CytomX Therapeutics, Inc.
Form 10-Q
August 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2016

OR

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

CytomX Therapeutics, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	27-3521219 (I.R.S. Employer Identification No.)
343 Oyster Point Boulevard, Suite 100 South San Francisco, California (Address of principal executive offices)	94080 (Zip Code)

(650) 515-3185

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 x 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of August 1, 2016, 36,288,413 shares of the registrant's common stock were outstanding.

CYTOMX THERAPEUTICS, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016

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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements that involve risks and uncertainties. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estima "projection," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in "Risk Factors" or "Management's Discussion and Analysis of Financial Condition and Results of Operations" or the following:

- the initiation, timing, progress and results of our research and development programs, preclinical studies, any clinical trials and Investigational New Drug application ("IND"), Clinical Trial Application, New Drug Application ("NDA"), Biologics License Application ("BLA") and other regulatory submissions;
- our receipt and timing of any milestone payments or royalties under any existing or future research collaboration and license agreements or arrangements;
- our expectations regarding the activity of our product candidates once administered in a human subject;
- our expectations and beliefs regarding the evolution of the market for cancer therapies and development of the immuno-oncology industry;
- our ability to identify and develop products for novel cancer targets;
- our dependence on existing and future collaborators for developing, obtaining regulatory approval for and commercializing product candidates in such collaborations;
- our ability to identify and develop product candidates for treatment of additional disease indications;
- our or an existing or future collaborator's ability to obtain and maintain regulatory approval of any of our or such collaborator's product candidates;
- the rate and degree of market acceptance of any approved products candidates;
- the commercialization of any approved product candidates;
- our ability to establish and maintain collaborations and retain commercial rights for our product candidates in the collaborations;
- the implementation of our business model and strategic plans for our business, technologies and product candidates;
- our estimates of our expenses, ongoing losses, future revenue and capital requirements;
- our ability to obtain additional funds for our operations;
- our or any existing or future collaborator's ability to obtain and maintain intellectual property protection for our technologies and product candidates and our ability to operate our business without infringing the intellectual property

rights of others;
- our reliance on third parties to conduct our preclinical studies or any future clinical trials;
- our reliance on third-party supply and manufacturing partners to supply the materials and components for, and manufacture, our research and development, preclinical and clinical trial product supplies;
- our ability to attract and retain qualified key management and technical personnel;
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act of 2012;
- our financial performance; and
- developments relating to our competitors or our industry.

Any forward-looking statements in this Quarterly Report on Form 10-Q reflect our current views with respect to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part II, Item 1A. Risk Factors and discussed elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

This Quarterly Report on Form 10-Q also contains estimates, projections and other information concerning our industry, our business and the markets for certain drugs and therapeutic biologics, including data regarding the estimated size of those markets, their projected growth rates and the incidence of certain medical conditions. Information that is based on estimates, forecasts, projections or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained these industry, business, market and other data from reports, research surveys, studies and similar data prepared by third parties, industry, medical and general publications, government data and similar sources. In some cases, we do not expressly refer to the sources from which these data are derived.

Except where the context otherwise requires, in this Quarterly Report on Form 10-Q, “we,” “us,” “our” and the “Company” refer to CytomX Therapeutics, Inc., a Delaware corporation.

Trademarks

This Quarterly Report on Form 10-Q includes trademarks, service marks and trade names owned by us or other companies. All trademarks, service marks and trade names included in this Quarterly Report on Form 10-Q are the property of their respective owners.

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements
CYTOMX THERAPEUTICS, INC.

CONDENSED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$62,379	$ 59,822
Short-term investments	133,418	126,889
Accounts receivable	285	372
Related party accounts receivable	113	372
Prepaid expenses and other current assets	3,411	2,299
Total current assets	199,606	189,754
Property and equipment, net	3,370	3,481
Intangible assets	1,750	1,750
Goodwill	949	949
Restricted cash	917	917
Other assets	268	364
Total assets	$206,860	$ 197,215
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$1,426	$ 4,697
Accrued liabilities	7,313	4,912
Deferred revenues, current portion	13,485	6,130
Total current liabilities	22,224	15,739
Deferred revenue, net of current portion	82,783	54,703
Deferred tax liability	513	507
Other long-term liabilities	153	198
Total liabilities	105,673	71,147
Commitments and contingencies (Note 11)		
Preferred stock, $0.00001 par value; 10,000,000 shares authorized and no shares issued and outstanding at June 30, 2016 and December 31, 2015.	—	—
Common stock, $0.00001 par value; 75,000,000 shares authorized; 36,187,345 and 36,033,209 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	1	1
Stockholders notes receivable	—	(78)

Additional paid-in capital	248,777	243,687
Accumulated other comprehensive income / (loss)	80	(76)
Accumulated deficit	(147,671)	(117,466)
Total stockholders' equity	101,187	126,068
Total liabilities and stockholders' equity	$206,860	$ 197,215

See accompanying notes to condensed financial statements.

CYTOMX THERAPEUTICS, INC.

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$2,539	$1,557	$4,322	$2,952
Revenues from related parties	555	486	995	833
Total revenues	3,094	2,043	5,317	3,785
Operating expenses:				
Research and development	12,705	5,033	26,070	9,697
General and administrative	4,647	2,552	9,687	4,498
Total operating expenses	17,352	7,585	35,757	14,195
Loss from operations	(14,258)	(5,542)	(30,440)	(10,410)
Interest income	660	329	1,150	467
Interest expense	(465)	(408)	(818)	(638)
Other income (expense), net	(110)	(180)	(91)	(1,431)
Loss before provision for income taxes	(14,173)	(5,801)	(30,199)	(12,012)
Provision for income taxes	3	5	6	5
Net loss	(14,176)	(5,806)	(30,205)	(12,017)
Accretion to redemption value and cumulative dividends on preferred stock	—	(1,757)	—	(3,189)
Net loss attributable to common stockholders	$(14,176)	$(7,563)	$(30,205)	$(15,206)
Net loss per share attributable to common stockholders, basic and diluted	$(0.39)	$(7.56)	$(0.84)	$(15.22)
Shares used to compute net loss per share attributable to common stockholders, basic and diluted	36,113,363	1,001,010	36,088,393	998,793
Other comprehensive loss:				
Changes in unrealized gains / (losses) on short-term investments	50	9	156	(1)
Total other comprehensive gain / (loss)	50	9	156	(1)
Comprehensive loss	$(14,126)	$(5,797)	$(30,049)	$(12,018)

See accompanying notes to condensed financial statements.

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CYTOMX THERAPEUTICS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(30,205)	$(12,017)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities:		
Depreciation and amortization	800	570
Amortization of debt discount	—	23
Accretion of discount on short-term investments	817	435
Stock-based compensation expense	4,753	721
Issuance of stock in connection with services	159	—
Change in fair value of convertible preferred stock liability	—	1,114
Change in fair value of convertible preferred stock warrant liability	—	317
Deferred income taxes	6	5
Changes in operating assets and liabilities		
Accounts receivable	87	(214)
Related party accounts receivable	259	1,458
Prepaid expenses and other current assets	(1,112)	(679)
Other assets	96	50
Accounts payable	(3,206)	(850)
Accrued liabilities and other long-term liabilities	2,325	652
Deferred revenue	35,435	(3,065)
Net cash provided by / (used in) operating activities	10,214	(11,480)
Cash flows from investing activities:		
Purchases of property and equipment	(711)	(1,049)
Purchases of short-term investments	(97,940)	(89,963)
Maturities of short-term investments	90,750	10,000
Net cash used in investing activities	(7,901)	(81,012)
Cash flows from financing activities:		
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	—	74,680
Proceeds from exercise of stock options	178	9
Proceeds from stockholder notes	78	—
Repayment of notes payable	—	(718)
Payment of deferred offering costs	(12)	(33)
Net cash provided by financing activities	244	73,938
Net increase / (decrease) in cash and cash equivalents	2,557	(18,554)

Cash and cash equivalents, beginning of period	59,822	64,396
Cash and cash equivalents, end of period	$62,379	$45,842
Supplemental disclosures of cash flow information:		
Cash paid for interest	$—	$159
Supplemental disclosures of noncash investing and financing items:		
Net change in acquisition of property and equipment in accounts payable and accrued liabilities	(22)	70
Accretion to redemption value and cumulative dividends on preferred stock	—	3,189
Convertible preferred stock liability recorded in connection with redeemable convertible preferred stock, net	—	1,509
Issuance costs in accounts payable and accrued liabilities	—	251
Deferred offering costs in accounts payable and accrued liabilities	—	157

See accompanying notes to condensed financial statements.

CytomX Therapeutics, Inc.

Notes to Condensed Financial Statements (Unaudited)

1. Description of the Business

CytomX Therapeutics, Inc. (the "Company") is an oncology-focused biopharmaceutical company focused on developing Probody therapeutics for the treatment of cancer. Probody therapeutics are masked antibodies that remain inert in healthy tissue but are activated specifically in the disease microenvironment. The Company is located in South San Francisco, California and was incorporated in the state of Delaware in September 2010.

Initial Public Offering

On October 7, 2015, the Company's registration statement on Form S-1 (File No. 333-206658) relating to its initial public offering ("IPO") of its common stock was declared effective by the Securities and Exchange Commission ("SEC") and the shares of its common stock began trading on The NASDAQ Global Select Market on October 8, 2015. The public offering price of the shares sold in the IPO was $12.00 per share. The IPO closed on October 14, 2015, pursuant to which the Company sold 7,666,667 shares of common stock, including the sale of 1,000,000 shares of common stock to the underwriters upon their exercise of their option to purchase additional shares. The Company received net proceeds of approximately $81.8 million, after underwriting discounts, commissions and offering expenses. Immediately prior to the consummation of the IPO, all outstanding shares of convertible preferred stock and redeemable convertible preferred stock converted into common stock.

Reverse Stock Split

On October 2, 2015, the Company effected a one-for-62.997 reverse stock split of the Company's issued and outstanding shares of common stock, redeemable convertible preferred stock and convertible preferred stock. The par values of the common stock, redeemable convertible preferred stock and convertible preferred stock were not adjusted as a result of the reverse split. All authorized and issued and outstanding shares of common stock, redeemable convertible preferred stock and convertible preferred stock and per share amounts contained in the accompanying condensed financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

2. Liquidity

Since inception, the Company has incurred recurring net operating losses. As of June 30, 2016 and December 31, 2015, the Company had an accumulated deficit of $147.7 million and $117.5 million, respectively, and expects to incur losses for the foreseeable future. To date, the Company has financed its operations primarily through sales of its common stock in conjunction with the IPO, sales of its convertible preferred securities and payments received under

its collaboration agreements. As of June 30, 2016 and December 31, 2015, the Company had cash, cash equivalents and short-term investments of $195.8 million and $186.7 million, respectively. In May and June 2015, the Company received aggregate net proceeds of $73.2 million from the issuance of its Series C and Series D redeemable convertible preferred stock. In October 2015, the Company consummated its IPO and raised net proceeds of approximately $81.8 million, after deducting underwriting discounts and commissions and offering expenses.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The Company’s functional and reporting currency is the U.S. dollar.

Unaudited Interim Financial Information

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

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The condensed results of operations for the three and six months ended June 30, 2016 are not necessarily

CYTOMX THERAPEUTICS, INC.

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

indicative of the results to be expected for the full year or for any other future year or interim period. The accompanying condensed financial statements should be read in conjunction with the audited financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Concentration of Credit Risk and Other Risks and Uncertainties

The Company is subject to a number of risks similar to other biopharmaceutical companies in the early stage, including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical testing or clinical trials, the need to obtain marketing approval for its product candidates, competitors developing new technological innovations, the need to successfully commercialize and gain market acceptance of the Company's products, and protection of proprietary technology. If the Company does not successfully obtain regulatory approval, commercialize or partner any of its product candidates, it will be unable to generate revenue from product sales or achieve profitability.

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, short term investments and accounts receivable. Substantially all the Company's cash is held by one financial institution that management believes is of high credit quality. Such deposits may, at times, exceed federally insured limits. The Company invests its cash equivalents in highly rated money market funds and its short-term investments in U.S. Government Bonds.

Customers who represent 10% of more of the Company's total revenue during each period presented or net accounts receivable balance at each respective balance sheet date are as follows:

	Revenue				Accounts Receivable, net	
	Three Months Ended June 30,		Six Months Ended June 30,			
	2016	2015	2016	2015	June 30, 2016	December 31, 2015
Customer A	57%	76%	67%	78%	72%	50%
Customer B	18%	24%	19%	22%	28%	50%
Customer C	25%	0%	14%	0%	0%	0%

All of the Company's customers are located in the United States of America.

Segments

Management has determined that it has one business activity and operates as one operating segment as it only reports financial information on an aggregate basis to its chief executive officer, who is the Company's chief operating decision maker. All long-lived assets are maintained in the United States of America.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less at the date of purchase to be cash equivalents.

Restricted Cash

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

CYTOMX THERAPEUTICS, INC.

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

Short-term Investments

All investments have been classified as “available-for-sale” and are carried at fair value as determined based upon quoted market prices or pricing models for similar securities at period end. Those investments with contractual maturities greater than 12 months at the date of purchase are considered long-term investments. Unrealized gains and losses, deemed temporary in nature, are reported as a component of accumulated other comprehensive income (loss), net of tax.

A decline in the fair value of any security below cost that is deemed other than temporary results in a charge to earnings and the corresponding establishment of a new cost basis for the security. Premiums (discounts) are amortized (accreted) over the life of the related security as an adjustment to yield using the straight-line interest method. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Property and Equipment, net

Property and equipment are recorded at cost net of accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. The useful lives of property and equipment are as follows:

Machinery and equipment	5 years
Computer equipment and software	3 years
Furniture and fixtures	3 years
Leasehold improvements	Shorter of remaining lease term or estimated life of the assets

Maintenance and repairs that do not extend the life or improve the asset are expensed when incurred.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of tangible and identifiable intangible assets acquired in business combinations. Goodwill and other intangible assets with indefinite lives are not amortized, but are assigned to reporting units and tested for impairment annually, or whenever there is an impairment indicator. Intangible assets are comprised of in-process research and development (“IPR&D”). The Company assesses impairment indicators annually or more frequently, if a change in circumstances or the occurrence of events suggests the remaining value may not be recoverable. Intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives. There was no impairment of goodwill or intangible assets identified during the six months ended June 30, 2016 and the year ended December 31, 2015.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable and prior to any goodwill impairment test. An impairment loss is recognized when the total of estimated undiscounted future cash flows expected to result from the use of the asset (or asset group) and its eventual disposition is less than its carrying amount. Impairment, if any, would be assessed using discounted cash flows or other appropriate measures of fair value. There was no impairment of long-lived assets during the periods presented in these condensed financial statements.

Convertible Preferred Stock Warrant Liability

Freestanding warrants for shares that are contingently redeemable are classified as liabilities on the balance sheet at their estimated fair value because the shares underlying the warrants may obligate the Company to transfer assets to the holders at a future date under certain circumstances such as a deemed liquidation event. The warrants are subject to re-measurement at each balance sheet date and the change in fair value, if any, is included in other income (expense), net. The Company adjusted the liability for changes in fair value until the consummation of its IPO in October 2015, at which time all convertible preferred stock warrants were net exercised into shares of common stock and the related convertible preferred stock warrant liability was reclassified to additional paid-in capital.

CYTOMX THERAPEUTICS, INC.

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

Convertible Preferred Stock Liability

The obligation to issue additional shares of Series B-1 and Series C redeemable convertible preferred stock at a future date was determined to be a freestanding instrument that should be accounted for as a liability. At initial recognition, the Company recorded the convertible preferred stock liability on the balance sheets at its estimated fair value. The liability is subject to remeasurement at each balance sheet date, with changes in fair value recognized as a component of other income (expense), net. At the time of each funding, the Company remeasured the liability, with the change in fair value recognized as a component of other income (expense), net and then reclassifies the fair value associated with the convertible preferred stock liability to the applicable series of redeemable convertible preferred stock. Immediately prior to the consummation of the Company's IPO in October 2015, the convertible preferred stock converted to 27,135,453 shares of common stock.

Comprehensive Gain and Loss

Comprehensive gain and loss represents all changes in stockholders' deficit except those resulting from distributions to stockholders. The Company's unrealized gains and losses on short-term investments represent the only component of other comprehensive loss that is excluded from the reported net loss.

Revenue Recognition

The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; transfer of technology has been completed or services have been rendered; the price to the customer is fixed or determinable; and collectability is reasonably assured.

The Company's revenues are primarily derived through its license, research, development and commercialization agreements. The terms of these types of agreements may include (i) licenses for the Company's technology, (ii) research and development services, and (ii) services or obligations in connection with participation in research or steering committees. Payments to the Company under these arrangements typically include one or more of the following: nonrefundable upfront and license fees, research funding, milestone and other contingent payments to the Company for the achievement of defined collaboration objectives and certain preclinical, clinical, regulatory and sales-based events, as well as royalties on sales of any commercialized products.

In arrangements involving the delivery of more than one element, each required deliverable is evaluated to determine whether it qualifies as a separate unit of accounting. The determination is based on whether the deliverable has "standalone value" to the customer. If a deliverable does not qualify as a separate unit of accounting, it is combined with the other applicable undelivered item(s) within the arrangement and these combined deliverables are treated as a single unit of accounting.

The arrangement's consideration that is fixed or determinable is allocated to each separate unit of accounting based on the relative selling price methodology in accordance with the selling price hierarchy, which includes vendor-specific objective evidence ("VSOE") of selling price, if available, or third-party evidence of selling price if VSOE is not available, or the best estimate of selling price, if neither VSOE nor third-party evidence is available.

Payments or reimbursements for the Company's research and development efforts for the arrangements where such efforts are considered as deliverables are recognized as the services are performed and are presented on a gross basis.

When upfront payments are received and if there is no discernible pattern of performance and/or objectively measurable performance measures do not exist, the Company recognizes revenue ratably over the associated period of performance.

The Company's collaboration and license agreements may include contingent payments related to specified research, development and regulatory milestones and sales-based milestones. Such payments are typically payable under the collaborations when the collaboration partner claims or selects a target, or initiates or advances a covered product candidate in preclinical or clinical development, upon submission for marketing approval of a covered product with regulatory authorities, upon receipt of actual marketing approvals of a covered product or for additional indications, or upon the first commercial sale of a covered product. Sales-based milestones are typically payable when annual sales of a covered product reach specified levels. Each contingent and milestone payment is evaluated to determine whether it is substantive and at risk to both parties. The Company recognizes any payment that is contingent upon the achievement of a substantive milestone entirely in the period in which the milestone is achieved. Any payments that are contingent upon achievement of a non-substantive milestone are recognized as revenue prospectively, when such payments become due and collectible, over the remaining expected performance period under the arrangement, which is generally the remaining period over which the research and development services are expected to be provided.

CYTOMX THERAPEUTICS, INC.

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

Research and Development Expenses

Research and development expenses include costs directly attributable to the conduct of research and development programs, including the cost of salaries, payroll taxes, employee benefits, materials, supplies, depreciation on and maintenance of research equipment, the cost of services provided by outside contractors, and the allocated portions of facility costs, such as rent, utilities, insurance, repairs and maintenance, depreciation, and general support services. All costs associated with research and development are expensed as incurred.

Stock-Based Compensation

The Company measures its stock-based awards made to employees based on the fair values of the awards as of the grant date using the Black-Scholes option-pricing model. Stock-based compensation expense is recognized over the requisite service period using the straight-line method and is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. As such, the Company's stock-based compensation is reduced for the estimated forfeitures at the date of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

Stock-based compensation expense for options granted to non-employees as consideration for services received is measured on the date of performance at the fair value of the consideration received or the fair value of the equity instruments issued, using the Black-Scholes option-pricing model, whichever can be more reliably measured. Compensation expense for options granted to non- employees is periodically remeasured as the underlying options vest.

Income Taxes

The Company accounts for income taxes under the liability method which requires, among other things, that deferred income taxes be provided for temporary differences between the tax basis of the Company's assets and liabilities and their financial statement reported amounts. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses and research and development credit carryforwards. A valuation allowance is provided against deferred tax assets unless it is more likely than not that they will be realized.

The Company recognizes benefits of uncertain tax positions if it is more likely than not that such positions will be sustained upon examination based solely on their technical merits, as the largest amount of benefit that is more likely than not to be realized upon the ultimate settlement. The Company's policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense or benefit. To date, there have been no interest or penalties charged in relation to the unrecognized tax benefits.

Net Loss per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, without consideration of potentially dilutive securities. Diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders since the effect of potentially dilutive securities is anti-dilutive.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard will be effective for the Company on January 1, 2018, which is the effective date for public companies. Early application is permitted as of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. Additionally, in March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations in ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which relates to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. These standards have the same effective

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date and transition date of January 1, 2018. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. This standard update provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance is effective for all annual and interim periods ending after December 15, 2016. The Company does not believe that adopting ASU 2014-15 will have a material impact on its financial statements.

In November 2015, the FASB issued ASU No 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This standard amends the accounting for income taxes and requires that all deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. As the Company's deferred tax balance is already classified as noncurrent, the adoption of this new guidance is not expected to have a financial statement impact.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under ASU 2016-2, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company plans to adopt this guidance beginning with its first quarter ending March 31, 2019. The Company is in the process of evaluating the future impact of ASU 2016-02 on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. The Company is in the process of assessing the impact of adoption of ASU 2016-09 of its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard changes the impairment model for most financial assets and certain other instruments. Under the new standard, entities holding financial assets and net investment in leases that are not accounted for at fair value through net income to be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The new standard will be effective for us on January 1, 2020. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

4. Fair Value Measurements and Short-Term Investments

The Company records its financial assets and liabilities at fair value. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level I: Inputs which include unadjusted quoted prices in active markets for identical assets or liabilities.
- Level II: Inputs other than Level I that are observable, either directly or indirectly, such as unadjusted quoted prices for similar assets or liabilities; unadjusted quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level III: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

	June 30, 2016	
	Level I	Level II