Variable Light Domain**").

1.216 "**PD1 Component Know-How**" means Know-How that relates to the PD1 Component (but excludes Know-How that solely relates to a Variable Light Domain not paired with a Variable Heavy Domain to form an antigen binding domain) and is introduced, developed, conceived, or reduced to practice by or on behalf of, Genentech or Xencor solely or jointly in the course of conducting activities pursuant to a Research Plan.

1.217 "**Genentech Non-Collaboration PD1/IL-15 Patents**" means Patents that (a) do not claim a Collaboration Construct or Collaboration Product, (b) disclose or claim PD1 Component Know-How or IL-15 Component Know-How and, (c) except for PD1 Component Know-How or IL-15 Component Know-How, (i) do not disclose or claim Program Know-How and (ii) disclose or claim Know-How first developed, conceived, or reduced to practice by Genentech or its Affiliates (whether alone or in collaboration with a Third Party) independently of Xencor and, for clarity, not under a Research Plan.

1.218 "**Xencor Non-Collaboration PD1/IL-15 Patents**" means Patents that (a) do not claim a Collaboration Construct or Collaboration Product, (b) disclose or claim PD1 Component Know-How or IL-15 Component Know-How and, (c) except for PD1 Component Know-How or IL-15 Component Know-How, (i) do not disclose or claim Program Know-How and (ii) disclose or claim Know-How first developed, conceived, or reduced to practice by Xencor or its Affiliates (whether alone or in collaboration with a Third Party) independently of Genentech and, for clarity, not under a Research Plan.

1.219 "**Separated PD1/IL-15 Component Patents**" means Program Patents that (i) cover PD1 Component Know-How or IL-15 Component Know-How and (ii) are initially filed separately or separated out by way of continuation or divisional patent application from Patents claiming Collaboration Constructs or Collaboration Products.

1.220 "**PD1 Component Background IP**" means Patents within Xencor family [***] and any Know-How disclosed or claimed therein specifically relating to a PD1 Component.

1.221 "**Non-PD1 Component**" means the antigen binding domain (including the amino acid and nucleic acid sequences encoding it) of a Targeted Collaboration Construct or a Targeted Collaboration Product, in each case, that binds to a Target other than PD1, and including any and all forms of the antigen binding domain (e.g., scFv, Fv, antibodies).

1.222 "**Genentech Non-PD1 Component Know-How**" means Know-How that relates solely to a Non-PD1 Component (including any improvements thereto, whether by on behalf of employee(s), agent(s) or consultant(s) of Xencor or Genentech or either of their Affiliates, individually or jointly) that was first introduced to the Collaboration by Genentech and included in a Research Plan approved by the JRC.

1.223 "**Xencor Non-PD1 Component Know-How**" means Know-How that relates solely to a Non-PD1 Component (including any improvements thereto, whether by on behalf of employee(s), agent(s) or consultant(s) of Xencor or Genentech or either of their Affiliates, individually or jointly) that was first introduced to the Collaboration by Xencor and included in a Research Plan approved by the JRC.

1.224 "**Non-PD1 Component Claim**" means a Patent claim that (i) covers Genentech Non-PD1 Component Know-How or Xencor Non-PD1 Component Know-How, but does not cover constructs comprising IL-15, and (ii) is filed (or updated) subsequent to approval of a Research Plan directed to the use of the Non-PD1 Component.

1.225 "**Genentech Non-PD1 Component Patents**" means Patents including Non-PD1 Component Claims that cover Genentech Non-PD1 Component Know-How, but not including Patent claims that (i) cover Collaboration Constructs or Collaboration Products and (ii) explicitly recite IL-15.

1.226 "**Xencor Non-PD1 Component Patents**" means Patents including Non-PD1 Component Claims that cover Xencor Non-PD1 Component Know-How, but not including Patent claims that (i) cover Collaboration Constructs or Collaboration Products and (ii) explicitly recite IL-15.

1.227 "**Genentech Non-PD1 Component IP**" means Genentech Non-PD1 Component Patents and Genentech Non-PD1 Component Know-How.

1.228 "**Xencor Non-PD1 Component IP**" means Xencor Non-PD1 Component Patents and Xencor Non-PD1 Component Know-How."

2. Section 1.84 of the Agreement shall be amended and replaced in its entirety by the following revised Section 1.84:

"1.84 "**Genentech Know-How**" means the Know-How Controlled by GNE as of the Effective Date or during the Term that is reasonably necessary to Research, Develop, Manufacture or Commercialize any Collaboration Construct or Collaboration Product. Genentech Know-How includes (a) all Know-How within the Program IP Controlled by GNE (including jointly-owned Program IP) and (b) Genentech Non-PD1 Component Know-How."

3. Section 1.205 of the Agreement shall be amended and replaced in its entirety by the following revised Section 1.205:

"1.205 "**Xencor Know-How**" means Know-How Controlled by Xencor or its Affiliates as of the Effective Date or during the Term that is reasonably necessary to Research, Develop, Manufacture or Commercialize any Collaboration Construct or Collaboration Product. Xencor Know-How includes (a) all Know-How within the Program IP Controlled by Xencor (including jointly-owned Program IP) and (b) Xencor Non-PD1 Component Know-How."

4. The following sentence shall be inserted at the end of Section 1.142 (Program Know-How):

"Notwithstanding anything herein to the contrary, (a) PD1 Component Know-How and IL-15 Component Know-How shall be deemed Program Know-How and (b) Genentech Non-PD1 Component Know-How and Xencor Non-PD1 Component Know-How shall not be deemed Program Know-How."

5. Section 1.144 of the Agreement shall be amended and replaced in its entirety by the following revised Section 1.144:

"1.144 "**Program Patents**" means Patents (other than Genentech Non-Collaboration PD1/IL-15 Patents and Xencor Non-Collaboration PD1/IL-15 Patents) that cover any Program Know-How."

6. The following new Section 10.4.6 shall be inserted into the Agreement immediately following Section 10.4.5:

"10.4.6 **Prosecution and Maintenance of Separated PD1/IL-15 Component Patents.** Sections 10.4.1(a), 10.4.3(a), 10.4.4 and 10.4.5 shall apply *mutatis mutandis* to Separated PD1/IL-15 Component Patents, provided that the Parties shall discuss and align on the strategy of Prosecution and Maintenance of Separated PD1/IL-15 Component Patents with the objective to prioritize Patents claiming Collaboration Constructs or Collaboration Products."

7. The following new Section 10.4.7 shall be inserted into the Agreement immediately following Section 10.4.6:

"10.4.7 **Prosecution and Maintenance of Non-PD1 Component Patents.** The Parties shall work together to determine whether and how Non-PD1 Component Claims shall be separated out into a separate Patent from any Patent claiming Collaboration Constructs or Collaboration Products, either by divisional or continuation application (or by initially filing the Non-PD1 Component Claim in a separate Patent). The Parties shall discuss and align on the strategy of Prosecution and Maintenance of Patents including Non-PD1 Component Claims, with the objective to prioritize Patents claiming Collaboration Constructs or Collaboration Products that incorporate the Non-PD1 Component. Sections 10.4.1(a), 10.4.3(a), 10.4.4 and 10.4.5 shall apply *mutatis mutandis* to Xencor Non-PD1 Component Patents. Sections 10.4.2(a), 10.4.3(b), 10.4.4 and 10.4.5 shall apply *mutatis mutandis* to Genentech Non-PD1 Component Patents. The obligations under this Section 10.4.7 shall only apply to a Non-PD1 Component Claim during the period the relevant Non-PD1 Component (i) is incorporated in a Collaboration Construct or Collaboration Product and (ii) subject to ongoing Research, Development or Commerzialization herunder."

Section 10.2.1 of the Agreement shall be amended and replaced in its entirety by the following revised Section 10.2.1:

"10.2.1 **Xencor.** As between the Parties, Xencor shall solely own (a) the Xencor IP (other than Program IP), (b) Xencor Core Inventions and (c) Xencor Non-Collaboration PD1/IL-15 Patents;"

8. Section 10.2.2 of the Agreement shall be amended and replaced in its entirety by the following revised Section 10.2.2:

"10.2.2 **Genentech.** As between the Parties, Genentech shall solely own (a) the Genentech IP (other than Program IP), (b) Genentech Core Inventions and (c) Genentech Non-Collaboration PD1/IL-15 Patents; and"

9. Section 10.3.1 of the Agreement shall be amended and replaced in its entirety by the following revised Section 10.3.1:

> "10.3.1 **Xencor.** Xencor shall require all of its employees, contractors and agents, and any Third Parties working on its behalf under this Agreement (and their respective employees, contractors and agents), to assign to Xencor any Know-How and other intellectual property (together with all Patents and other intellectual property rights therein) developed, conceived, or reduced to practice by such employees, contractors or agents or Third Parties; provided, that, in the case of any such Third Parties, to the extent that an assignment of such intellectual property cannot be obtained, then (i) licenses sufficient to enable the Development, Commercialization and Manufacturing of Collaboration Constructs and Collaboration Products hereunder and, (ii) with respect to PD1 Component Know-How or IL-15 Component Know-How disclosed or claimed in any Genentech Non-Collaboration PD1/IL-15 Patent, and with respect to Genentech Non-PD1 Component IP, licenses sufficient to enable the Development, Commercialization and Manufacturing of any construct and any product for all uses, shall satisfy the obligations of this Section 10.3.1. [***]"

10. Section 10.3.2 of the Agreement shall be amended and replaced in its entirety by the following revised Section 10.3.2:

> "10.3.2 **Genentech.** Genentech shall require all of its employees, contractors and agents, and any Affiliates and Third Parties working on its behalf under this Agreement (and their respective employees, contractors and agents), to assign to Genentech any Know-How and other intellectual property (together with all Patents and other intellectual property rights therein) developed, conceived, or reduced to practice by such employees, contractors or agents or Affiliates or Third Parties; provided, that, in the case of any such Third Parties, to the extent that an assignment of such intellectual property cannot be obtained, then (i) licenses sufficient to enable the Development, Commercialization and Manufacturing of Collaboration Constructs and Collaboration Products hereunder and, (ii) with respect to PD1 Component Know-How or IL-15 Component Know-How disclosed or claimed in any Xencor Non-Collaboration PD1/IL-15 Patent, and with respect to Xencor Non-PD1 Component IP, licenses sufficient to enable the Development, Commercialization and Manufacturing of any construct and any product for all uses, shall satisfy the obligations of this Section 10.3.2. Genentech hereby assigns to Xencor any and all rights, title, or interest that Genentech may have in any Xencor Core Invention and [***]"

11. The following new Section 9.1.3 shall be inserted into the Agreement immediately following Section 9.1.2:

"9.1.3 Xencor hereby grants to Genentech a non-exclusive license, sublicenseable as provided in Section 9.2, under the PD1 Component Background IP to make, use, sell, offer for sale and import of (x) any construct (other than a Collaboration Construct) and (y) any product (other than a Collaboration Product) in each case of clauses (x) and (y) above, that incorporates a PD1 Component, alone or for use in combination with other agents, in the Field in the Territory. [***]"

12. The following new Section 10.4.1(c) shall be inserted into the Agreement immediately following Section 10.4.1(b):

[***]

13. The below attached new Exhibit O shall be inserted into the Agreement immediately following Exhibit N.

14. **Miscellaneous**

(a) Unless otherwise expressly provided, references in this Amendment (i) to the Agreement, are to the body of the Agreement and (ii) to Sections, are to sections of the Agreement.

(b) Except as expressly stated herein, no other changes are made to the Agreement and all other terms and conditions of the Agreement shall remain in full force and effect. In the event of a conflict between the provisions hereof and the Agreement, the provisions of this Amendment shall control. The Agreement and this Amendment contain the entire understanding between the Parties hereto with respect to the subject matter hereof and supersede all prior agreements, understandings and arrangements between the Parties, whether written or oral with respect to such subject matter.

(c) All references to the "Agreement" in the Agreement shall hereafter mean the Agreement, as amended by this Amendment.

(d) This Amendment shall be governed by and construed in accordance with the laws of the State of California and the patent laws of the United States without reference to any rules of conflict of laws. The Parties hereby exclude from this Amendment the application of the United Nations Convention on Contracts for the International Sale of Goods.

(e) This Amendment may be executed in two or more counterparts by original signature, facsimile or PDF files, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[*Signature page follows*]

**IN WITNESS WHEREOF**, each of Xencor, Genentech and Roche, intending to be bound have caused this Agreement to be executed by their duly authorized representatives as of the Amendment Effective Date.

**Xencor, Inc.**

By: /s/ Bassil Dahiyat

Name: Bassil Dahiyat

Title: President and Chief Executive Officer

**Genentech, Inc.**

By: [***]

Name: [***]

Title: [***]

**F. Hoffmann-La Roche Ltd**

By: [***]

Name: [***]

Title: [***]

By: [***]

Name: [***]

Title: [***]

**[***] = CERTAIN IDENTIFIED INFORMATION HAS BEEN OMITTED FROM THIS DOCUMENT BECAUSE IT IS BOTH NOT MATERIAL AND WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED, AND HAS BEEN MARKED WITH "[***]" TO INDICATE WHERE OMISSIONS HAVE BEEN MADE.**

## Exhibit O

[***]

**[***] = CERTAIN IDENTIFIED INFORMATION HAS BEEN OMITTED FROM THIS DOCUMENT BECAUSE IT IS BOTH NOT MATERIAL AND WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED, AND HAS BEEN MARKED WITH "[***]" TO INDICATE WHERE OMISSIONS HAVE BEEN MADE.**

**Exhibit 31.1**

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bassil I. Dahiyat, Ph.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xencor, Inc., (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ BASSIL I. DAHIYAT
Bassil I. Dahiyat, Ph.D.
*President & Chief Executive Officer*
*(Principal Executive Officer)*

Date: May 5, 2021

**Exhibit 31.2**

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John J. Kuch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xencor, Inc., (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ JOHN J. KUCH
John J. Kuch
*Chief Financial Officer*
*(Principal Financial Officer)*

Date: May 5, 2021

**Exhibit 32.1**

**CERTIFICATION**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Bassil I. Dahiyat, President & Chief Executive Officer of Xencor, Inc. (the "Company"), and John J. Kuch, Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

**1.** The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2021, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

**2.** The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 5, 2021

**IN WITNESS WHEREOF**, the undersigned have set their hands hereto as of the 5th day of May 2021.

| | |
|---|---|
| /s/ BASSIL I. DAHIYAT | /s/ JOHN J. KUCH |
| Bassil I. Dahiyat | John J. Kuch |
| President & Chief Executive Officer | Chief Financial Officer |
| *(Principal Executive Officer)* | *(Principal Financial Officer)* |

This certification accompanies the Periodic Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Xencor, 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 the Form 10-Q), irrespective of any general incorporation language contained in such filing.