Table of Contents

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, 2022

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	The 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 29, 2022**
Common stock, par value $0.01 per share	59,542,935

Xencor, Inc.

Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2022

Table of Contents

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 (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). 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, cost, and timing 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, 2021 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

ITEM 1. Financial Statements

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

	March 31, 2022	December 31, 2021
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 78,267	$ 143,480
Marketable debt securities	278,058	153,767
Marketable equity securities	33,430	36,860
Accounts receivable	88,204	66,384
Contract asset	5,000	—
Prepaid expenses	23,011	23,877
Total current assets	505,970	424,368
Property and equipment, net	28,411	28,240
Patents, licenses, and other intangible assets, net	16,712	16,493
Marketable debt securities - long term	239,035	300,465
Marketable equity securities - long term	31,262	31,262
Notes receivable - long term	5,000	5,000
Right of use (ROU) asset	30,919	31,730
Other assets	613	653
Total assets	$ 857,922	$ 838,211
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 11,905	$ 14,001
Accrued expenses	12,612	19,443
Lease liabilities	936	—
Deferred revenue	35,488	37,294
Total current liabilities	60,941	70,738
Lease liabilities, net of current portion	33,958	33,969
Total liabilities	94,899	104,707
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.01 par value: 10,000,000 authorized shares; -0- issued and outstanding shares at March 31, 2022 and December 31, 2021	—	—
Common stock, $0.01 par value: 200,000,000 authorized shares at March 31, 2022 and December 31, 2021; 59,529,192 issued and outstanding at March 31, 2022 and 59,355,558 issued and outstanding at December 31, 2021	596	595
Additional paid-in capital	1,029,058	1,017,523
Accumulated other comprehensive loss	(7,121)	(1,510)
Accumulated deficit	(259,510)	(283,104)
Total stockholders' equity	763,023	733,504
Total liabilities and stockholders' equity	$ 857,922	$ 838,211

See accompanying notes.

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

	Three Months Ended March 31,	
	2022	2021
Revenue		
Collaborations, milestones, and royalties	$ 85,495	$ 33,965
Operating expenses		
Research and development	47,756	41,411
General and administrative	11,273	8,226
Total operating expenses	59,029	49,637
Income (loss) from operations	26,466	(15,672)
Other income (expenses)		
Interest income, net	653	215
Other expense, net	(96)	(11)
(Loss) gain on equity securities, net	(3,429)	12,981
Total other income (expense), net	(2,872)	13,185
Net income (loss)	23,594	(2,487)
Other comprehensive income (loss)		
Net unrealized (loss) gain on marketable debt securities	(5,611)	23
Comprehensive income (loss)	$ 17,983	$ (2,464)
Basic net income (loss) per common share	$ 0.40	$ (0.04)
Diluted net income (loss) per common share	$ 0.39	$ (0.04)
Basic weighted average common shares outstanding	59,407,829	57,997,313
Diluted weighted average common shares outstanding	61,078,494	57,997,313

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, 2021	59,355,558	$ 595	$ 1,017,523	$ (1,510)	$ (283,104)	$ 733,504
Issuance of common stock upon exercise of stock awards	36,500	—	731	—	—	731
Issuance of restricted stock units	137,134	1	(1)	—	—	—
Comprehensive income (loss)	—	—	—	(5,611)	23,594	17,983
Stock-based compensation	—	—	10,805	—	—	10,805
Balance, March 31, 2022 (unaudited)	59,529,192	$ 596	$ 1,029,058	$ (7,121)	$ (259,510)	$ 763,023

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 (unaudited)	58,221,953	$ 583	$ 951,154	$ 97	$ (368,222)	$ 583,612

See accompanying notes.

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

	Three Months Ended March 31,	
	2022	**2021**
Cash flows from operating activities		
Net income (loss)	$ 23,594	$ (2,487)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,178	1,638
Amortization of premium on marketable securities	543	865
Stock-based compensation	10,805	8,293
Abandonment of capitalized intangible assets	311	193
Change in fair value of equity securities	3,429	(12,980)
Loss on disposal of assets	117	—
Changes in operating assets and liabilities:		
Accounts receivable and contract asset	(26,820)	(1,082)
Interest receivable from marketable debt securities	(251)	311
Prepaid expenses and other assets	906	(3,500)
Accounts payable	(2,096)	(1,291)
Accrued expenses	(6,831)	(5,090)
Lease liabilities and ROU assets	1,736	(42)
Deferred revenue	(1,806)	(14,794)
Net cash provided by (used in) operating activities	5,815	(29,966)
Cash flows from investing activities		
Purchase of marketable securities	(88,764)	(84,139)
Purchase of intangible assets	(906)	(72)
Purchase of property and equipment	(2,089)	(1,951)
Proceeds from maturities and sale of marketable securities	20,000	124,210
Net cash (used in) provided by investing activities	(71,759)	38,048
Cash flows from financing activities		
Proceeds from issuance of common stock upon exercise of stock awards	731	5,339
Net cash provided by financing activities	731	5,339
Net (decrease) increase in cash and cash equivalents	(65,213)	13,421
Cash and cash equivalents, beginning of period	143,480	163,544
Cash and cash equivalents, end of period	$ 78,267	$ 176,965
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 4	$ 4
Supplemental disclosures of non-cash investing activities		
Unrealized (loss) gain on marketable securities	$ (5,611)	$ 23

See accompanying notes.

Xencor, Inc.

Notes to Financial Statements
(unaudited)

March 31, 2022

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 2021 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 24, 2022.

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, evaluation of intangible assets, investments, leases and other assets for evidence of impairment, fair value measurements, and contingencies. Significant estimates in these interim financial statements include estimates made for royalty revenue, accrued research and development expenses, stock-based compensation expenses, intangible assets, incremental borrowing rate for right-of-use asset and lease liability, estimated standalone selling price of performance obligations, estimated time for completing delivery of performance obligations under certain arrangements, the likelihood of recognizing variable consideration, the carrying value of equity instruments without a readily determinable fair value, 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 was no impairment charge recorded for the three months ended March 31, 2022 and 2021.

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, 2022 and 2021.

Marketable Debt 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 because it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost. 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, 2022 and 2021. Accrued interest on marketable debt securities is included in the 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. During the three months ended March 31, 2022, the Company recorded an unrealized loss of $5.6 million in its portfolio of marketable debt securities. The unrealized loss is due to the changing interest rate environment and is not due to changes in the credit quality of the underlying securities. The unrealized loss is recorded in other comprehensive income (loss) for the three months ended March 31, 2022.

The Company receives equity securities in connection with certain licensing transactions with its partners. These investments in equity securities 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 re-measures 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 gain or loss 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 a readily determinable fair value, where the Company elects the measurement alternative to record the investment 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. There was no impairment charge recorded for the three months ended March 31, 2022 and 2021, in connection with equity securities without a readily determinable fair value.

Recent Accounting Pronouncements

There have been no material changes in recently issued or adopted accounting standards from those disclosed in the Company's 2021 Annual Report on Form 10-K. The Company has reviewed all recently issued accounting pronouncements and does not believe they will have a material impact on our results of operations, financial conditions, or cash flows.

There have been no other material changes to the significant accounting policies previously disclosed in the Company's 2021 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 and equity securities, accounts receivable, accounts payable, and accrued expenses. Marketable debt securities, equity 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 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, 2022 (unaudited)			December 31, 2021		
	Total Fair Value	Level 1	Level 2	Total Fair Value	Level 1	Level 2
Money Market Funds	$ 20,742	$ 20,742	$ —	$ 123,892	$ 123,892	$ —
Corporate Securities	167,984	—	167,984	144,418	—	144,418
Government Securities	349,109	—	349,109	309,814	—	309,814
	$ 537,835	$ 20,742	$ 517,093	$ 578,124	$ 123,892	$ 454,232

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, 2022 and 2021, there were no transfers between Level 1 and Level 2.

3. Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing the net income (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 income (loss) per common share is computed by dividing the net income (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 pursuant to outstanding options and restricted stock units (RSUs), and stock issuable pursuant to the 2013 Employee Stock Purchase Plan (ESPP) 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 income (loss) per common share is computed as follows:

	Three Months Ended March 31,	
	2022	2021
	(in thousands, except share and per share data)	
Numerator:		
Net income (loss) attributable to common stockholders	$ 23,594	$ (2,487)
Denominator:		
Weighted-average common shares outstanding used in computing basic net income (loss)	59,407,829	57,997,313
Effect of dilutive securities	1,670,665	—
Weighted-average common shares outstanding used in computing diluted net income (loss)	61,078,494	57,997,313
Basic net income (loss) per common share	$ 0.40	$ (0.04)
Diluted net income (loss) per common share	$ 0.39	$ (0.04)

For the three months ended March 31, 2022, we excluded 2,556,779 shares of stock issuable pursuant to outstanding options and RSUs from the calculation, because the inclusion of such shares would have had an anti-dilutive effect. For the three months ended March 31, 2021, all outstanding potentially dilutive securities have been excluded from the calculation of diluted net income (loss) per common share as the effect of including such securities would have been anti-dilutive.

4. Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). For the three months ended March 31, 2022 and 2021, 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, 2022 and 2021.

5. Marketable Debt and Equity Securities

The Company's marketable debt securities held as of March 31, 2022 and December 31, 2021 are summarized below:

March 31, 2022 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money Market Funds	$ 20,742	$ —	$ —	$ 20,742
Corporate Securities	169,159	—	(1,175)	167,984
Government Securities	355,045	—	(5,936)	349,109
	$ 544,946	$ —	$ (7,111)	$ 537,835
Reported as				
Cash and cash equivalents				$ 20,742
Marketable securities				517,093
Total investments				$ 537,835

December 31, 2021 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money Market Funds	$ 123,892	$ —	$ —	$ 123,892
Corporate Securities	144,584	—	(166)	144,418
Government Securities	311,148	1	(1,335)	309,814
	$ 579,624	$ 1	$ (1,501)	$ 578,124
Reported as				
Cash and cash equivalents				$ 123,892
Marketable securities				454,232
Total investments				$ 578,124

The maturities of the Company's marketable debt securities as of March 31, 2022 are as follows:

March 31, 2022 (in thousands)	Amortized Cost	Estimated Fair Value
Mature in one year or less	$ 279,863	$ 278,058
Mature within two years	244,341	239,035
	$ 524,204	$ 517,093

The unrealized losses on available-for-sale investments and their related fair values as of March 31, 2022 and December 31, 2021 are as follows:

	Less than 12 months		12 months or greater	
March 31, 2022	Fair value	Unrealized losses	Fair value	Unrealized losses
(in thousands)				
Corporate Securities	$ 82,738	$ (554)	$ 32,184	$ (621)
Government Securities	141,865	(1,250)	206,851	(4,686)
	$ 224,603	$ (1,804)	$ 239,035	$ (5,307)

	Less than 12 months		12 months or greater	
December 31, 2021	Fair value	Unrealized losses	Fair value	Unrealized losses
(in thousands)				
Corporate Securities	$ 50,337	$ (51)	$ 45,872	$ (115)
Government Securities	39,909	(54)	254,593	(1,281)
	$ 90,246	$ (105)	$ 300,465	$ (1,396)

The unrealized losses from the available-for-sale securities are primarily due to changes in the interest rate environment and not changes in the credit quality of the underlying securities in the portfolio.

The Company's equity securities include securities with a readily determinable fair value. These investments are carried at fair value with changes in fair value recognized each period and reported within other income (expense). For the three months ended March 31, 2022, a loss of $3.4 million was recorded in loss on equity securities under other income (expense) related to these securities. Equity securities with a readily determinable fair value and their fair values (in thousands) as of March 31, 2022 and December 31, 2021 are as follows:

	Fair Value March 31, 2022	Fair Value December 31, 2021
Astria Common Stock	$ 4,294	$ 3,449
INmune Common Stock	15,876	19,233
Viridian Common Stock	13,260	14,178
	$ 33,430	$ 36,860

The Company also has investments in equity securities without a readily determinable fair value. The Company elects the measurement alternative to record these investments at their initial cost and evaluate such investments at each reporting period for evidence of impairment, or observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Equity securities without a readily determinable fair value and their carrying values (in thousands) as of March 31, 2022 and December 31, 2021 are as follows:

	Carrying Value March 31, 2022	Carrying Value December 31, 2021
Astria Preferred Stock	$ 312	$ 312
Zenas Preferred Stock	30,950	30,950
	$ 31,262	$ 31,262

In 2018, the Company received equity shares in Quellis Biosciences, Inc. (Quellis) in connection with a licensing transaction. In 2021, Quellis merged into Astria Therapeutics, Inc. (Astria) (formerly Catabasis Pharmaceuticals, Inc.), and the Company received common and preferred stock in Astria in exchange for its Quellis equity. The shares of Astria common stock have a readily determinable fair value. The adjustment in the fair value of the Astria common stock has been recorded in unrealized gain (loss) on equity securities for the three months ended March 31, 2022.

The Company records its investment in the shares of Astria preferred stock as an equity interest without a readily determinable fair value. The Company elected to record the shares of preferred stock at their initial cost and to review the carrying value for impairment or other changes in carrying value at each reporting period. During the three months ended March 31, 2022, the Company did not record an impairment charge related to its investment in Astria's preferred stock.

The Company currently holds 1,885,533 shares of common stock of INmune Bio, Inc. (INmune). The 1,885,533 shares of INmune common stock are classified as equity securities with a readily determinable fair value, and the adjustment in the fair value of the shares of INmune common stock has been recorded in gain (loss) on equity securities for the three months ended March 31, 2022.

The Company currently holds 717,144 shares of common stock of Viridian Therapeutics, Inc. (Viridian). The shares of Viridian common stock are classified as equity securities with a readily determinable fair value, and the adjustment in the fair value of the shares of Viridian common stock was recorded in gain (loss) on equity securities for the three months ended March 31, 2022.

The Company currently holds an equity interest in Zenas BioPharma Limited (Zenas), a private biotechnology company. The Company's equity interests include preferred stock in Zenas and a warrant to acquire additional equity in Zenas in a subsequent financing. The Company also holds a convertible promissory note from Zenas. The Company elected the measurement alternative to carry the Zenas equity and the warrant 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. During the three months ended March 31, 2022, there has not been any impairment or observable price changes related to this investment.

Unrealized (loss) gain recognized on equity securities during the three months ended March 31, 2022 and 2021 consist of the following:

	Three Months Ended March 31,	
	2022	2021
Net (loss) gain recognized on equity securities	$ (3,429)	$ 12,981
Less: net gain recognized on sale of equity securities	—	(1)
Unrealized (loss) gain recognized on equity securities	$ (3,429)	$ 12,980

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, 2022, the total number of shares of common stock available for issuance under the 2013 Plan is 15,322,826. 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 2,374,222 shares on January 1, 2022. As of March 31, 2022, a total of 14,068,696 options have been granted under the 2013 Plan.

In November 2013, the Board and our stockholders approved the 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 the Board, the total number of shares of common stock available for issuance under the ESPP was increased by 1%, which is 593,555 shares, on January 1, 2022. As of March 31, 2022, we have issued a total of 529,852 shares of common stock under the ESPP.

During the three months ended March 31, 2022, the Company awarded 734,989 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, 2022, a total of 1,859,476 RSUs have been granted under the 2013 Plan.

Total employee, director and non-employee stock-based compensation expense recognized for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	Three Months Ended March 31,	
	2022	2021
General and administrative	$ 3,674	$ 2,737
Research and development	7,131	5,556
	$ 10,805	$ 8,293

	Three Months Ended March 31,	
	2022	2021
Stock options	$ 6,833	$ 6,530
ESPP	301	248
RSUs	3,671	1,515
	$ 10,805	$ 8,293

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, 2021	8,676,329	$ 29.11	6.65	$ 100,057
Options granted	1,668,623	$ 30.22		
Options forfeited	(67,331)	$ 38.01		
Options exercised	(36,500)	$ 20.03		
Balance at March 31, 2022	10,241,121	$ 29.26	6.91	$ 30,626
Exercisable	6,080,310	$ 25.51	5.46	$ 30,602

We calculate the intrinsic value as the difference between the exercise price of the options and the closing price of common stock of $26.68 per share as of March 31, 2022.

The weighted-average fair value of options granted during the three-month periods ended March 31, 2022 and 2021 were $15.85 and $22.83 per share, respectively. There were 1,321,917 options granted during the three-month period ended March 31, 2021. 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, 2022 and 2021:

	Options	
	Three Months Ended March 31,	
	2022	2021
Expected term (years)	6.4	6.2
Expected volatility	53.0 %	55.6 %
Risk-free interest rate	1.78 %	1.02 %
Expected dividend yield	— %	— %

	ESPP	
	Three Months Ended March 31,	
	2022	2021
Expected term (years)	0.5 - 2.0	0.5 - 2.0
Expected volatility	55.7 %	50.8 - 66.4 %
Risk-free interest rate	0.13 - 0.67 %	0.09 - 1.65 %
Expected dividend yield	— %	— %

As of March 31, 2022, the unamortized compensation expense related to unvested stock options was $72.9 million. The remaining unamortized compensation expense will be recognized over the next 3.0 years. As of March 31, 2022, the unamortized compensation expense under our ESPP was $2.0 million. The remaining unamortized expense will be recognized over the next 1.7 years.

The following table summarizes the RSU activity for the three-month period ended March 31, 2022:

	Restricted Stock Units	Weighted Average Grant Date Fair Value (Per unit)
Unvested RSUs at December 31, 2021	826,148	$ 37.79
Granted	734,989	29.93
Vested	(137,134)	38.20
Forfeited	(22,602)	37.41
Unvested RSUs at March 31, 2022	1,401,401	$ 33.64

As of March 31, 2022, the unamortized compensation expense related to unvested RSUs was $42.3 million. The remaining unamortized expense will be recognized over the next 2.3 years.

7. Leases

The Company leases office and laboratory space in Monrovia, California 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 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 has assessed that it is unlikely to exercise either of the lease term extension options.

In June 2021, the Company entered into an Agreement of Lease (Lease Agreement) for laboratory and office space in Pasadena, California, which will expire in July 2035. The Lease Agreement provides for two separate phases of lease and occupancy. The first phase commences on August 1, 2022 and provides the Company with an improvement allowance up to $17.0 million. The second phase of the lease agreement will commence no later than September 30, 2026 and includes an additional improvement allowance up to $3.3 million.

The Company leases additional office space in San Diego, California through August 2022, with an option to extend for an additional five years. The Company is currently negotiating for an extension of the term of the lease under existing terms.

The Company also leases additional office space in Monrovia, California under a lease that extends through January 2023, with an option to extend for an additional two years. The Company has assessed 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.

The following table reconciles the undiscounted cash flows for the operating leases at March 31, 2022 to the operating lease liabilities recorded on the balance sheet (in thousands):

Years ending December 31,		
For the remainder of 2022	$	1,376
2023		5,566
2024		5,713
2025		5,817
2026		5,279
2027		5,433
Thereafter		46,685
Total undiscounted lease payments		75,869
Less: Tenant allowance		(16,137)
Less: Imputed interest		(24,838)
Present value of lease payments	$	34,894
Lease liabilities - short-term	$	936
Lease liabilities - long-term		33,958
Total lease liabilities	$	34,894

The following table summarizes lease costs and cash payments for the three months ended March 31, 2022 and 2021 (in thousands):

	Three Months Ended March 31,	
	2022	**2021**
Operating lease cost	$ 1,562	$ 614
Variable lease cost	99	10
Total lease costs	$ 1,661	$ 624
Cash paid for amounts included in the measurement of lease liabilities	$ 684	$ 499

As of March 31, 2022, the weighted-average remaining lease term for operating leases is 12.3 years, and the weighted-average discount rate for operating leases is 5.8%. 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 that 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, 2022 and 2021.

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.

Under ASC 606, *Revenue from Contracts with Customers*, the Company recognizes revenue for sales-based royalties upon the subsequent sale of the product. The Company recognized $6.1 million and $5.3 million of royalty revenue under this arrangement for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, there is a receivable of $11.2 million related to royalties due under the arrangement. As of March 31, 2022, 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, Amgen applied our bispecific Fc technology to create AMG 509, a STEAP1 x CD3 XmAb 2+1 bispecific antibody, which is currently being developed by Amgen in a Phase 1 study.

No revenue was recognized under the Amgen Agreement during the three months ended March 31, 2022 or 2021. As of March 31, 2022, 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 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.

Astellas is currently advancing ASP2138, a CLDN18.2 x CD3 bispecific antibody, a candidate from the collaboration, into clinical development.

At March 31, 2022, the Company recorded a contract asset of $5.0 million related to a future development milestone.

The Company recognized $5.0 million of revenue for the three months ended March 31, 2022; no revenue was recognized related to the arrangement for the three months ended March 31, 2021. As of March 31, 2022, there is a contract asset of $5.0 million, and there is no deferred revenue related to the arrangement.

Astria Therapeutics, 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 development, regulatory and sales milestones, and royalties in the mid-single digit percentage range on net sales of approved products.

In January 2021, Quellis merged into Astria (formerly Catabasis), and the Company received common stock and preferred stock of Astria 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 was recorded as unrealized gain for the three months ended March 31, 2021. The Astria preferred stock is carried at its original cost and is reviewed for impairment or other changes at each reporting period.

The Company recognized an unrealized gain of $0.8 million related to its equity interest in Astria for the three months ended March 31, 2022. There is no deferred revenue as of March 31, 2022 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. Hoffmann-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.

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%.

Pursuant to the Genentech Agreement, the Company and Genentech conducted 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 expired in March 2021. The Company is eligible for clinical milestone payments for new Collaboration Products identified from the research efforts.

The Company did not recognize revenue for the three months ended March 31, 2022. For the three months ended March 31, 2021, the Company recognized $0.2 million of revenue. As of March 31, 2022, there is a $2.7 million payable related to cost-sharing development activities during the first quarter of 2022 for the program being developed under the Genentech Agreement. There is no deferred revenue as of March 31, 2022, as obligations to perform research activities have expired.

Gilead Sciences, Inc.

In January 2020, the Company entered into a Technology License Agreement (the Gilead Agreement) with Gilead Sciences, Inc. (Gilead), pursuant to which the Company provided an exclusive license to its Cytotoxic Fc and Xtend Fc technologies for an initial identified antibody and three additional antibodies directed to the same molecular target. The Company is eligible to receive development, regulatory and 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, 2022 or 2021. There is no deferred revenue as of March 31, 2022 related to this agreement.

INmune Bio, Inc.

In October 2017, the Company entered into a License Agreement (the INmune Agreement) with 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 shares of INmune common stock.

During the three months ended June 30, 2021, the Company determined that it should no longer record its investment in INmune under the equity method and recorded its investment in INmune pursuant to ASC 321.

For the three months ended March 31, 2022, the Company recorded $3.4 million of unrealized loss related to its investment in INmune.

Janssen Biotech, Inc.

Janssen Agreement

In November 2020, the Company entered into a Collaboration and License Agreement (the Janssen Agreement) with Janssen Biotech, Inc. (Janssen) pursuant to which the Company and Janssen conducted research and development activities to discover novel CD28 bispecific antibodies for the treatment of prostate cancer with Janssen maintaining exclusive worldwide rights to develop and commercialize licensed products identified from the research activities.

Under the Janssen Agreement, the Company conducted research activities and applied its bispecific Fc technology to antibodies targeting prostate cancer provided by Janssen. Upon completion of the research activities Janssen had a candidate selection option to advance an identified candidate for development and commercialization. In November 2021, the Company completed its performance obligations under the research activities and delivered CD28 bispecific antibodies to Janssen, and Janssen exercised its candidate selection option to select a bispecific CD28 antibody for further development. 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 includes $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 in the high-single to low-double digit percentage range.

Second Janssen Agreement

On October 1, 2021, the Company entered into a second Collaboration and License Agreement (the Second Janssen Agreement) with Janssen pursuant to which the Company granted Janssen an exclusive worldwide license to develop, manufacture, and commercialize plamotamab, the Company's CD20 x CD3 development candidate, and pursuant to which Xencor and Janssen will conduct research and development activities to discover novel CD28 bispecific antibodies. The parties will conduct joint research activities for up to a two-year period to discover XmAb bispecific antibodies against CD28 and undisclosed B cell tumor-targets with Janssen receiving exclusive worldwide rights, subject to certain Xencor opt-in rights, to develop, manufacture and commercialize pharmaceutical products that contain one or more of such discovered antibodies (CD28 Licensed Antibodies). The Agreement became effective on November 5, 2021.

Pursuant to the Second Janssen Agreement, the Company received an upfront payment of $100.0 million and is eligible to receive up to $1,187.5 million in milestones which include $289.4 million in development milestones, $378.1 million in regulatory milestones and $520.0 million in sales milestones. Under the terms of the Stock Purchase Agreement, Johnson & Johnson Innovation, JJDC, Inc. (JJDC), agreed to purchase $25.0 million of newly issued unregistered shares of the Company's common stock, priced at a 30-day volume-weighted average price of $33.4197 per share as of October 1, 2021. The Company issued JJDC 748,062 shares of its common stock which had a fair market value of $28.9 million when the shares were transferred.

The Company will collaborate with Janssen on further clinical development of plamotamab with Janssen and share development costs with Janssen paying 80% and the Company paying 20% of certain development costs.

The Company is generally responsible for conducting research activities under the Second Janssen Agreement, and Janssen is generally responsible for all development, manufacturing, and commercialization activities for CD28 Licensed Antibodies that are advanced.

There is a receivable of $3.1 million as of March 31, 2022, related to cost-sharing activities under the Second Janssen Agreement. The Company recognized $1.8 million and $14.6 million of revenue related to the two Janssen agreements for the three months ended March 31, 2022 and 2021, respectively. There is $35.5 million in deferred revenue as of March 31, 2022 related to our obligation to complete research activities under the Second Janssen 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.

The Company recognized $2.3 million and $1.4 million of royalty revenue during the three months ended March 31, 2022 and 2021, respectively. In addition, the Company recognized $12.5 million of milestone revenue during the three months ended March 31, 2021. As of March 31, 2022, there is a receivable of $2.3 million related to estimated royalties due under the arrangement. As of March 31, 2022, there is no deferred revenue related to this agreement.

Nestle S.A./Aimmune Therapeutics, Inc.

On February 4, 2020, the Company entered into a License, Development and Commercialization Agreement (the Aimmune Agreement) with Nestle S.A. (formerly Aimmune) pursuant to which the Company granted Nestle S.A. an exclusive worldwide license to XmAb7195, which was renamed AIMab7195. The Company received an upfront payment and the Company is eligible to receive development, regulatory and sales milestones, and also tiered royalties on net sales of approved products in the high-single to mid-teen percentage range.

Nestle S.A. is responsible for all further development and commercialization of AIM7195 and is currently advancing the program in clinical studies.

No revenue was recognized in the three months ended March 31, 2022 or 2021. There is no deferred revenue as of March 31, 2022 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.

Pursuant to the Novartis Agreement, the Company and Novartis were co-developing vibecotamab worldwide and sharing development costs. In August 2021, Novartis notified the Company it was terminating its rights with respect to the vibecotamab program, which became effective in February 2022. Under the Novartis Agreement, Novartis is responsible for its share of vibecotamab development costs through August 2022.

In June 2021, Novartis selected an Fc candidate and received a non-exclusive license to the Company's Fc technology. Novartis will assume full responsibility for development and commercialization of the licensed Fc product

candidate. The Company is eligible to receive development, clinical, and sales milestones and royalties on net sales of approved products for the licensed Fc candidate.

No revenue was recognized during the three months ended March 31, 2022 or 2021 from the Novartis Agreement. As of March 31, 2022, there is a receivable of $0.5 million related to cost-sharing of development activities for the first quarter of 2022 for the vibecotamab program. There is no deferred revenue as of March 31, 2022.

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.

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 two novel antibodies that 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. In May 2021, the FDA granted emergency use authorization (EUA) to Vir's COVID-19 antibody, sotrovimab (VIR-7831), for the treatment of mild-to-moderate COVID-19 in high-risk adults and patients.

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 each case, pursuant to 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, respectively. 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 recognized $70.3 million of royalty revenue for the three months ended March 31, 2022. No revenue was recognized for the three months ended March 31, 2021. There is a receivable of $69.8 million related to estimated royalty due under this agreement. There is no deferred revenue as of March 31, 2022 related to this agreement.

Viridian Therapeutics, Inc.

In December 2020, the Company entered into a Technology License Agreement (Viridian Agreement) with Viridian, 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 and is eligible to receive development, regulatory and sales milestones, and royalties on net sales in the mid-single digit percentage range.

In December 2021, the Company entered into a second Technology License Agreement (Second Viridian Agreement) with Viridian for a non-exclusive license to certain antibody libraries developed by the Company. Under the Second Viridian Agreement, Viridian received a one-year research license to review the antibodies and the right to select up to three antibodies for further development. Viridian is responsible for all further development of the selected antibodies. The Company received an upfront payment and is eligible to receive development, regulatory and sales milestones, in addition to royalties on net sales of approved products under the Second Viridian Agreement.

The Company reported unrealized loss in other income of $0.9 million for the three months ended March 31, 2022 related to the shares of Viridian common stock. The Company did not recognize revenue for the three months ended March 31, 2022 or 2021. There is no deferred revenue as of March 31, 2022 related to this agreement.

Zenas BioPharma Limited

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 XmAb10171. Under the Zenas Agreement, Zenas will be responsible for all further development and commercialization activities for the drug candidates. The Company received a 15% equity interest in Zenas with a fair value of $16.1 million and is eligible to receive royalties on net sales of approved products in the mid-single digit to mid-teen percentage range.

The equity in Zenas is recorded at the fair value as of the date of the Zenas Agreement and is reviewed each reporting period for impairment or other evidence of change in value.

In November 2021, the Company entered into a second License Agreement (Second Zenas Agreement) with Zenas, in which we licensed the exclusive worldwide rights to develop and commercialize the Company's obexelimab (XmAb5871) drug candidate. Under the Second Zenas Agreement, Zenas will be responsible for all further development and commercialization activities for obexelimab. The Company received a warrant to acquire additional equity in Zenas and is eligible to receive development, regulatory and sales milestones, and royalties on net sales of approved products in the mid-single digit to mid-teen percentage range.

The warrant in Zenas is recorded at its fair value as of the date of the Second 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 or the warrant in Zenas in the three months ended March 31, 2022. The Company did not recognize any revenue related to the Zenas Agreement for the three months ended March 31, 2022 or 2021. There is no deferred revenue as of March 31, 2022 related to this agreement.

Revenue earned

The revenues recorded for the three months ended March 31, 2022 and 2021 were earned principally from the following licensees (in millions):

	Three Months Ended March 31,	
	2022	**2021**
Alexion	$ 6.1	$ 5.3
Astellas	5.0	—
Genentech	—	0.2
Janssen	1.8	14.6
MorphoSys	2.3	13.9
Vir	70.3	—
Total	$ 85.5	$ 34.0

The table below summarizes the disaggregation of revenue recorded for the three months ended March 31, 2022 and 2021 (in millions):

	Three Months Ended March 31,	
	2022	2021
Research collaboration	$ 1.8	$ 14.8
Milestone	5.0	12.5
Royalties	78.7	6.7
Total	$ 85.5	$ 34.0

Remaining Performance Obligations and Deferred Revenue

The Company's remaining performance obligation as of March 31, 2022 is conducting research activities pursuant to research plans under the Second Janssen Agreement. The Company's obligation to perform research services under the Genentech and the Novartis Agreements ended upon expiration of the respective research terms for each agreement in the second quarter of 2021. As of March 31, 2022 and 2021, the Company has deferred revenue of $35.5 million and $77.8 million, respectively. All deferred revenue as of March 31, 2022 is classified as current liabilities as the Company's obligations to perform services are due on demand when requested by Janssen under the Second Janssen Agreement.

10. Income taxes

There was no provision for income taxes for the three months ended March 31, 2022 or 2021. Beginning in 2022, the Tax Cuts and Jobs Act (TCJA) requires taxpayers to capitalize certain research and development costs and amortize them over five or fifteen years pursuant to Internal Revenue Code Section 174. Previously, such costs could be deducted in the period they were incurred. This provision may increase our taxable income for the tax year ended December 31, 2022 and result in additional cash payments for our federal income taxes. As of March 31, 2022, 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.

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, 2021 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, 2021. 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 and our partners are advancing a broad portfolio of clinical-stage XmAb® drug candidates from our proprietary protein engineering and technology platforms. We also use our protein engineering capabilities to increase our understanding of protein structure and interactions to design new technologies and XmAb development candidates with improved properties. In addition to engineering protein-target interactions, our approach to protein design includes engineering Fc domains, 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 XmAb Fc domains can be readily substituted for natural Fc domains.

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

Refer to Part I, Item 1, "XmAb Bispecific Fc Domain and New Multi-Specific Antibody Formats" and "Other XmAb Fc Domains" in the description of our business included in our Annual Report on Form 10-K for the year ended December 31, 2021 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, 2022, 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 implemented restrictions, rules and guidelines that affect the continued operation of businesses. Other countries and states where we conduct manufacturing of our drug products, 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 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, sotrovimab (VIR-7831), an antibody that targets the SARS-CoV-2 virus, received an EUA from the FDA for the treatment of mild-to-moderate COVID-19 in high-risk adults and pediatric patients. Due to the high frequency of the Omicron BA.2 subvariant, sotrovimab is not currently authorized in any U.S. region. Sotrovimab currently has EUA temporary authorization or marketing approval (under the brand name Xevudy®) in more than 40 countries. Sotrovimab incorporates our Xtend Fc technology for longer duration of action. We have licensed the use of our Xtend Fc domain to multiple partners who are incorporating it into their investigational antibodies targeting the SARS-CoV-2 virus, and we are eligible to receive royalties on net sales of these candidates.

- 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 the amount of revenue we generate from such partnerships and collaborations for the quarter ended March 31, 2022. During this quarter, for example, we received approximately $83.7 million in revenue from our partnerships and collaborations.

  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®, Monjuvi® and sotrovimab, the ability of our partners to advance our partnered programs through later stages of development and through regulatory approval,

which would entitle us to potential milestone payments. A majority of our revenue received in the first quarter of 2022 is royalty revenue from the sales of sotrovimab under our partnership with Vir. In April 2022, GSK, which is marketing sotrovimab with Vir, announced first quarter sales of sotrovimab and indicated that a majority of the total 2022 projected sales of sotrovimab was recorded in the first quarter. Based on this guidance, we expect the amount of royalties that we expect to receive from the sales of sotrovimab to substantially decline in subsequent quarters of 2022. If the COVID-19 pandemic 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 into multiple clinical trials evaluating our drug candidates, and our partner Genentech is enrolling patients in multiple Phase 1 studies 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 development of our clinical programs for the quarter ended March 31, 2022, some of our clinical programs have temporarily experienced slower patient enrollment, and the initiations of new studies for certain programs have been delayed. 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, development, and administrative activities: We have implemented environmental, health, and safety procedures for all employees and 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, 2022, these activities have continued without interruption from the COVID-19 pandemic.

  Our development activities include initiating a Phase 1 study of XmAb819, our first 2+1 CD3 bispecific candidate that targets ENPP3, and conducting IND-enabling studies for both XmAb808, our first tumor selective CD28 bispecific candidate that targets B7-H3, and XmAb662, our IL12 cytokine candidate. Several other bispecific antibody and cytokine programs are in earlier stages of development. Certain manufacturing and supply companies have indicated supply chain issues and shortages of research and manufacturing supply materials. The development timelines for additional early-stage programs and ongoing clinical programs could be affected if the supply shortages and delays continue for an extended period.

Clinical-Stage XmAb Bispecific Antibody and Cytokine Drug Candidate Updates

Our modular XmAb bispecific Fc domains and protein engineering capabilities enable us to rapidly advance multiple drug candidates into clinical development. We and our partners are currently enrolling Phase 1 or Phase 2 studies for six wholly owned or co-development candidates to treat patients with many different types of cancer, and a candidate in development for patients with autoimmune disease.

Vudalimab (PD-1 x CTLA-4): Vudalimab 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 for patients with metastatic castration-resistant prostate cancer (mCRPC) and other solid tumor types. We are conducting a Phase 2 study of vudalimab in patients with mCRPC, as a monotherapy or in combination with chemotherapy or a PARP inhibitor depending on the tumor's molecular subtype. We plan to present initial data from the study in the second half of 2022. We have initiated a second Phase 2 study in patients with advanced gynecologic and genitourinary malignancies, as well as clinically-defined high-risk mCRPC.

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, and we are co-developing the program in collaboration with Janssen.

Data from the dose-escalation portion of a Phase 1 study 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. Expansion cohorts are actively recruiting patients with diffuse large B-cell lymphoma (DLBCL) and follicular lymphoma (FL) and are dosing using the recommended Phase 2 regimen to further evaluate the safety and efficacy of plamotamab monotherapy. In 2022, subcutaneous administration of plamotamab will be incorporated into the study, and we plan to present data from expansion cohorts in the second half of 2022.

We are also collaborating with MorphoSys AG and Incyte Corporation to investigate the chemotherapy-free triple combination of plamotamab, tafasitamab, and lenalidomide in patients with relapsed or refractory DLBCL, first-line DLBCL and relapsed or refractory FL. In May 2022, we completed the first patient dosing in the first of these studies, a potentially registration-enabling Phase 2 study, in patients with relapsed or refractory DLBCL, an aggressive type of NHL.

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 in collaboration with Genentech, a member of the Roche Group. Genentech is conducting a Phase 1 dose-escalation study of XmAb306 as a single agent and in combination with atezolizumab. In November 2021, we announced that XmAb306 promoted high levels of sustained NK cell expansion and evidence of peripheral T cell proliferation had been observed. Genentech has initiated a second study, evaluating XmAb306 in combination with daratumumab (anti-CD38 antibody) in patients with relapsed/refractory multiple myeloma. Additional studies of XmAb306 in combination with other agents are also being planned.

XmAb104 (PD-1 x ICOS): XmAb104 is a bispecific antibody that targets PD-1, an immune checkpoint receptor, and ICOS, an immune co-stimulatory receptor, to selectively activate the tumor microenvironment. We are conducting a Phase 1 study of XmAb104 in patients with advanced solid tumors. An abstract with initial clinical data from the Phase 1 study of XmAb104 was accepted for presentation at the American Society of Clinical Oncology in June 2022.

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, XmAb564 was well-tolerated, promoted the selective and sustained expansion of Tregs and exhibited a favorable pharmacokinetic profile. We are enrolling healthy volunteers in a randomized, double-blind, placebo-controlled Phase 1 study to evaluate the safety and tolerability of XmAb564, administered subcutaneously. In 2022, we plan to present data from the study and initiate a multiple-ascending dose study in select patient populations.

Tidutamab (SSTR2 x CD3) and *XmAb841 (CTLA-4 x LAG-3):* We do not intend further internal development of tidutamab and XmAb841. Neither program demonstrated a competitive clinical profile in recent studies, and we have decided to focus resources on new clinical programs. We will continue to support patients currently enrolled and being treated. We anticipate spending on these two programs to decline throughout 2022.

Advancements Expanding XmAb Bispecific and Cytokine Platforms

We conduct further research into the function and application of antibody components and cytokines 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 have 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 are currently initiating a Phase 1 study to evaluate XmAb819 in patients with renal cell carcinoma.

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. We are advancing wholly owned CD28 candidates including our lead candidate, XmAb808, a B7-H3 x CD28 bispecific antibody designed to be evaluated for the treatment of patients with a range of solid tumors, which is currently advancing in IND-enabling studies. We plan to submit an IND application for XmAb808 in the first half of 2022 and initiate a Phase 1 study in the second half of 2022.

Our CD28 platform is also the subject of two collaborations with Janssen. The first collaboration was announced in 2020 and involves our research efforts to create and characterize CD28 bispecific antibody candidates against a prostate tumor target specified by Janssen. The second Janssen collaboration was announced in October 2021 and includes conducting research activities with Janssen to create and characterize CD28 bispecific antibody candidates against B-cell targets during a two-year period, with Janssen having an exclusive worldwide license to develop selected molecules from the research activities and also selected molecules in combination with plamotamab and other agents, such as other CD3 bispecific antibodies.

In April 2022, we presented emerging preclinical data from two wholly owned cytokine programs at the American Association for Cancer Research Annual Meeting: XmAb143, a decoy-resistant and potency-reduced IL18-Fc fusion protein, and a LAG-3 targeted IL15/IL15Rα-Fc fusion protein, which is biased toward binding and activating LAG-3-positive immune cells that are more likely to be tumor-reactive.

In 2022, we plan to submit an IND application for XmAb662, a wholly owned, reduced-potency IL12-Fc cytokine, and we plan to initiate a Phase 1 study in patients with advanced solid tumors in 2023.

Progress Across Partnerships

A key part of our business strategy is to leverage our protein engineering capabilities, XmAb Fc domains and drug candidates with partnerships, collaborations and licenses. 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 that could potentially be developed in rational combinations with our drug candidates.

The FDA approved Monjuvi® (tafasitamab-cxix) 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 accelerated 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). In August 2021, the European Commission granted conditional marketing authorization for Minjuvi® (tafasitamab) in combination with lenalidomide, followed by tafasitamab monotherapy, for the treatment of adult patients with relapsed or refractory diffuse large B-cell lymphoma (DLBCL) who are not eligible for autologous stem cell transplantation (ASCT). Tafasitamab was created and initially

developed by us. Tafasitamab is co-marketed by Incyte and MorphoSys under the brand name Monjuvi in the U.S. and is marketed by Incyte under the brand name Minjuvi in the E.U. Incyte has exclusive commercialization rights to tafasitamab outside the U.S. Monjuvi® and Minjuvi® are registered trademarks of MorphoSys AG. We earned $2.3 million in estimated royalties from MorphoSys for the three months ended March 31, 2022.

Novel Bispecific Antibody Collaborations

Novel bispecific antibody collaborations are arrangements in which our partner seeks to create a bispecific antibody using one or more of our XmAb bispecific technologies. Our partners provide an antibody or a tumor-associated antigen, and we conduct limited research and development to create potential bispecific antibody candidates for further development and commercialization by our partners.

In September 2015, we entered into an agreement with Amgen Inc. to develop and commercialize bispecific antibody product candidates using our proprietary XmAb bispecific Fc technology. Amgen applied our XmAb bispecific Fc technology to create AMG 509, a STEAP1 x CD3 XmAb 2+1 bispecific antibody, which is being evaluated in an ongoing dose-escalation Phase 1 study for patients with prostate cancer. In February 2022, Amgen presented encouraging, preliminary pharmacodynamic activity by induction of percent maximum prostate-specific antigen (PSA) decline among 30 patients in the study, which provides an early signal of activity and validation of the potential of the XmAb 2+1 format.

In March 2019, we entered into an agreement with Astellas Pharma, Inc., under which we applied our XmAb bispecific Fc technology to an antigen pair provided by Astellas and generated bispecific antibody candidates for further certain characterization and testing. Astellas selected a bispecific antibody developed under the collaboration, ASP2138, a CLDN18.2 x CD3 bispecific antibody, for further development to treat patients with gastric, gastroesophageal, and pancreatic cancers, and has advanced ASP2138 into Phase 1 clinical development. We recognized a $5.0 million milestone from Astellas for a development milestone for the three months ended March 31, 2022.

Technology License Agreements

We enter into technology licensing agreements in which we license access to one or more of our XmAb Fc domains 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. and multiple global markets for the treatment of patients with paroxysmal nocturnal hemoglobinuria (PNH) and for patients with atypical hemolytic uremic syndrome (aHUS). In April 2022, Ultomiris was approved by the FDA for the treatment of adult patients with generalized myasthenia gravis (gMG) who are anti-acetylcholine receptor (AChR) antibody positive. Alexion is also evaluating Ultomiris in a broad late-stage development program across many indications in neurology and nephrology. We earned $6.1 million in royalties from Alexion for the three months ended March 31, 2022.

Vir has non-exclusive access to multiple XmAb 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. In May 2021, the FDA granted EUA to sotrovimab (VIR-7831) for the treatment of mild-to-moderate COVID-19 in high-risk adults and pediatric patients. A second drug candidate, VIR-7832, is in a Phase 1b/2a trial of adults with mild-to-moderate COVID-19. We earned $70.3 million in royalties from Vir for the three months ended March 31, 2022.

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 1,300 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 internally developed products approved for commercial sale and have not generated any revenues from our own 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, 2022, we had an accumulated deficit of $259.5 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, 2022 and 2021

The following table summarizes our results of operations for the three months ended March 31, 2022 and 2021 (in millions):

	Three Months Ended March 31,		
	2022	2021	Change
Revenues:			
Research collaboration	$ 1.8	$ 14.8	$ (13.0)
Milestone	5.0	12.5	(7.5)
Royalties	78.7	6.7	72.0
Total revenues	85.5	34.0	51.5
Operating expenses:			
Research and development	47.7	41.4	6.3
General and administrative	11.3	8.2	3.1
Total operating expenses	59.0	49.6	9.4
Other income (expense), net	(2.9)	13.1	(16.0)
Net income (loss)	$ 23.6	$ (2.5)	$ 26.1

Revenues

Revenues for the three months ended March 31, 2022 are primarily from our collaboration with Janssen, milestone revenue from Astellas, and royalty revenue from Alexion, MorphoSys, and Vir. Revenues for the three months ended March 31, 2021 are primarily from our collaboration with Janssen, milestone revenue recognized from MorphoSys, and the royalty revenue from Alexion and MorphoSys.

Research and Development Expenses

The following tables summarize our research and development expenses for the three months ended March 31, 2022 and 2021 (in millions):

	Three Months Ended March 31,		
	2022	2021	Change
Product programs:			
Bispecific programs:			
CD3 programs:			
Vibecotamab[1][2]	$ 1.3	$ 2.9	$ (1.6)
Plamotamab[3]	5.4	6.7	(1.3)
Tidutamab	3.5	4.3	(0.8)
XmAb819 (ENPP3 x CD3)	3.5	3.0	0.5
Total CD3 programs	13.7	16.9	(3.2)
XmAb808 (B7-H3 x CD28)	4.8	—	4.8
Tumor micro environment (TME) activator programs:			
Vudalimab	5.5	5.9	(0.4)
XmAb104	5.5	2.5	3.0
XmAb841	2.6	3.1	(0.5)
Total TME activators programs	13.6	11.5	2.1
Cytokine programs:			
XmAb306/RG6323 programs[4]	3.3	3.9	(0.6)
XmAb564	3.1	3.2	(0.1)
XmAb662 (IL-12-Fc)	2.7	—	2.7
Total cytokine programs	9.1	7.1	2.0
Subtotal bispecific programs	41.2	35.5	5.7
Other, research and early stage programs	6.5	5.9	0.6
Total research and development expenses	$ 47.7	$ 41.4	$ 6.3

	Three Months Ended March 31,		
	2022	2021	Change
External research and development expenses	$ 20.7	$ 20.8	$ (0.1)
Internal research and development expenses	19.9	15.0	4.9
Stock based compensation	7.1	5.6	1.5
Total research and development expenses	$ 47.7	$ 41.4	$ 6.3

(1) The costs are net of cost-sharing reimbursed from Novartis under the Novartis Agreement.
(2) Represents wind down costs of the program; the Company stopped development of the vibecotamab program in 2021.
(3) The costs are net of cost-sharing reimbursed from Janssen under the Second Janssen Agreement.
(4) Includes our share of costs paid to Genentech for cost-sharing under the Genentech Agreement.

Research and development expenses increased by $6.3 million for the three months ended March 31, 2022 over the same period in 2021 primarily due to spending on our new development programs, XmAb808 and XmAb662.

General and Administrative Expenses

The following table summarizes our general and administrative expenses for the three months ended March 31, 2022 and 2021 (in millions):

	Three Months Ended March 31,		
	2022	2021	Change
General and administrative	$ 11.3	$ 8.2	$ 3.1

General and administrative expenses increased by $3.1 million for the three months ended March 31, 2022 over the same period in 2021 primarily due to increased general and administrative staffing and additional lease expenses.

Other Income (Expense), Net

Other income (expense), net was ($2.9) million and $13.1 million for the three months ended March 31, 2022 and 2021, respectively. Other income (expense) net for the three months ended March 31, 2022 consists primarily of unrealized loss recognized from the change in fair value of our equity investments. Other income (expense), net for the three months ended March 31, 2021 consists primarily of unrealized gain recognized with respect to the exchange of shares without a readily determinable fair value for shares in a public entity which shares have a readily determinable fair value.

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,		
	2022	2021	Change
Net cash provided by (used in):			
Operating activities	$ 5,815	$ (29,966)	$ 35,781
Investing activities	(71,759)	38,048	(109,807)
Financing activities	731	5,339	(4,608)
Net increase (decrease) in cash	$ (65,213)	$ 13,421	$ (78,634)

Operating Activities

Cash provided by operating activities for the three months ended March 31, 2022 was $5.8 million, while cash used in operating activities for the three months ended March 31, 2021 was $30.0 million. The increase in cash provided by operating activities is primarily due to additional royalty revenue recognized in the three months ended March 31, 2022.

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 represents net proceeds from the exercise of stock options for the three months ended March 31, 2022 and March 31, 2021, respectively. The proceeds received from option exercises decreased by $4.6 million over the same period in 2021.

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, 2022, we had $683.6 million of cash, cash equivalents, receivables, and marketable debt securities compared to $664.1 million as of December 31, 2021. The investments in marketable debt securities are further described above in Note 5, *Marketable Debt 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 and contingent payments, and royalties. Our ability to receive additional 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 the sale of products developed by us to date and do not expect to do so until we obtain regulatory approval of and commercialize one or more of our internal product development 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 internal product development 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 and also development candidates that we are co-developing with our partners.

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 through the end of 2025. 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, 2022.

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, 2021.

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, 2022. 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, 2022.

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, 2022 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, 2021, 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, 2021, 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).
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)

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, 2022

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, 2022

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, 2022

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 their knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2022, 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, 2022

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 5th day of May 2022.

/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.