Xencor Inc
Form 10-Q
May 02, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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, 2016

or

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

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	(I.R.S. Employer Identification No.)
or Organization)	
111 West Lemon Avenue, Monrovia, CA	91016
(Address of Principal Executive Offices)	(Zip Code)

(626) 305-5900

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

Class	Outstanding at April 26, 2016
Common stock, $0.01 par value	40,745,715

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Xencor, Inc.

Quarterly Report on FORM 10-Q for the quarter ended March 31, 2016

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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, 2015. Forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance or achievements. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events.

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PART I — FINANCIAL INFORMATION

Item1. Financial Statements

Xencor, Inc.

Balance Sheets

(In thousands, except share amounts)

	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$ 8,150	$ 12,590
Marketable securities	84,209	83,840
Accounts receivable	649	44
Prepaid expenses and other current assets	1,843	1,201
Total current assets	94,851	97,675
Property and equipment, net	2,510	2,310
Patents, licenses, and other intangible assets, net	10,140	9,971
Marketable securities - long term	86,357	96,891
Other assets	103	63
Total assets	$ 193,961	$ 206,910
Liabilities and stockholders’ equity		
Current liabilities		
Accounts payable	$ 4,291	$ 6,400
Accrued expenses	2,391	3,634
Current portion of deferred rent	113	108
Current portion of deferred revenue	27,460	33,287
Total current liabilities	34,255	43,429
Deferred rent, less current portion	476	507
Deferred revenue, less current portion	417	542
Total liabilities	35,148	44,478
Commitments and contingencies		
Stockholders’ equity		
Preferred stock, $0.01 par value: 10,000,000 authorized shares; -0- issued and outstanding shares at March 31, 2016 and December 31, 2015	—	—
Common stock, $0.01 par value: 200,000,000 authorized shares at March 31, 2016 and December 31, 2015; 40,741,753 issued and outstanding at March 31, 2016 and 40,551,039 issued and outstanding at December 31, 2015	407	405
Additional paid-in capital	426,286	424,128
Accumulated other comprehensive income (loss)	103	(516)

Accumulated deficit	(267,983)	(261,585)
Total stockholders' equity	158,813	162,432
Total liabilities and stockholders' equity	$ 193,961	$ 206,910

See accompanying notes.

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Xencor, Inc.

Statements of Comprehensive Loss

(unaudited)

(In thousands, except share and per share data)

	Three Months Ended March 31,	
	2016	2015
Revenue		
Collaborations, licenses and milestones	$ 7,252	$ 1,491
Operating expenses		
Research and development	10,035	5,205
General and administrative	3,950	2,764
Total operating expenses	13,985	7,969
Loss from operations	(6,733)	(6,478)
Other income (expenses)		
Interest income	359	38
Interest expense	(27)	(4)
Other income	3	—
Total other income, net	335	34
Net loss	(6,398)	(6,444)
Other comprehensive income (loss)		
Net unrealized gain (loss) on marketable securities available-for-sale	619	(35)
Comprehensive loss	$ (5,779)	$ (6,479)
Basic and diluted net loss per common share	$ (0.16)	$ (0.19)
Weighted average common shares outstanding used to compute basic and diluted net loss per share	40,626,729	34,297,782

See accompanying notes.

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Xencor, Inc.

Statement of Stockholders' Equity

(in thousands, except share data)

	Common Stock		Additional Paid	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
Stockholders' Equity	Shares	Amount	in-Capital	Income (Loss)	Deficit	Equity
Balance, December 31, 2015	40,551,039	$ 405	$ 424,128	$ (516)	$ (261,585)	$ 162,432
Issuance of common stock upon exercise and vesting of stock awards	190,714	2	198	—	—	200
Comprehensive loss	—	—	—	619	(6,398)	(5,779)
Stock-based compensation	—	—	1,960	—	—	1,960
Balance, March 31, 2016 (unaudited)	40,741,753	$ 407	$ 426,286	$ 103	$ (267,983)	$ 158,813

See accompanying notes.

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Xencor, Inc.

Statements of Cash Flows

(unaudited)

(in thousands)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net loss	$ (6,398)	$ (6,444)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	282	240
Amortization of premium on marketable securities	426	63
Stock-based compensation	1,960	1,107
Abandonment of capitalized intangible assets	9	37
Gain on disposal of assets	—	(1)
Gain on sale and maturities of marketable securities available-for-sale	(3)	—
Changes in operating assets and liabilities:		
Accounts receivable	(604)	2,555
Interest receivable	41	(146)
Prepaid expenses and other assets	(683)	(142)
Accounts payable	(2,109)	699
Accrued expenses	(1,243)	(523)
Deferred rent	(26)	553
Deferred revenue	(5,952)	(91)
Net cash used in operating activities	(14,300)	(2,093)
Cash flows from investing activities		
	(16,340)	(47,913)

Purchase of marketable securities				
Purchase of intangible assets		(343)		(571)
Purchase of property and equipment		(317)		(575)
Proceeds from sale and maturities of marketable securities available-for-sale		26,660		—
Proceeds from sale of property and equipment		—		1
Net cash provided by (used in) investing activities		9,660		(49,058)
Cash flows from financing activities				
Proceeds from issuance of common stock		—		122,906
Proceeds from issuance of common stock upon exercise of stock awards		200		180
Common stock issuance costs		—		(7,536)
Net cash provided by financing activities		200		115,550
Net (decrease) increase in cash and cash equivalents		(4,440)		64,399
Cash and cash equivalents, beginning of period		12,590		54,649
Cash and cash equivalents, end of period	$	8,150	$	119,048
Supplemental disclosures of non-cash investing activities				
Net unrealized gain (loss) on marketable securities available-for-sale	$	619	$	(35)
Common stock issuance costs	$	—	$	166

See accompanying notes.

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Xencor, Inc.

Notes to Financial Statements

(unaudited)

March 31, 2016

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements for Xencor, Inc. (the Company) 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 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 8, 2016.

Marketable 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 securities issued by investment grade institutions.

The Company considers its marketable securities to be available-for-sale. These assets are carried at fair value and the unrealized gains and losses are included in accumulated other comprehensive income (loss). Accrued interest on marketable securities is included in marketable securities. If a decline in the value of a marketable security in the Company’s investment portfolio is deemed to be other-than-temporary, the Company writes down the security to its current fair value and recognizes a loss as a charge against income. The Company reviews its portfolio of marketable securities, using both quantitative and qualitative factors, to determine if declines in fair value below cost are other-than-temporary.

Sale of Additional Common Stock

In March 2015, we completed the sale of 8,625,000 shares of common stock which included shares we issued pursuant to our underwriters’ exercise of their over-allotment option pursuant to a follow-on offering. We received net proceeds of $115.2 million, after underwriting discounts, commissions and estimated offering expenses.

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. The standard is effective for fiscal periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of the adoption of the new accounting pronouncement on its financial statements and related disclosures.

There have been no other material changes to the significant accounting policies previously disclosed in the Company’s 2015 Annual Report on Form 10-K.

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2. Fair Value of Financial Instruments

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

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

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

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

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

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

	March 31, 2016			December 31, 2015		
	Total Fair Value	Level 1	Level 2	Total Fair Value	Level 1	Level 2
Money Market Funds	$ 6,815	$ 6,815	$ —	$ 9,453	$ 9,453	$ —
Corporate Securities	107,511	—	107,511	114,846	—	114,846
Government Securities	63,055	—	63,055	65,885	—	65,885
	$ 177,381	$ 6,815	$ 170,566	$ 190,184	$ 9,453	$ 180,731

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, 2016, there were no transfers between Level 1 and Level 2. The Company does not have any Level 3 assets or liabilities.

3. Net Loss Per Share

We compute net loss per common share by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Potentially dilutive securities consisting of

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stock issuable under options and our 2013 Employee Stock Purchase Plan (ESPP) are not included in the diluted net loss per common share calculation where the inclusion of such shares would have had an antidilutive effect.

Basic and diluted (loss) per common share is computed as follows (in thousands except share and per share data)

	Three Months Ended March 31,	
	2016	2015
	(in thousands, except per share data)	
Basic numerator:		
Net loss attributable to common stockholders	$ (6,398)	$ (6,444)
Denominator:		
Weighted-average common shares outstanding used in computing basic and diluted net loss	40,626,729	34,297,782
Basic and diluted net loss per common share	$ (0.16)	$ (0.19)

All outstanding potentially dilutive securities have been excluded from the calculation of diluted net loss per common share as the effect of including such securities would have been antidilutive.

4. Comprehensive loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss). For the three months ended March 31, 2016, the only component of other comprehensive loss is net unrealized gains on marketable securities. There were no material reclassifications out of accumulated other comprehensive loss during the three months ended March 31, 2016.

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5. Marketable Securities

The Company's marketable securities held as of March 31, 2016 and December 31, 2015 are summarized below:

March 31, 2016 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money Market Funds	$ 6,815	$ —	$ —	$ 6,815
Corporate Securities	107,423	130	(42)	107,511
Government Securities	63,040	28	(13)	63,055
	$ 177,278	$ 158	$ (55)	$ 177,381
Reported as				
Cash and cash equivalents				$ 6,815
Marketable securities				170,566
Total investments				$ 177,381

December 31, 2015 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money Market Funds	$ 9,453	$ —	$ —	$ 9,453
Corporate Securities	115,148	6	(308)	114,846
Government Securities	66,099	—	(214)	65,885
	$ 190,700	$ 6	$ (522)	$ 190,184
Reported as				
Cash and cash equivalents				$ 9,453
Marketable securities				180,731
Total investments				$ 190,184

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

March 31, 2016 (in thousands)	Amortized Cost	Estimated Fair Value
Mature in one year or less	$ 84,204	$ 84,209
Mature after one year through five years	86,259	86,357
	$ 170,463	$ 170,566

December 31, 2015 (in thousands)	Amortized Cost	Estimated Fair Value
Mature in one year or less	$ 83,963	$ 83,840
Mature after one year through five years	97,284	96,891
	$ 181,247	$ 180,731

6. Stock Based Compensation

Our Board of Directors and the requisite stockholders previously approved the 2010 Equity Incentive Plan (the 2010 Plan). In October 2013, our Board of Directors approved the 2013 Equity Incentive Plan (the 2013 Plan) and in November 2013 our stockholders approved the 2013 Plan. The 2013 Plan became effective as of December 3, 2013, the date of the Company's initial public offering (IPO). 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, 2016 the total number of shares of common stock available for issuance under the 2013 Plan is 7,535,701, which includes 2,684,456 of common stock that were available for issuance under the 2010 Plan as of the effective date of the 2013 Plan. Unless otherwise determined by the Board, beginning January 1, 2014, and continuing until the expiration of the 2013 Plan, the total number of shares of common stock available for issuance under the 2013 Plan will automatically increase annually on January 1 of each year by 4% of the total number of issued and outstanding shares of common stock as of December 31 of the immediate preceding year. Pursuant to approval by our board on January 1, 2016, the total number of shares of common stock available for issuance under the 2013 Plan was increased by 1,400,000 shares. As of March 31, 2016 a total of 2,961,750 options had been issued under the 2013 Plan.

In November 2013, our Board of Directors and stockholders approved the 2013 Employee Stock Purchase Plan (ESPP), which became effective as of December 5, 2013. We have reserved a total of 581,286 shares of common stock for issuance under the ESPP. Unless otherwise determined by our Board, beginning on January 1, 2014, and continuing until the expiration of the ESPP, the total number of shares of common stock available for issuance under the ESPP will automatically increase annually on January 1 by the lesser of (i) 1% of the total number of issued and outstanding shares of common stock as of December 31 of the immediately preceding year, or (ii) 621,814 shares of common stock. Pursuant to approval by our board, there was no increase in the number of authorized shares in the ESPP in 2016. As of March 31, 2016, we have issued a total of 176,363 shares of common stock under the ESPP.

Total employee, director and non-employee stock-based compensation expense recognized for the three months ended March 31, 2016 are as follows (in thousands):

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	Three Months Ended March 31,	
	2016	2015
General and administrative	$ 952	$ 514
Research and development	1,008	593
	$ 1,960	$ 1,107

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)
Balances at December 31, 2015	3,370,901	$ 8.50	6.98	
Options granted	957,000	$ 12.46		
Options forfeited	(43,486)	$ 12.03		
Options exercised	(190,714)	$ 1.05		
Balance at March 31, 2016	4,093,701	$ 9.74	7.69	$ 17,350
Exercisable	1,704,726	$ 5.90	5.89	$ 13,270

We calculate the intrinsic value as the difference between the exercise price of the options and the closing price of common stock of $13.42 per share as of March 31, 2016.

Weighted average fair value of options granted during the three-month period ended March 31, 2016 and 2015 was $8.30 and $10.54 per share, respectively. There were 720,250 options granted during the period ended March 31, 2015. 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, 2016 and 2015:

	Options Three Months Ended March 31,

	2016		2015	
Expected term (years)	6.1		6.0	
Expected volatility	75.8	%	76.6	%
Risk-free interest rate	1.56	%	1.61	%
Expected dividend yield	—	%	—	%

	ESPP Three Months Ended March 31,			
	2016		2015	
Expected term (years)	0.5 - 2.0		0.5 - 2.0	
Expected volatility	67.8	%	70.6 - 71.8	%
Risk-free interest rate	.55% - .93	%	.06% - .46	%
Expected dividend yield	—	%	—	%

As of March 31, 2016, the unamortized compensation expense related to unvested stock options was $16.7 million, net of estimated forfeitures. The remaining unamortized compensation expense will be recognized over the next three years.

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7. Commitments and Contingencies

Operating Leases

The Company leases office and laboratory space in Monrovia, CA through June 2020 with an option to renew for an additional five years.

The Company also leases office space in San Diego, CA through April 2018 and includes an option to renew for a period of one year. In March 2016, the Company signed a lease for additional space contiguous with its existing office space through June 2020.

The leases are accounted for as non-cancellable operating leases and future minimum payments are as follows (in thousands):

Years ending December 31,	
For the remainder of the fiscal year	$ 510
2017	699
2018	602
2019	581
2020	299
Thereafter	—

Rent expense for the three months ended March 31, 2016 and 2015 was $143,000 and $129,000 respectively.

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.

On March 3, 2015, a verified class action complaint, captioned DePinto v. John S. Stafford, et al., C.A. No. 10742, was filed in the Court of Chancery of the State of Delaware against certain of the Company's current and former directors alleging cause of action for Breach of Fiduciary Duty and Invalidity of Director and Stockholder Consents. In general, the complaint alleged that the plaintiff and the class he seeks to represent were shareholders of the Company during the recapitalization and certain related transactions that the Company underwent in 2013 and that the defendants breached their fiduciary duties in the course of approving that series of transactions. It also challenged as invalid certain corporate acts taken in the 2013 time period.

On June 10, 2015, the Company filed a Verified Petition for Relief under Del. C. Section 205 (the 205 Petition) related to the corporate acts challenged in the complaint. The defendants filed an answer to the class action complaint on June 22, 2015. On July 9, 2015, the Court consolidated the 205 Petition with the class action, joined the Company as a defendant and ordered it to file the claims in the 205 Petition as counter-claims in the class action, which the Company has done.

On August 11, 2015, the Company filed a Motion for Leave to File an Amended Counter-Claim, along with the proposed Amended Counter-Claim and related documents. On October 5, the parties filed a Stipulation of Partial Settlement and related documents disclosing a settlement of the invalidity claims addressed in the complaint, the counter-claim and the proposed amended counter-claim including a request by plaintiff's counsel for reimbursement of legal fees up to $950,000. On October 7, 2015, Xencor filed the Amended Counter-Claim and related documents. On December 14, 2015, the Court entered an Order and Partial Final Judgment approving the settlement of the invalidity claims, validating each corporate act challenged in the complaint, dismissing with prejudice Count II of the complaint (the invalidity claims) and granting plaintiff's counsel a fee award. We have paid the plaintiff's legal award of $950,000 net of insurance proceeds of $187,500 which has been reflected as a charge in our 2015 operations. We continue to recognize legal costs as incurred and any insurance proceeds when received.

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Based on the nature of the remaining claim, the Company believes that it is not possible to estimate the likelihood of loss or a range of potential loss related to the claim; accordingly, no amount for any loss has been accrued at March 31, 2016.

8. Collaboration and Licensing Agreements

Following is a summary description of the arrangements that generated revenue in the three months ended March 31, 2016 and 2015.

Amgen, Inc.

In September 2015, the Company entered into a research and license agreement (the Amgen Agreement) with Amgen, Inc. (Amgen) to develop and commercialize bispecific antibody product candidates using the Company's proprietary XmAb® bispecific Fc technology. Under the Amgen Agreement, the Company granted an exclusive license to Amgen to develop and commercialize bispecific drug candidates from the Company's preclinical program that bind the CD38 antigen and the cytotoxic T-cell binding domain CD3, (the CD38 Program). The Company will also apply its bispecific technology to five previously identified Amgen provided targets (each a Discovery Program). The Company received a $45.0 million upfront payment from Amgen and is eligible to receive up to $1.7 billion in future development, regulatory and sales milestones in total for all six programs and is eligible to receive royalties on any global net sales of products.

In the fourth quarter ended December 31, 2015, the Company transferred the research material and data related to its CD38 Program to Amgen. Amgen will assume full responsibility for the further development and commercialization of product candidates under the CD38 Program. Assuming successful development and commercialization of a product, the Company could receive up to $355 million in milestones payments which include $55 million in development milestones, $70 million in regulatory milestones and, $230 million in sales milestones. If commercialized, the Company is eligible to receive from high single-digit up to low double-digit royalties on global net sales of approved products under the CD38 Program.

Pursuant to the Amgen Agreement, for each of the five Discovery Programs the Company will apply its bispecific technology to antibody molecules provided by Amgen that bind Discovery Program Targets and return the bispecific product candidates to Amgen for further testing, development and commercialization. Subject to approval by Xencor, Amgen has the right to substitute up to three of the previously identified targets during the research term provided that Amgen has not initiated non-human primate studies with the Xencor provided bispecific candidate. The initial research term is three years from the date of the Amgen Agreement but Amgen, at its option, may request an

extension of one year if Xencor has not completed delivery of all five Discovery Program bispecific candidates to Amgen.

Amgen will assume full responsibility for development and commercialization of product candidates under each of the Discovery Programs. Assuming successful development and commercialization of each Discovery Program compound, the Company could receive up to $260.5 million in milestones for each compound which include $35.5 million in development milestones, $55.0 million in regulatory milestones and $170.0 million in sales milestones. If commercialized, the Company is eligible to receive mid to high single-digit royalties on global net sales of approved products.

The Company evaluated the Amgen Agreement with Amgen and determined that it is a revenue arrangement with multiple deliverables or performance obligations. The Company's substantive performance obligations under the Amgen Agreement include delivery of research material and data related to its CD38 Program and application of its bispecific technology to five Amgen provided targets and delivery of the five bispecific product candidates. The Company evaluated the Amgen Agreement with Amgen and determined that the CD38 Program and each of the five Discovery Programs represent separate units of accounting.

The $45 million upfront payment represents the total initial consideration and was allocated to each of the deliverables using the relative selling price method. After identifying each of the deliverables included in the arrangement, the Company determined its best estimate of selling price for each of the deliverables. In order to determine

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the best estimate of selling price for the CD38 Program, the Company determined the value of the CD38 Program by calculating a risk-adjusted present value of the potential revenue from the future development and regulatory milestones under the Amgen Agreement. This amount represents the value that a third party would be willing to pay as an upfront fee to license the Company's CD38 Program.

The Company determined the value of each of the Discovery Programs by calculating a risk-adjusted net present value of the potential revenue from future development and regulatory milestones reduced by the estimated cost of the Company's efforts to apply its bispecific technology to the Amgen targets and deliver the five bispecific product candidates. These amounts represent the value that a third party would be willing to pay as an upfront for access to the Company's bispecific technology and capabilities.

The total allocable consideration of $45 million was allocated to the deliverables based on the relative selling price method as follows:

$13.75 million to the CD38 Program and,

$6.25 million to each of the five Discovery Programs

The Company recognized as collaboration revenue the amount of total allocable consideration allocated to the CD38 Programs upon delivery of the CD38 research material and data to Amgen in the fourth quarter of 2015.

In the first quarter ended March 31, 2016, Amgen exercised its substitution rights with respect to one of the previously identified Discovery targets. In the first quarter ended March 31, 2016, the Company delivered bispecific product candidates for three Discovery Program targets to Amgen.

At the time that each bispecific Discovery Program is accepted by Amgen, the Company will recognize as collaboration revenue $6.25 million for each program. Since Amgen has substitution rights for up to three targets, revenue recognition may be delayed until the earlier that Amgen initiates non-human primate studies for a delivered bispecific Discovery Program or the right to substitute the target lapses.

During the three months ended March 31, 2016, we recognized $6.25 million in revenue under this arrangement. As of March 31, 2016 there is $25 million in deferred revenue related to the arrangement.

Merck Sharp & Dohme Corporation

In July 2013, we entered into a License Agreement with Merck Sharp & Dohme Corp (Merck). Under the terms of the agreement, we provided Merck with a non-exclusive commercial license to certain patent rights to our Fc domains to apply to one of their compounds. We also provided Merck with contingent options to take additional non-exclusive commercial licenses. The contingent options provide Merck an opportunity to take non-exclusive commercial licenses at an amount less than the amount paid for the original license. The agreement provided for an upfront payment of $1.0 million and annual maintenance fees totaling $0.5 million. We are also eligible to receive future milestones and royalties as Merck advances the compound into clinical development.

We determined that the deliverables under this agreement were the non-exclusive commercial license and the options. The options are considered substantive and contingent and no amount of the upfront payment was allocated to these options. We also determined that the future milestones and related payments were substantive and contingent and did not allocate any of the upfront payment to the milestones.

During each of the three months ended March 31, 2016 and 2015 we recognized $25,000 of revenue. As of March 31, 2016, there is $25,000 of deferred revenue related to this arrangement.

Alexion Pharmaceuticals, Inc.

In January 2013, we entered into an option and license agreement with Alexion Pharmaceuticals, Inc. (Alexion). Under the terms of the agreement, we granted to Alexion an exclusive research license, with limited sublicensing rights, to make and use our Xtend technology to evaluate and advance compounds against six different target programs during a five-year research term under the agreement, up to completion of the first multi-dose human clinical trial for each target

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compound. Alexion may extend the research term for an additional three years upon written notice to us and payment of an extension fee of $2.0 million. Alexion is responsible for conducting all research and development activities under the agreement at its own expense.

In addition, we granted to Alexion an exclusive option, on a target-by-target basis, to obtain an exclusive commercial, worldwide, royalty-bearing license, with sublicensing rights, under our Xtend technology to develop and commercialize products that contain the target for which the option is exercised. In order to exercise this option, Alexion must pay a $4.0 million option fee with respect to each target for which the option is exercised. Alexion may exercise this option at any time during the research term. An option must be exercised for any compound that is advanced into development after the first multi-ascending dose trial is initiated.

Under the agreement, we received an upfront payment of $3.0 million. Alexion is also required to pay an annual maintenance fee of $0.5 million during the research term of the agreement and $1.0 million during any extension of the research term. We determined that $2.5 million of the upfront fee was allocated to the license and is being recognized into income over the initial research term of five years.

In the third quarter of 2014, Alexion achieved a clinical development milestone with an undisclosed molecule to be used against an undisclosed target. We received a milestone related to this trial in March 2015 upon issuance of certain patents related to our Xtend technology. In the fourth quarter of 2015, Alexion exercised its option to take an exclusive commercial license and achieved a further clinical development milestone. As a result of Alexion’s exercise to take a commercial option to an undisclosed compound, the Company is eligible to receive additional development, regulatory and sales milestones under the agreement. If commercialized, the Company is eligible to receive royalties on global net sales of approved products.

During the three months ended March 31, 2016 and 2015 we recognized $0.3 million and $0.8 million of revenue respectively. As of March 31, 2016, we have deferred revenue related to this arrangement of $1.3 million.

Novo Nordisk A/S

In December 2014, we entered into a collaboration and license agreement with Novo Nordisk A/S (Novo). Under the terms of the agreement we granted Novo a research license to use certain Xencor technologies including our bispecific, Fcy-IIb, Xtend and other technologies during a two-year research term.

We are recognizing the $2.5 million upfront payment as income over the two-year research term. The research funding is being recognized into income over the period that the services are being provided. We determined that

future milestone payments were substantive and contingent and we did not allocate any of the upfront consideration to these milestones.

During each of the three months ended March 31, 2016 and 2015, we recognized $0.7 million of revenue. As of March 31, 2016, we have $1.3 million in deferred revenue related to this arrangement.

9. Income Taxes

No provision for U.S. income taxes has been made, net of the valuation allowance, with the exception of the minimum statutory amounts, because the Company has incurred losses since its inception. The Company has deferred tax assets consisting primarily of net operating loss and tax credit carryforwards that have been fully offset by a valuation allowance.

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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, 2015 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, 2015. This Quarterly Report on Form 10-Q may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements, which represent our intent, belief, or current expectations, involve risks and uncertainties. We use words such as "may," "will," "expect," "anticipate," "estimate," "intend," "plan," "predict," "potential," "believe," "should" and similar expressions to ident forward-looking statements, although not all forward-looking statements contain these identifying words. Such statements may include, but are not limited to, statements concerning: (i) the initiation, cost, timing, progress and results of our research and development activities, preclinical studies and future clinical trials, including our expected timeline for nominating clinical development candidates under our strategic alliances and our expected timeline for filing applications with regulatory authorities;(ii) our ability to obtain and maintain regulatory approval of our future product candidates, and any related restrictions, limitations, and/or warnings in the label of an approved product candidate; (iii) our ability to obtain funding for our operations; (iv) our plans to research, develop and commercialize our future product candidates; (v) our ability to attract collaborators with development, regulatory and commercialization expertise; (vi) our ability to obtain and maintain intellectual property protection for our technology; (vii) the size and growth potential of the markets for our technology and future product candidates, and our ability to serve those markets; (viii) our ability to successfully commercialize our technology and our future product candidates; (ix) our ability to develop sales and marketing capabilities, whether alone or with potential future collaborators; (x) regulatory developments in the United States and foreign countries; and (xi) the performance of our collaboration partners, licensees, third-party suppliers and manufacturers. Although we believe the expectations reflected in these forward-looking statements are reasonable, such statements are inherently subject to risk and we can give no assurances that our expectations will prove to be correct. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. As a result of many factors, including without limitation those set forth under "Risk Factors" under Item 1A of Part II below, and elsewhere in this Quarterly Report on Form 10-Q, our actual results may differ materially from those anticipated in these forward-looking statements. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this report or to reflect actual outcomes.

Company Overview

We are a clinical-stage biopharmaceutical company focused on discovering and developing engineered monoclonal antibodies to treat severe and life-threatening diseases with unmet medical needs. We use our proprietary XmAb technology platform to create next-generation antibody product candidates designed to treat autoimmune and allergic diseases, cancer and other conditions. In contrast to conventional approaches to antibody design, which focus on the portion of antibodies that interact with target antigens, we focus on the portion of the antibody that interacts with multiple segments of the immune system. This portion, referred to as the Fc domain, is constant and interchangeable

among antibodies. Our engineered Fc domains, the XmAb technology, can be readily substituted for natural Fc domains.

We believe our Fc domains enhance antibody performance by, for example, increasing immune inhibitory activity, improving cytotoxicity or extending circulating half-life, while maintaining 99.5% identity in structure and sequence to natural antibodies. By improving over natural antibody function, we believe that our XmAb-engineered antibodies offer innovative approaches to treating disease and potential clinical advantages over other treatments. The newest aspect of our platform is the XmAb bispecific Fc domains, which enable the rapid design and simplified development of antibodies that bind two or more antigens simultaneously. Bispecifics are a rapidly emerging area of biotherapeutics development, particularly in immuno-oncology, and we have used our XmAb bispecific Fc domains as a robust scaffold for a pipeline of new bispecific oncology candidates that recruit immune cells against tumors.

Our business strategy is based on the plug and play nature of the XmAb technology, allowing us to create new antibody drug candidates for our internal development or licensing, or to selectively license access to one or more of our XmAb technologies to pharmaceutical or biotechnology companies to use in developing their own proprietary antibodies with improved properties. These licensing transactions provide us with multiple revenue streams that help fund

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development of our wholly owned product candidates and usually require limited resources or efforts from us. There are currently nine antibody product candidates in clinical trials that have been engineered with XmAb technology, including seven candidates being advanced by licensees and development partners.

Our protein engineering capabilities allow us to continue to expand the functionality of the XmAb technology platform to identify new protein enhancements and create new antibody drug candidates with improved properties. The most recent addition to our technology, heterodimer Fc domains, enable the creation of bispecific drug candidates, which are antibodies that are engineered to bind two targets simultaneously. The core of our bispecific programs is a novel Fc domain that is a robust and portable scaffold for two, or potentially more, different antigen binding domains. Our Fc domain technology is designed to maintain full-length antibody properties in a bispecific antibody, potentially enabling stable molecules with favorable in vivo half-life and allowing for the use of standard antibody production methods. These bispecific Fc domains are being used to rapidly generate a broad array of novel drug candidates for our own pipeline and for our partners.

We were founded in 1997 based on protein engineering technology developed by our co-founders Bassil Dahiyat, Ph.D. and Stephen Mayo, Ph.D. at the California Institute of Technology. We began our first therapeutic monoclonal antibody engineering and discovery programs in 2002 and entered into our first XmAb technology license in 2004.

Since we commenced active operations in 1998, we have devoted substantially all of our resources to staffing our company, business planning, raising capital, developing our technology platforms, identifying potential product candidates, undertaking pre-clinical and IND enabling studies and conducting clinical trials. We have no products approved for commercial sale and have not generated any revenues from product sales, and we continue to incur significant research and development expenses and other expenses related to our ongoing operations. To date, we have funded our operations primarily through the sale of stock and convertible promissory notes and through payments generated from our product development partnership and licensing arrangements. We raised $80.5 million ($72.5 million net of expenses) in December 2013 through the sale of common stock in connection with our Initial Public Offering (IPO) and full exercise by the underwriters of their over-allotment. We raised an additional $122.9 million ($115.2 million net of expenses) through a follow-on public offering of our common stock and full exercise by the underwriters of their over-allotment in March 2015. In September 2015 we received a $45 million upfront payment from Amgen in connection with the 2015Amgen Agreement. Although it is difficult to predict our funding requirements, based upon our current operating plan, we anticipate that our cash and cash equivalents and related marketable securities as of March 31, 2016, combined with collaboration payments that we anticipate receiving, will enable us to fund operations, including clinical development of XmAb5871, XmAb7195, XmAb14045 and XmAb 13676 through 2019.

We have incurred losses in each year since our inception. Our net losses were $6.40 million and $6.44 million for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, we had an accumulated deficit of $268 million. Substantially all of our operating losses resulted from expenses incurred in connection with our product candidate development programs, our research activities and general and administrative costs associated with our operations.

Company Programs

XmAb5871 uses our XmAb Immune Inhibitor Fc Domain and targets B cells, an important component of the immune system. We believe that XmAb5871 has the potential to address a key unmet need in autoimmune therapies due to its combination of potent B-cell inhibition without B-cell depletion.

In March 2016 we initiated enrollment for two Phase 2 trials for XmAb5871, one trial in IgG4-Related Disease (IgG4-RD) and a trial in Systemic Lupus Erythematosus (SLE or Lupus). We also intend to initiate a Phase 1 trial with a subcutaneous formulation of XmAb5871 in 2016.

IgG4-RD: we are currently enrolling a Phase 2 open-label pilot study of XmAb5871 for IgG4-RD. The current trial design is to enroll approximately 15 patients with scheduled treatment up to 24 weeks. The primary objective of the study is to evaluate the effect of every other week IV administration of XmAb5871 using the recently reported IgG4-RD Responder Index in patients with active IgG4-RD. Secondary objectives are to determine the safety and tolerability profile and to characterize the pharmacokinetics (PK) and immunogenicity of every other week IV administration of XmAb5871. IgG4-RD is a rare fibro-inflammatory autoimmune disorder that we estimate impacts up

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to 40,000 patients in the United States. IgG4-RD affects multiple organ systems and is characterized by the distinct microscopic appearance of disease organs, including dense presence of IgG4-positive plasma cells that is required for diagnosis. This objective diagnostic criterion is atypical for autoimmune diseases and offers advantages for accurately identifying patients. There are currently no approved therapies for this newly recognized disorder and corticosteroids are the current standard of care.

SLE: we are also enrolling a Phase 2 randomized, double blinded, placebo-controlled study of XmAb5871in SLE. This trial is designed to assess the effect of XmAb5871 on SLE disease activity in a shorter timeframe and using fewer patients compared to standard SLE trials, and XmAb5871 is the first newly developed agent being assessed with this novel trial design. The trial design calls for treating patients with moderate to severe, non-organ threatening SLE with XmAb5871 (or placebo) after their lupus disease activity has improved with a short course of intra-muscular (IM) steroid therapy. Background, potentially confounding, immunosuppressant medications will be stopped. In this double-blinded placebo-controlled study, the ability of XmAb5871 to maintain the improvement in disease activity after IM steroid therapy and in the absence of immunosuppressant medication will be assessed. Historically, SLE trial designs generally add new medications to the many already taken by the patient, and hence display a discernible treatment effect only when restricted to the sickest patients. The trial will enroll approximately 90 subjects, 1:1 randomized to XmAb5871 or placebo, for up to 24 weeks.

XmAb7195 uses our Immune Inhibitor Fc Domain and is being developed for the treatment of severe asthma and allergic diseases. XmAb 7195 is designed to reduce blood serum levels of IgE, which mediates allergic responses and allergic disease. In January 2015, we reported top-line interim data from Part 1 of the Phase 1a trial of XmAb7195, in which healthy volunteers received a single dose. Data showed rapid reduction of free IgE levels to below the limit of detection in 90% of treated subjects, including those treated at the lowest dose evaluated of 0.3 mg/kg, with parallel reductions in total IgE. Two subjects with high pre-dose IgE levels (above 400 IU/mL) were treated with XmAb7195, one each at 0.75 mg/kg and 3.0 mg/kg doses, and both had reduction of free IgE levels to below the limit of detection lasting for at least one week. A dose limiting toxicity of transient, asymptomatic thrombocytopenia (low blood platelet count) was observed at the 3.0 mg/kg dose. The decrease in platelet count was transient with a minimum by 24 hours post-dose, recovery starting by 48 hours post-dose and near full platelet count recovery by study Day 8 in all cases, at which time serum drug concentrations still exceeded levels that eliminate detectable IgE. Moderate urticaria (hives) was reported in a total of seven XmAb7195 treated subjects with an apparent correlation of dose with frequency of occurrence. In all cases regardless of dose, the signs/symptoms of urticaria were mild, non-diffuse and easily treated with oral antihistamine, and the study drug infusions were continued to completion without worsening of symptoms. In 2015, we continued the Phase 1a trial of XmAb7195, treating subjects with high baseline IgE levels, and in June 2015, we announced an expansion of the trial, adding cohorts of subjects that receive two doses of XmAb7195. The new part of this trial will allow Xencor to examine IgE reduction and the safety of XmAb7195 after a second infusion. Complete data from this study are expected in the first half of 2016. We also plan on initiating a multi-dose Phase 1 trial for XmAb7195 with a subcutaneous formulation in healthy volunteers.

XmAb14045 uses our XmAb bispecific Fc technology that allows us to create dual-antigen targeting molecules. We plan to initiate clinical trials for XmAb14045, our first bispecific oncology candidate, for the treatment of acute myeloid leukemia (AML) this year. XmAb14045 targets CD123, an antigen on AML cells and leukemic stem cells, and CD3, an activating receptor on T cells. The trial will be a Phase 1, open-label, multiple-dose, dose escalation study to assess safety, tolerability and preliminary anti-tumor activity in AML.

XmAb13676 is our second bispecific oncology candidate and is expected to enter clinical trials in the second half of this year. It is a tumor-targeted antibody that contains both a B-cell tumor antigen binding domain (CD20) and a cytotoxic T-cell binding domain (CD3). The trial will be a Phase 1, open-label, multiple-dose, dose escalation study to assess safety, tolerability and preliminary anti-tumor activity in B-cell malignancies.

Out-Licensed Compounds

In addition to our wholly-owned compounds in clinical development, we have used our XmAb technology to create antibody compounds which have been licensed to other pharmaceutical and biotechnology companies for further development. These licensed compounds do not require additional development effort by us as they advance into development by our partners. If successful, these candidates will generate additional milestone payments and royalties to support our internal development efforts. These include XmAb5574/MOR208 (now MOR208) licensed to MorphoSys AG (MorphoSys), and XmAb13551, a bispecific CD38 x CD3 preclinical candidate, which we developed and licensed to Amgen.

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Program	Target	Fc Domain	Primary Stage of Indication	Development	Partner
XmAb5574/MOR208	CD19	Cytotoxic	CLL/NHL/ALL	Phase 2	Morphosys
XmAb13551	CD38 x CD3	Bispecific	Myeloma	Preclinical	Amgen

Our Out-Licensed Technology

We selectively license our XmAb technology to other companies for use in their own internal development candidates and to potentially make next-generation improvements to their marketed products. These licenses generally require little or no development effort by us and provide us with cash to fund our own research and development programs. These agreements typically provide the licensee with specific rights to use one or more of our Fc technologies to be applied to their proprietary antibodies or targets. The licensee is generally responsible for all development, of any resulting product candidate. As part of these agreements, we are generally entitled to receive upfront fees, annual licensing fees, potential milestone payments and royalties on the sales of any resulting products. In connection with our collaboration with Novo Nordisk, we also received research and development funding.

There are currently eight programs in development with our partners. The most advanced programs are with Alexion and CSL-Janssen, which both entered into Phase 2 clinical development in 2015.

Licensee	Year	Xencor Technology	Indication	Milestones	Royalties	Current Development Stage
Alexion	2013	Xtend	Undisclosed	Yes	Yes	Phase 2
CSL-Janssen	2009	Cytotoxic	Oncology	Yes	Yes	Phase 2
Boehringer Ingelheim	2007	Cytotoxic	Oncology	Yes	Yes	Phase 1 (2 candidates)
Janssen	2009	Xtend	Autoimmune disease	Yes	Yes	Preclinical
NIH (not licensed)		Xtend	HIV	N/A	N/A	Phase 1
Merck	2013	Fc optimization	Autoimmune disease	Yes	Yes	Phase 1
Novo Nordisk	2014	Various, including Bi-specifics	Undisclosed	Yes	Yes	Preclinical
Amgen	2015	Bi-specific	Oncology/Autoimmune	Yes	Yes	

	5 Preclinical candidates

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Results of Operations

Comparison of the Three Months Ended March 31, 2016 and 2015

The following table summarizes our results of operations for the three months ended March 31, 2016 and 2015 (in millions):

	Three Months Ended March 31,		
	2016	2015	Change
Revenues:			
Research collaboration	$ 7.0	$ 0.7	$ 6.3
Licensing	0.3	0.3	(0.0)
Milestone	—	0.5	(0.5)
Total revenues	$ 7.3	$ 1.5	$ 5.8
Operating expenses:			
Research and development	10.0	5.2	4.8
General and administrative	4.0	2.8	1.2
Total operating expenses	14.0	8.0	6.0
Other income, net	0.3	0.1	0.2
Net loss	$ (6.4)	$ (6.4)	$ 0.0

Revenues

Research collaboration revenues increased by $6.3 million in the three months ended March 31, 2016 over 2015 amounts primarily due to revenue recognized under our 2015 collaboration agreement with Amgen .

Milestone and contingent payments were $0.5 million lower during the three months ended March 31, 2016 over 2015 primarily due to a milestone received from Alexion in 2015.

Research and Development Expenses

The following table summarizes our research and development expenses for the three months ended March 31, 2016 and 2015 (in millions):

	Three Months Ended March 31,		
	2016	2015	Change
Product programs:			
XmAb5871	$ 3.5	$ 1.2	$ 2.3
XmAb7195	1.1	1.4	(0.3)
Bi-specific	4.9	2.0	2.9
Early research and discovery	0.5	0.6	(0.1)
Total research and development expenses	$ 10.0	$ 5.2	$ 4.8

Research and development expenses increased by $4.8 million for the three months ended March 31, 2016 over the same period in 2015. Spending on the XmAb5871and bispecific programs increased during the three months ended March 31, 2016 compared to the same period in 2015. The $2.3 million increase in spending associated with the XmAb5871 program is primarily due to expenses related to the initiation of the clinical trials in IgG4-RD and SLE. There was increased spending of $2.9 million in the three months ended March 31, 2016 on our bispecific programs as we advanced our initial bispecific candidates, XmAb14045 and XmAb13676, toward clinical development and conducted additional work on our bispecific platform and other preclinical programs.

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General and Administrative Expenses

The following table summarizes our general and administrative expenses for the three months ended March 31, 2016 and 2015 (in millions):

	Three Months Ended March 31,		
	2016	2015	Change
General and administrative	$ 4.0	$ 2.8	$ 1.2

General and administrative expenses increased by $1.2 million for the three months ended March 31, 2016 over the same period in 2015. The increase is primarily due to an increase in professional fees and stock-based compensation costs.

Other Income (Expense), Net

Other income, net was $335,000 for the three months ended March 31, 2016 compared to $34,000 for the same period in 2015 reflecting interest income on our investment in marketable securities.

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,		
	2016	2015	Change
Net cash (used in) provided by:			
Operating activities	$ (14,300)	$ (2,093)	$ (12,207)
Investing activities	9,660	(49,058)	58,718
Financing activities	200	115,550	(115,350)
Net (decrease) increase in cash	$ (4,440)	$ 64,399	$ (68,838)

Operating Activities

Cash used in operating activities for the three months ended March 31, 2016 increased by $12.2 million over the same period in 2015 reflecting the increase in spending for research and development activities for our 5871 clinical programs and spending on our bispecific activities.

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. Net cash provided by investing activities increased by $58.7 million for the three months ended March 31, 2016 over the same period in 2015 primarily from proceeds from the sale or maturities of our marketable securities.

Financing Activities

Net cash provided by financing activities consist primarily of net proceeds from the sale of common stock and from the issuance of common stock upon exercise of stock awards. Net financing proceeds decreased by $115.4 million during the three months ended March 31, 2016 compared to the same period in 2015 due to the $115.2 million received from our follow-on financing in March 2015.

Liquidity and Capital Resources

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

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On March 3, 2015, we finalized the sale of 8,625,000 shares of common stock at an offering price of $14.25 per share, resulting in net proceeds of approximately $115.2 million, after deducting underwriting discounts, commissions and offering expenses. In September 2015 we received a $45 million upfront payment in connection with our 2015 Amgen transaction.

At March 31, 2016, we had $178.7 million of cash, cash equivalents and marketable securities. We expect to continue to receive additional payments from our collaborators for research and development services rendered, additional milestone, contingent payments, opt-in and annual license maintenance payments. Our ability to receive milestone payments and contingent payments from our partners is dependent upon either our ability or our partners' abilities to achieve certain levels of research and development activities and is therefore uncertain at this time.

Funding Requirements

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

Although it is difficult to predict our funding requirements, we expect that our existing cash, cash equivalents and marketable securities and certain potential milestone and contingent contractual payments will fund our operating expenses and capital expenditure requirements through 2019. We have based these estimates on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. Additionally, the process of testing product candidates in clinical trials is costly, and the timing of progress in these trials is uncertain. Because our product candidates are in various stages of development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates or whether, or when, we may achieve profitability.

Off-Balance Sheet Arrangements

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

ITEM 3.Quantitative and Qualitative Disclosures about Market Risk

Our primary objective when considering our investment activities is to preserve capital in order to fund our operations. Our primary exposure to market risk is related to changes in interest rates. Our current investment policy is to invest principally in deposits and securities issued by the U.S. government and its agencies, government sponsored agency debt obligations, corporate debt obligations and money market instruments. As of March 31, 2016 we had cash and cash equivalents and marketable securities of $178.7 million consisting of bank deposits, interest-bearing money market accounts, and US government and corporate securities. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. Due to the short-term maturities of our cash equivalents and marketable securities and the conservative risk profile of our marketable securities, a substantial change in interest rates would not have a material effect on the fair market value of our cash equivalents and marketable securities. We have the ability to hold our marketable securities until maturity, and we therefore do not expect a change in interest rates to affect our operating results or cash flows to any significant degree.

ITEM 4.Controls and Procedures

Disclosure Controls and Procedures

Our management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2016. Our disclosure controls and procedures are

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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, 2016.

Changes in Internal Control

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On March 3, 2015, a verified class action complaint, captioned DePinto v. John S. Stafford, et al., C.A. No. 10742, was filed in the Court of Chancery of the State of Delaware against certain of the Company’s current and former directors alleging cause of action for Breach of Fiduciary Duty and Invalidity of Director and Stockholder Consents. In general, the complaint alleged that the plaintiff and the class he seeks to represent were shareholders of the Company during the recapitalization and certain related transactions that the Company underwent in 2013 and that the defendants breached their fiduciary duties in the course of approving that series of transactions. It also challenged as invalid certain corporate acts taken in the 2013 time period. On June 10, 2015, the Company filed a Verified Petition for Relief under Del. C. Section 205 (the 205 Petition) related to the corporate acts challenged in the complaint. The defendants filed an answer to the class action complaint on June 22, 2015. On July 9, 2015, the Court consolidated the 205 Petition with the class action, joined the Company as a defendant and ordered it to file the claims in the 205 Petition as counter-claims in the class action, which the Company has done.

On August 11, 2015, the Company filed a Motion for leave to File an Amended Counter-Claim, along with the proposed Amended Counter-Claim and related documents. On October 5, 2015, the parties filed a Stipulation of Partial Settlement and related documents disclosing a settlement of the invalidity claims addressed in the complaint, the counter-claim and the proposed amended counter-claim including a request by plaintiff’s counsel for reimbursement of legal fees up to $950,000. On October 7, 2015, Xencor filed the Amended Counter-Claim and the related documents. On December 14, 2015, the Court entered an Order and Partial Final Judgment approving the

settlement of the invalidity claims, validating each corporate act challenged in the complaint, dismissing with prejudice Count II of the complaint (the invalidity claims) and granting plaintiff's counsel a fee award. We have paid the plaintiff's legal award cost of $950,000 net of insurance proceeds of $187,500 which has been reflected as a charge in our 2015 operations.

Based on the nature of the claim, the Company believes that it is not possible to estimate the likelihood of loss or a range of potential loss related to the claim; accordingly, no amount for any loss has been accrued at March 31, 2016.

Item 1A. Risk Factors

For information regarding certain factors that could materially affect our business, results of operations, financial condition and liquidity, see the risk factor discussion provided under "Risk Factors" in item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015. 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, 2015, 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.

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

Recent Sales of Unregistered Securities

None

Use of Proceeds from Registered Securities

On December 3, 2013, we completed our IPO and issued 14,639,500 shares of our common stock at $5.50 per share, which included shares we issued pursuant to our underwriters' exercise of their over-allotment option, and received net proceeds of $72.5 million, after underwriting discounts, commissions and estimated offering expenses. None of the expenses associated with the IPO were paid to directors, officers, persons owning 10% or more of any class of equity securities, or to their associates, or to our affiliates.

Shares of our common stock began trading on the NASDAQ Global Market on December 3, 2013. The shares were registered under the Securities Act on registration statements on Form S-1 (Registration Nos. 333-191689).

We are using the proceeds from the IPO to fund research and development activities and for working capital and general corporate purposes. We described the planned use of proceeds from our IPO in our prospectus dated December 2, 2013, filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended, including using a portion of such proceeds for a planned Phase 2b clinical trial with XmAb5871 . In October 2014, we announced that we will not be pursuing a Phase 2b clinical trial of XmAb5871 in RA and will initiate clinical development of XmAb5871 in IgG4-Related Diseases and possibly other autoimmune diseases. As of March 31, 2016, we have used approximately $56.6 million of the funds from the IPO.

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Item 6.Exhibits

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 September 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	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

*Indicates management contract or compensatory plan.

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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
Vice President, Finance
(Principal Financial Officer)

Dated: May 2, 2016

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