MACROGENICS INC
Form 10-Q
May 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-36112
MACROGENICS, INC.
(Exact name of registrant as specified in its charter)

Delaware	06-1591613
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9704 Medical Center Drive Rockville, Maryland	20850
(Address of principal executive offices)	(Zip code)

301-251-5172
(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 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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
As of April 28, 2017, the number of outstanding shares of the registrant's common stock, par value $0.01 per share, was 35,012,593 shares.

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements can often be identified by the use of terminology such as "subject to", "believe", "anticipate", "plan", "expect", "intend", "estimate", "project", "may", "will", "should", "would", "could", "can", the negatives thereof, variations thereon and similar expressions, or by 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;
- the outcomes of our ongoing and planned clinical trials and the timing of those outcomes;
- 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 enter into new collaborations or to identify additional products or product candidates with significant commercial potential that are consistent with our commercial objectives;
- our ability to recover the investment in our manufacturing capabilities;
- the rate and degree of market acceptance and clinical utility of our products;
- our commercialization, marketing and manufacturing capabilities and strategy;
- significant competition in our industry;
- costs of litigation and the failure to successfully defend lawsuits and other claims against us;
- economic, political and other risks associated with our international operations;
- our ability to receive research funding and achieve anticipated milestones under our collaborations;
- our ability to protect and enforce patents and other intellectual property;
- costs of compliance and our failure to comply with new and existing governmental regulations including, but not limited to, tax regulations;
- loss or retirement of key members of management;
- failure to successfully execute our growth strategy, including any delays in our planned future growth; and
- our failure to maintain effective internal controls.

Consequently, forward-looking statements speak only as of the date that they are made and 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. Except as required by law, we do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
MACROGENICS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 40,518	$ 84,098
Marketable securities	202,585	192,898
Accounts receivable	2,093	2,764
Prepaid expenses	5,018	3,483
Other current assets	793	704
Total current assets	251,007	283,947
Property and equipment, net	17,376	17,961
Marketable securities, non-current	4,978	7,986
Other assets	1,360	1,369
Total assets	$ 274,721	$ 311,263
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,515	$ 3,995
Accrued expenses	17,957	16,134
Deferred revenue	4,261	4,261
Deferred rent	1,308	1,319
Lease exit liability	1,511	1,593
Total current liabilities	26,552	27,302
Deferred revenue, net of current portion	8,979	10,045
Deferred rent, net of current portion	4,552	4,867
Lease exit liability, net of current portion	—	298
Total liabilities	40,083	42,512
Stockholders' equity:		
Common stock, $0.01 par value – 125,000,000 shares authorized, 34,980,433 and 34,870,607 shares outstanding at March 31, 2017 and December 31, 2016, respectively	350	349
Additional paid-in capital	564,766	561,198
Accumulated deficit	(330,370)	(292,714)
Accumulated other comprehensive loss	(108)	(82)
Total stockholders' equity	234,638	268,751
Total liabilities and stockholders' equity	$ 274,721	$ 311,263

See accompanying notes.

MACROGENICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(unaudited)
(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2017	2016
Revenues:		
Revenue from collaborative agreements	$1,278	$1,893
Revenue from government agreements	777	953
Total revenues	2,055	2,846
Costs and expenses:		
Research and development	32,801	27,346
General and administrative	7,462	6,133
Total costs and expenses	40,263	33,479
Loss from operations	(38,208)	(30,633)
Other income	553	270
Net loss	(37,655)	(30,363)
Other comprehensive income (loss):		
Unrealized gain (loss) on investments	(26)	57
Comprehensive loss	$(37,681)	$(30,306)
Basic and diluted net loss per common share	$(1.08)	$(0.88)
Basic and diluted weighted average common shares outstanding	34,958,228	34,503,845

See accompanying notes.

MACROGENICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net income	$(37,655)	$(30,363)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	1,978	1,771
Share-based compensation	3,461	3,001
Changes in operating assets and liabilities:		
Accounts receivable	671	(1,287)
Prepaid expenses	(1,535)	103
Other assets	(81)	(298)
Accounts payable	(2,223)	(388)
Accrued expenses	1,823	(1,788)
Lease exit liability	(379)	(488)
Deferred revenue	(1,065)	(1,893)
Deferred rent	(326)	(280)
Net cash used in operating activities	(35,331)	(31,910)
Cash flows from investing activities		
Purchases of marketable securities	(56,937)	(83,116)
Proceeds from sale and maturities of marketable securities	50,072	73,413
Purchases of property and equipment	(1,492)	(2,831)
Net cash used in investing activities	(8,357)	(12,534)
Cash flows from financing activities		
Proceeds from stock option exercises	108	224
Net cash provided by financing activities	108	224
Net change in cash and cash equivalents	(43,580)	(44,220)
Cash and cash equivalents at beginning of period	84,098	196,172
Cash and cash equivalents at end of period	$40,518	$151,952

See accompanying notes.

MACROGENICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
1. Basis of Presentation and Recently Issued Accounting Standards
Basis of Presentation
The accompanying unaudited interim consolidated financial statements of MacroGenics, 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. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period.
The accompanying unaudited interim consolidated financial statements include the accounts of MacroGenics, Inc. and its wholly owned subsidiary, MacroGenics UK Limited. All intercompany accounts and transactions have been eliminated in consolidation. These consolidated financial statements and related notes should be read in conjunction with the financial statements and notes thereto included in the Company's 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 28, 2017.
There have been no material changes to the significant accounting policies previously disclosed in the Company's 2016 Annual Report on Form 10-K other than the adoption of ASU No. 2015-17, Improvements to Employee Share-Based Payment Accounting, as disclosed in the Recently Issued Accounting Standards section below.
Recently Issued Accounting Standards
In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods therein, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. ASU 2014-09 may be adopted either retrospectively or on a modified retrospective basis whereby ASU 2014-09 would be applied to new contracts and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings at the effective date for existing contracts with remaining performance obligations. In 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients to provide supplemental adoption guidance and clarification to ASU 2014-09. The effective date for these new standards is the same as the effective date and transition requirements for ASU 2014-09. Management has begun an initial review of each of the Company's collaboration and license agreements and is performing an assessment of the potential effects of the standard on the Company's consolidated financial statements, accounting policies, and internal controls over financial reporting. The Company anticipates that the adoption of the new revenue recognition standard will have primarily two impacts on its contract revenues generated by its collaborative research and license agreements:
(i) Changes in the model for distinct licenses of functional intellectual property which may result in a timing difference of revenue recognition. Whereas revenue from these arrangements was previously recognized over a period of time pursuant to revenue recognition guidance that was in place for the arrangements at the time such arrangements commenced, revenue from these arrangements may now be recognized at point in time under the new guidance.
(ii) Assessments of milestone payments, which are linked to events that are in the Company’s control, will result in variable consideration that may be recognized at an earlier point in time under the new guidance, when it is probable that the milestone will be achieved without a significant future reversal of cumulative revenue expected.

The Company has not yet completed its final review of the impact of this guidance. The Company has also not concluded on the implementation approach to be used. Management plans to adopt the new standard effective January 1, 2018. The Company continues to monitor additional changes, modifications, clarifications or interpretations being undertaken by the FASB, which may impact the implementation approach management decides to use.

In February 2016, FASB issued ASU No. 2016-02, Leases (ASU 2016-02) that provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet for operating leases and changes many key definitions, including the definition of a lease. ASU 2016-02 includes a short-term lease exception for leases with a term of 12 months or less, in which a lessee can make an accounting policy election not to recognize lease assets and lease liabilities. Lessees will continue to differentiate between finance leases (previously referred to as capital leases) and operating leases, using classification criteria that are substantially similar to the previous guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with earlier application permitted. The Company is currently evaluating the effect of the standard on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). This amendment addresses several aspects of the accounting for share-based payment transactions, including the 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 beginning after December 15, 2016, including interim periods within that year. The Company adopted ASU 2016-09 effective January 1, 2017 and has elected to continue to estimate the number of stock-based awards expected to vest, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur. The adoption of this standard did not have a material impact on the Company's financial statements or related disclosures.

2. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued expenses. The carrying amount of accounts receivable, accounts payable and accrued expenses are generally considered to be representative of their respective fair values because of their short-term nature. 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 disclosures about fair value measurements. The ASC 820 hierarchy ranks the quality of reliability of 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 and 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 and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. 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 a reporting entity - e.g., determining an appropriate adjustment to a discount factor for illiquidity associated with a given security.

The Company evaluates financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. This determination requires the Company to make subjective judgments as to the significance of inputs used in determining fair value and where such inputs lie within the ASC 820 hierarchy.

Financial assets measured at fair value on a recurring basis were as follows (in thousands):

	Fair Value Measurements at March 31, 2017			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$31,442	$31,442	$—	$—
U.S. Treasury securities	13,821	—	13,821	—
Government-sponsored enterprises	37,915	—	37,915	—
Corporate debt securities	155,827	—	155,827	—
Total assets measured at fair value[(a)]	$239,005	$31,442	$207,563	$—

(a) Total assets measured at fair value at March 31, 2017, includes approximately $31.4 million reported in cash and cash equivalents on the balance sheet.

	Fair Value Measurements at December 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$46,781	$46,781	$—	$—
U.S. Treasury securities	8,826	—	8,826	—
Government-sponsored enterprises	29,759	—	29,759	—
Corporate debt securities	166,300	—	166,300	—
Total assets measured at fair value[(a)]	$251,666	$46,781	$204,885	$—

(a) Total assets measured at fair value at December 31, 2016, includes approximately $50.8 million reported in cash and cash equivalents on the balance sheet.

The fair value of Level 2 securities is determined from market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data. There were no transfers between Level 1 and Level 2 investments during the periods presented.

3. Marketable Securities

Available-for-sale marketable securities as of March 31, 2017 and December 31, 2016 were as follows (in thousands):

	March 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$13,835	$—	$(14)	$13,821
Government-sponsored enterprises	37,942	—	(27)	37,915
Corporate debt securities	155,894	23	(90)	155,827
Total	$207,671	$23	$(131)	$207,563

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	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$4,826	$ —	$ (1)	$4,825
Government-sponsored enterprises	29,764	5	(10)	29,759
Corporate debt securities	166,376	51	(127)	166,300
Total	$200,966	$ 56	$ (138)	$200,884

The contractual maturities of the available-for-sale marketable securities as of March 31, 2017 were as follows (in thousands):

	Amortized Cost	Fair Value
Mature in one year or less	$202,686	$202,585
Mature between one and five years	4,985	4,978
Total	$207,671	$207,563

All of the Company's available-for-sale securities in an unrealized loss position as of March 31, 2017 and December 31, 2016 were in a loss position for less than twelve months. There were no unrealized losses at March 31, 2017 or December 31, 2016 that the Company determined to be other-than-temporary.

4. Lease Exit Liability

In 2008, the Company acquired Raven Biotechnologies, Inc. (Raven), a private South San Francisco-based company focused on the development of monoclonal antibody therapeutics for treating cancer. The Company undertook restructuring activities related to the acquisition of Raven. In connection with these restructuring activities, as part of the cost of acquisition, the Company established a restructuring liability attributed to an existing operating lease. During the year ended December 31, 2016, the Company entered into an agreement to sublease a portion of the space subject to this operating lease. The Company will receive approximately $1.3 million in sublease payments over its term, which ends at the same time as the original lease in February 2018. No sublease income was contemplated when the restructuring liability was recorded in 2008; therefore, the Company adjusted the liability to reflect the future sublease income during the year ended December 31, 2016 and recorded an offset to research and development expenses of approximately $1.3 million in the same period.

Changes in the lease exit liability are as follows (in thousands):

Accrual balance at December 31, 2016	$1,891
Principal payments	(380)
Accrual balance at March 31, 2017	$1,511

5. Collaboration and Other Agreements

Janssen Biotech, Inc.

In December 2014, the Company entered into a collaboration and license agreement with Janssen Biotech, Inc. (Janssen) for the development and commercialization of MGD011 (also known as JNJ-64052781 or duvortuxizumab), a product candidate that incorporates the Company's proprietary DART® technology to simultaneously target CD19 and CD3 for the potential treatment of B-cell hematological malignancies (MGD011 Agreement). The Company contemporaneously entered into an agreement with Johnson & Johnson Innovation - JJDC, Inc. (JJDC) under which JJDC agreed to purchase 1,923,077 new shares of the Company's common stock for proceeds of $75.0 million. Upon closing the transaction in January 2015, the Company received a $50.0 million upfront payment from Janssen as well as the $75.0 million investment in the Company's common stock.

Under the MGD011 Agreement, the Company granted an exclusive license to Janssen to develop and commercialize duvortuxizumab. Following the Company's submission of the Investigational New Drug (IND) application, Janssen became fully responsible for the development and commercialization of duvortuxizumab. Assuming successful development and

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commercialization, the agreement entitles the Company to receive up to $205.0 million in development milestone payments, $220.0 million in regulatory milestone payments and $150.0 million in sales milestone payments. The Company determined that each potential future clinical and regulatory milestone is substantive. Although the sales milestones are not considered substantive, they will be recognized upon achievement of the milestone (assuming all other revenue recognition criteria have been met) because there are no undelivered elements that would preclude revenue recognition at that time. The Company may elect to fund a portion of late-stage clinical development in exchange for a profit share with Janssen in the U.S. and Canada. If commercialized, the Company would be eligible to receive low double-digit royalties on any global net sales and has the option to co-promote the molecule with Janssen in the United States.

The Company evaluated the MGD011 Agreement and determined that it is a revenue arrangement with multiple deliverables, or performance obligations. The Company's substantive performance obligations under the collaboration and license agreement include the delivery of an exclusive license and research and development services during the preclinical research period (through the filing of the IND application for duvortuxizumab). The Company evaluated the MGD011 Agreement and determined that the license and preclinical research and development activities each represented separate deliverables and were accounted for as separate units of accounting. The Company concluded that the license had standalone value to Janssen and was separable from the research and development services because the license was sublicensable, there were no restrictions as to Janssen's use of the license and Janssen or other third parties have significant research capabilities in this field. Thus, the total arrangement consideration for these two deliverables was allocated using the relative best estimate of selling price method to each deliverable. The best estimate of selling price for the exclusive license was determined using a discounted cash flow model that includes Level 3 fair value measurements. The best estimate of selling price for the research and development services was determined using third party evidence of other similar research and development arrangements, which are Level 2 fair value measurements.

The Company evaluated the stock purchase agreement and the collaboration and license agreement as one arrangement and determined that the stock purchase price of $39.00 per share exceeded the fair value of the common stock by $12.3 million. This excess was recognized in the same manner as the upfront payment allocated to the license and preclinical research and development activities. Of the total arrangement consideration of $125.0 million, the Company allocated $62.7 million to equity (representing the fair value of common stock purchased), $62.3 million to the license and preclinical research and development activities, and a de minimis amount to the ongoing research and development activities. The Company submitted the IND application and therefore met its performance obligation during the year ended December 31, 2015.

There was no revenue recognized under the MGD011 Agreement during either of the three-month periods ended March 31, 2017 or 2016.

In May 2016, the Company entered into a separate collaboration and license agreement with Janssen, a related party through ownership of the Company's common stock, for the development and commercialization of MGD015, a product candidate that incorporates the Company's proprietary DART technology to simultaneously target CD3 and an undisclosed tumor target for the potential treatment of various hematological malignancies and solid tumors (MGD015 Agreement). The transaction closed in June 2016, and the Company received the $75.0 million upfront payment from Janssen in July 2016.

Under the MGD015 Agreement, the Company granted an exclusive license to Janssen to develop and commercialize MGD015. Janssen will complete the IND-enabling activities and will be fully responsible for the future clinical development and commercialization of MGD015. Assuming successful development and commercialization, the agreement entitles the Company to receive up to $100.0 million in development milestone payments, $265.0 million in regulatory milestone payments and $300.0 million in sales milestone payments. The Company determined that each potential future clinical and regulatory milestone is substantive. Although the sales milestones are not considered substantive, they will be recognized upon achievement of the milestone (assuming all other revenue recognition criteria have been met) because there are no undelivered elements that would preclude revenue recognition at that time. The Company may elect to fund a portion of late-stage clinical development in exchange for a profit share with Janssen in the U.S. and Canada. If commercialized, the Company would be eligible to receive low double-digit

royalties on any global net sales and has the option to co-promote the molecule with Janssen in the United States. The Company evaluated the MGD015 Agreement and determined that it is a revenue arrangement with multiple deliverables, or performance obligations. The Company's substantive performance obligations under the MGD015 Agreement include the delivery of an exclusive license and research and development services during the preclinical research period. The Company evaluated the MGD015 Agreement and determined that the license and preclinical research and development activities each represented separate deliverables and were accounted for as two separate units of accounting. The Company concluded that the license had standalone value to Janssen and was separable from the research and development services because the license was sublicensable, there were no restrictions as to Janssen's use of the license and Janssen or other third parties have significant research capabilities in this field. Thus, the total arrangement consideration for these two deliverables

was allocated using the best estimate of relative selling price method to each deliverable. The best estimate of selling price for the exclusive license was determined using information from the previous collaboration and license agreement with Janssen as well as other third party collaboration and license agreements, which are Level 2 fair value measurements. The best estimate of selling price for the research and development services was determined using other similar research and development arrangements, which are also Level 2 fair value measurements.

The company recognized $0.1 million of revenue under the MGD015 Agreement during the three months ended March 31, 2017. No revenue was recognized under the MGD015 Agreement during the three months ended March 31, 2016.

Les Laboratoires Servier

In September 2012, the Company entered into a right-to-develop collaboration agreement with Les Laboratoires Servier and Institut de Recherches Servier (collectively, Servier) and granted it options to obtain three separate exclusive licenses to develop and commercialize DART molecules, consisting of those designated by the Company as flotetuzumab (also known as MGD006 or S80880) and MGD007, as well as a third DART molecule, in all countries other than the United States, Canada, Mexico, Japan, South Korea and India. During 2014, Servier exercised its exclusive option to develop and commercialize flotetuzumab, and during 2016 Servier notified the Company that it did not intend to exercise the option for the third DART molecule. Servier retains the option to obtain a license for MGD007.

Upon execution of the agreement, Servier made a nonrefundable payment of $20.0 million to the Company. In addition, the Company will be eligible to receive up to $40.0 million in license fees, $63.0 million in clinical milestone payments, $188.0 million in regulatory milestone payments and $420.0 million in sales milestone payments if Servier exercises the remaining available options and successfully develops, obtains regulatory approval for, and commercializes a product under each license. In addition to these milestones, the Company and Servier will share Phase 2 and Phase 3 development costs. The Company has determined that each potential future clinical and regulatory milestone is substantive. Although sales milestones are not considered substantive, they are still recognized upon achievement of the milestone (assuming all other revenue recognition criteria have been met) because there are no undelivered elements that would preclude revenue recognition at that time. Under this agreement, Servier would be obligated to pay the Company from low double-digit to mid-teen royalties on net product sales in its territories.

The Company evaluated the research collaboration agreement with Servier and determined that it is a revenue arrangement with multiple deliverables, or performance obligations. The Company concluded that each option is substantive and that the license fees for each option are not deliverables at the inception of the arrangement and were not issued with a substantial discount. The Company's substantive performance obligations under this research collaboration include an exclusivity clause to its technology, technical, scientific and intellectual property support to the research plan and participation on an executive committee and a research and development committee. The Company determined that the performance obligations with respect to the preclinical development represent a single unit of accounting, since the license does not have stand-alone value to Servier without the Company's technical expertise and committee participation. As such, the initial upfront license payment was deferred and initially recognized ratably over a 29-month period, which represented the expected development period. During 2014, the Company and Servier further refined the research plan related to the three DART molecules and as such, the development period was extended. Based on this revised development period, the Company prospectively adjusted its period of recognition of the upfront payment to a 75-month period. The impact of this change in accounting estimate reduced revenue that would have been recognized in 2014 by $3.7 million.

As a result of Servier exercising its option in 2014, the Company received a $15.0 million payment from Servier for its license to develop and commercialize flotetuzumab in its territories. Upon exercise of the option, the Company evaluated its performance obligations with respect to the license for flotetuzumab. The Company's substantive performance obligations under this research collaboration include an exclusive license to its technology, technical, scientific and intellectual property support to the research plan and participation on an executive committee and a research and development committee. The Company determined that the performance obligations with respect to the clinical development represent a single unit of accounting, since the license does not have stand-alone value to Servier without the Company's technical expertise and committee participation. As such, the $15.0 million license fee was

deferred and is being recognized ratably over a period of 82 months, which represents the expected development period for flotetuzumab. In accordance with the agreement, the Company and Servier will share costs incurred to develop flotetuzumab. Reimbursement of research and development expenses received in connection with this collaborative cost-sharing agreement is recorded as a reduction to research and development expense. During the three months ended March 31, 2017 the Company recorded approximately $0.5 million as an offset to research and development costs under this collaboration agreement. No such offset was recorded for the three months ended March 31, 2016.

The Company recognized revenue under this agreement of $0.8 million during each of the three month periods ended March 31, 2017 and 2016. At March 31, 2017, $10.2 million of revenue was deferred under this agreement, $3.3 million of which was current and $6.9 million of which was non-current. At December 31, 2016, $11.1 million of revenue was deferred under this agreement, $3.3 million of which was current and $7.8 million of which was non-current.

Green Cross Corporation

In June 2010, the Company entered into a collaboration agreement with Green Cross Corp. (Green Cross) for the development of the Company's anti-HER2 antibody margetuximab. This arrangement grants Green Cross an exclusive license to conduct specified Phase 1 and Phase 2 clinical trials and commercialize margetuximab in South Korea. In March 2014, the Company and Green Cross entered into an amendment to the original agreement, causing the terms of the original agreement to be materially modified.

Upon execution of the amendment, the Company became eligible to receive reimbursement for costs incurred for Phase 2 and Phase 3 clinical trials up to $5.5 million as well as clinical development and commercial milestone payments of up to $2.5 million. The Company determined that each potential clinical development and commercial milestone is substantive. The Company is also entitled to receive royalties on net sales of margetuximab in South Korea. The Company and Green Cross have formed a joint steering committee to coordinate and oversee activities on which the companies collaborate under the agreement.

The Company evaluated the collaboration agreement with Green Cross and determined that it is a revenue arrangement with multiple deliverables or performance obligations. As a result of the material modification to the arrangement in March 2014, the Company reassessed the entire arrangement in accordance with the guidance provided by ASC 605-25, Multiple Element Arrangements (Revenue Recognition) as the original agreement was accounted for prior to adopting ASU 2009-13. The Company's substantive performance obligations under this agreement include an exclusive license to its technologies, research and development services, and participation in a joint steering committee. The Company concluded that the license and the reimbursements for research and development services do not have value on a standalone basis and therefore do not represent separate units of accounting.

The initial $1.0 million upfront payment received by the Company upon execution of the original agreement is non-refundable; as such, there is no right of return for the license. Therefore, the upfront license fee and participation on the joint steering committee were treated as a combined unit of accounting and will be recognized over the term of the agreement through June 2020. Further, due to the fact the research and development services are not deemed to have stand-alone value, revenue for those services will be recognized over the entire term of the agreement (through June 2020). As a result of reassessing the arrangement in accordance with ASC 605-25, the Company was required to record an adjustment on the date of the material modification to reflect the revenue that would have resulted had the entity applied the requirements of ASC 605-25 from the inception of the agreement. As a result, the Company recorded an additional $1.3 million of revenue during 2014. The Company has received a total of $5.5 million through March 31, 2017 for reimbursement of research and development services, which is also being recognized over the remaining term of the agreement.

The Company recognized revenues of approximately $0.2 million and $0.1 million during the three months ended March 31, 2017 and 2016, respectively, under this agreement.

At March 31, 2017, $3.0 million of revenue was deferred under this agreement, $0.9 million of which was current and $2.1 million of which was non-current. At December 31, 2016, $3.2 million of revenue was deferred under this agreement, $0.9 million of which was current and $2.3 million of which was non-current.

NIAID Contract

The Company entered into a contract with the National Institute of Allergy and Infectious Diseases (NIAID), effective as of September 15, 2015, to perform product development and to advance up to two DART molecules, including MGD014. Under this contract, the Company will develop these product candidates for Phase 1/2 clinical trials as therapeutic agents, in combination with latency reversing treatments, to deplete cells infected with human immunodeficiency virus (HIV) infection. This contract includes a base period of $7.5 million to support development of MGD014 through IND application submission with the FDA, as well as up to $17.0 million in additional

development funding via NIAID options. Should NIAID fully exercise such options, the Company could receive total payments of up to $24.5 million. The total potential period of performance under the award is from September 15, 2015 through September 14, 2022. The Company recognized $0.6 million and $0.9 million in revenue under this contract during the three months ended March 31, 2017 and March 31, 2016, respectively.

6. Stock-Based Compensation

Effective February 2003, the Company implemented the 2003 Equity Incentive Plan (2003 Plan), and it was amended and approved by the Company's stockholders in 2005. The 2003 Plan originally allowed for the grant of awards in respect of an aggregate of 2,051,644 shares of the Company's common stock. Between 2006 and 2012, the maximum number of shares of common stock authorized to be issued by the Company under the 2003 Plan was increased to 4,336,730. Stock options granted under the 2003 Plan may be either incentive stock options as defined by the Internal Revenue Code (IRC), or non-qualified stock options.

In 2013, the 2003 Plan was terminated, and no further awards may be issued under the plan. Any shares of common stock subject to awards under the 2003 Plan that expire, terminate, or are otherwise surrendered, canceled, forfeited or repurchased without having been fully exercised, or resulting in any common stock being issued, will become available for issuance under the Company's 2013 Stock Incentive Plan (2013 Plan), up to a specified number of shares. As of March 31, 2017, under the 2003 Plan, there were options to purchase an aggregate of 1,084,302 shares of common stock outstanding at a weighted average exercise price of $1.89 per share.

Under the provisions of the 2013 Plan, the number of shares of common stock reserved for issuance will automatically increase on January 1 of each year from January 1, 2014 through and including January 1, 2023, by the lesser of (a) 1,960,168 shares, (b) 4.0% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year, or (c) the number of shares of common stock determined by the Board of Directors. During the three months ended March 31, 2017, the maximum number of shares of common stock authorized to be issued by the Company under the 2013 Plan was increased to 6,769,888. As of March 31, 2017, there were options to purchase an aggregate of 3,659,216 shares of common stock outstanding at a weighted average exercise price of $24.90 per share under the 2013 Plan.

The following stock-based compensation amounts were recognized for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2017	2016
Research and development	$1,673	$1,396
General and administrative	1,788	1,605
Total stock-based compensation expense	$3,461	$3,001

Employee Stock Options

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model using the assumptions in the following table for options issued during the period indicated:

	Three Months Ended March 31,	
	2017	2016
Expected dividend yield	0%	0%
Expected volatility	67%	64%
Risk-free interest rate	2.3%	1.5% - 2.1%
Expected term	6.25 years	6.25 years

The following table summarizes stock option and restricted stock unit (RSU) activity during the three months ended March 31, 2017:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, December 31, 2016	3,838,060	$ 18.93	7.0	
Granted	1,031,068	20.43		
Exercised	(109,826)	0.98		
Forfeited or expired	(15,784)	26.97		
Outstanding, March 31, 2017	4,743,518	19.64	7.6	$ 19,885
As of March 31, 2017:				
Exercisable	2,397,928	15.08	6.2	18,531
Vested and expected to vest	4,495,867	19.37	7.5	19,697

The weighted-average grant-date fair value of options granted for the three months ended March 31, 2017 was $12.76. The total intrinsic value of options exercised during the three months ended March 31, 2017 was approximately $2.0 million, and the total cash received for options exercised was approximately $0.1 million. The total fair value of shares vested in the three months ended March 31, 2017 was approximately $3.1 million. As of March 31, 2017, the total unrecognized compensation expense related to non-vested stock options, net of related forfeiture estimates, was approximately $30.9 million, which the Company expects to recognize over a weighted-average period of approximately three years.

7. Net Loss Per Share

Basic loss per common share is determined by dividing loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted loss per share is computed by dividing the loss attributable to common stockholders by the weighted-average number of common stock equivalents outstanding for the period. The treasury stock method is used to determine the dilutive effect of the Company's stock option grants. 4,743,518 and 4,018,724 stock options (common stock equivalents) were excluded from the calculation of diluted loss per share for the three months ended March 31, 2017 and 2016, respectively, because their inclusion would have been anti-dilutive.

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

	Three Months Ended March 31,	
	2017	2016
Numerator:		
Net loss used for calculation of basic and diluted EPS	$(37,655)	$(30,363)
Denominator:		
Weighted average shares outstanding, basic	34,958,228	34,503,845
Effect of dilutive securities:		
Stock options and restricted stock units	—	—
Weighted average shares outstanding, diluted	34,958,228	34,503,845
Net loss per share, basic and diluted	$(1.08)	$(0.88)

8. Subsequent Event

On April 26, 2017, the Company entered into a definitive agreement with an institutional healthcare investor to purchase 1,100,000 shares of its common stock at a purchase price of $21.50 per share in a registered direct offering. Gross proceeds to the Company, before deducting estimated offering expenses, were $23.7 million. The shares were offered pursuant to the company’s shelf registration and the transaction closed on May 2, 2017. These shares are not included in the number of shares outstanding as of April 28, 2017 on the cover page of this Form 10-Q.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations is based upon our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared by us in accordance with GAAP, for interim periods and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. This discussion and analysis should be read in conjunction with these unaudited consolidated financial statements and the notes thereto as well as in conjunction with our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

We are a biopharmaceutical company focused on discovering and developing innovative antibody-based therapeutics for the treatment of cancer as well as various autoimmune disorders and infectious diseases. We currently have a pipeline of product candidates in human clinical testing, primarily against different types of cancers, which have been created using our proprietary technology platforms. We believe our programs have the potential to have a meaningful effect on treating patients' unmet medical needs as monotherapy or, in some cases, in combination with other therapeutic agents.

We commenced active operations in 2000, and have since devoted substantially all of our resources to staffing our company, developing our technology platforms, identifying potential product candidates, undertaking preclinical studies, conducting clinical trials, developing collaborations, business planning and raising capital. We have not generated any revenues from the sale of any products to date. We have financed our operations primarily through the public and private offerings of our securities, collaborations with other biopharmaceutical companies, and government grants and contracts. Although it is difficult to predict our funding requirements, based upon our current operating plan, we anticipate that our cash, cash equivalents and marketable securities as of March 31, 2017, combined with collaboration payments we anticipate receiving, will enable us to fund our operations through late 2018, without giving effect to the net proceeds from the registered direct offering described in Note 8 to the financial statements.

We have incurred significant losses since our inception and we have an accumulated deficit of approximately $330.4 million as of March 31, 2017. Our net losses were $37.7 million for the three months ended March 31, 2017 and $58.5 million for the fiscal year ended December 31, 2016. These losses have resulted principally from costs incurred in connection with research and development activities and general and administrative costs associated with our operations. We expect to continue to incur losses for the foreseeable future, and we expect these losses to increase as we continue our research and development of, and seek regulatory approvals for, our product candidates, prepare for and begin to commercialize any approved products, and add infrastructure and personnel to support our product development efforts and operations. The net losses and negative cash flows incurred to date, together with expected future losses, have had, and likely will continue to have, an adverse effect on our stockholders' deficit and working capital. The amount of future net losses will depend, in part, on the rate of future growth of our expenses and our ability to generate revenue.

Strategic Collaborations

We pursue a balanced approach between product candidates that we develop ourselves and those that we develop with our collaborators. Under our current strategic collaborations to date, we have received significant non-dilutive funding and continue to have rights to additional funding upon completion of certain research, achievement of key product development milestones, or royalties and other payments upon the commercial sale of products. Currently, our most significant strategic collaborations include the following:

- Janssen. In December 2014, we entered into a collaboration and license agreement with Janssen for the development and commercialization of duvortuxizumab, a product candidate that incorporates our proprietary DART technology to simultaneously target CD19 and CD3 for the potential treatment of B-cell hematological malignancies. We contemporaneously entered into an agreement with JJDC, an affiliate of Janssen, under which JJDC agreed to purchase 1,923,077 new shares of our common stock for proceeds of $75.0 million. Upon closing, we received a $50.0 million upfront payment from Janssen as well as the $75.0 million investment in our common stock. Janssen is leading the development of this product candidate, subject to our options to co-promote the product in the United States and Canada and to invest in later-stage development in exchange for a United States and Canada profit-share. Janssen initiated a human clinical trial in 2015 for a variety of B-cell hematological malignancies, including diffuse-large B cell lymphoma, follicular lymphoma, mantle-cell lymphoma, chronic lymphocytic leukemia and acute lymphoblastic leukemia. The initiation of this trial triggered a $10.0 million milestone payment to us. Assuming successful development and commercialization, we could receive up to an additional $565.0 million in clinical, regulatory and commercialization milestone payments. If commercialized, we would be eligible to receive low double-digit royalties on any global net sales.

  In May 2016, we entered into a separate collaboration and license agreement with Janssen for the development and commercialization of MGD015, a product candidate that incorporates our proprietary DART technology to simultaneously target CD3 and an undisclosed tumor target for the potential treatment of various hematological malignancies and solid tumors. The transaction closed in June 2016, and we received the $75.0 million upfront payment from Janssen in July 2016. Under the collaboration and license agreement, we granted an exclusive license to Janssen to develop and commercialize MGD015. Janssen will complete the IND-enabling activities and will be fully responsible for the future clinical development and commercialization of MGD015. Assuming successful development and commercialization, the agreement entitles us to receive up to $665.0 million in development, regulatory and sales milestone payments. If commercialized, we would be eligible to receive low double-digit royalties on any global net sales and have the option to co-promote the molecule with Janssen in the United States.

- Servier. In September 2012, we entered into an agreement with Servier to develop and commercialize three DART molecules in all countries other than the United States, Canada, Mexico, Japan, South Korea and India. We received a $20.0 million upfront option fee. In addition, we became eligible to receive up to approximately $1.0 billion in additional license fees and clinical, development, regulatory and sales milestone payments for each product Servier successfully develops, obtains regulatory approval for, and commercializes. Additionally, assuming exercise of its options, Servier may share Phase 2 and Phase 3 development costs and would be obligated to pay us low double-digit to mid-teen royalties on product sales in its territories.

  In February 2014, Servier exercised its option to develop and commercialize flotetuzumab, for which we received a $15.0 million license option fee. We also received two $5.0 million milestone payments from Servier in 2014 in connection with the IND applications for flotetuzumab and MGD007 clearing the 30-day review period by the U.S. Food and Drug Administration (FDA). As of March 31, 2017, Servier still retains an option to obtain a license for MGD007, but has notified us that they have terminated their rights to license the third DART molecule.

Critical Accounting Policies and Significant Judgments and Estimates

Our critical accounting policies are those policies which require the most significant judgments and estimates in the preparation of our consolidated financial statements. A summary of our critical accounting policies is presented in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes to our critical accounting policies during the three months ended March 31, 2017.

Results of Operations

Revenue

The following represents a comparison of our revenue for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		Increase/(Decrease)	
	2017	2016		
	(dollars in millions)			
Revenue from collaborative agreements	$1.3	$ 1.9	$ (0.6)	(32)%
Revenue from government agreements	0.8	0.9	(0.1)	(11)%
Total revenue	$2.1	$ 2.8	$ (0.7)	(25)%

The decrease in collaboration revenue of $0.6 million for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 is primarily due to a decrease in revenue recognition related to the Takeda MGD010 agreement. Upon the notification that Takeda would not exercise the option to obtain an exclusive worldwide license for MGD010 during the three months ended September 30, 2016, the Company's performance obligation to Takeda ceased, and the remaining deferred revenue under the MGD010 agreement was recognized in full.

Revenue from government agreements decreased by $0.1 million for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 primarily due to less costs incurred under the NIAID cost plus fixed fee contract.

Research and Development Expense

The following represents a comparison of our research and development expense for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		Increase/(Decrease)	
	2017	2016		
	(dollars in millions)			
Margetuximab	$10.7	$7.3	$ 3.4	47 %
Enoblituzumab	4.0	4.3	(0.3)	(7)%
Flotetuzumab	1.1	1.3	(0.2)	(15)%
MGD007	1.2	1.0	0.2	20 %
MGD009	1.1	0.8	0.3	38 %
MGD010	1.6	1.8	(0.2)	(11)%
Duvortuxizumab	0.2	1.4	(1.2)	(86)%
MGA012	2.4	—	2.4	N/A
Preclinical immune checkpoint programs	4.8	5.5	(0.7)	(13)%
Other preclinical and clinical programs, collectively	5.7	3.9	1.8	46 %
Total research and development expense	$32.8	$27.3	$ 5.5	20 %

During the three months ended March 31, 2017 our research and development expense increased by $5.5 million compared to the three months ended March 31, 2016. This increase was primarily due to the initiation of a Phase 1 clinical trial of MGA012 in late 2016, continued enrollment in the margetuximab SOPHIA study and increased activity in our other preclinical and clinical programs. These increases were partially offset by a decrease in duvortuxizumab manufacturing costs, which are reimbursed by our collaborator.

General and Administrative Expense

The following represents a comparison of our general and administrative expense for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		Increase	
	2017	2016		
	(dollars in millions)			
General and administrative expense	$7.5	$ 6.1	$1.4	23%

General and administrative expense increased for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 primarily due to increased professional fees, including consulting expenses, and increased employee compensation and benefit expense to support our overall growth.

Other Income

The increase in other income for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 is due to an increase in interest income earned on investments.

Liquidity and Capital Resources

We have historically financed our operations primarily through public and private offerings of equity, upfront fees, milestone payments and license option fees from collaborators and reimbursement through government grants and contracts. As of March 31, 2017, we had $248.1 million in cash, cash equivalents and marketable securities. In addition to our existing cash, cash equivalents and marketable securities, we are eligible to receive additional reimbursement from our collaborators, including under various government grants or contracts, for certain research and development services rendered, additional milestone payments and opt-in payments. However, our ability to receive these milestone payments is dependent upon our ability to successfully complete specified 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 the clinical trial stage of development, it will be some time before we expect to achieve this and it is uncertain that we ever will. We expect that we will continue to increase our operating expenses in connection with ongoing as well as additional clinical trials and preclinical development of product candidates in our pipeline. We expect to continue our collaboration arrangements and will look for additional collaboration opportunities. We also expect to continue our efforts to pursue additional grants and contracts from the U.S. government in order to further our research and development. Although it is difficult to predict our funding requirements, based upon our current operating plan, we anticipate that our existing cash, cash equivalents and marketable securities as of March 31, 2017, as well as other collaboration payments we anticipate receiving, will enable us to fund our operations through late 2018, without giving effect to the net proceeds from the registered direct offering described in Note 8 to the financial statements.

Cash Flows

The following table represents a summary of our cash flows for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
	(dollars in millions)	
Net cash provided by (used in):		
Operating activities	$(35.3)	$(31.9)
Investing activities	(8.4)	(12.5)

Financing activities	0.1	0.2
Net decrease in cash and cash equivalents	$(43.6)	$(44.2)

Operating Activities

Net cash used in operating activities reflects, among other things, the amounts used to run our clinical trials and preclinical activities. The increase in net cash used in operating activities during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to higher research and development expenses.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2017 is primarily due to investing our cash in marketable securities and making leasehold improvements to our facilities. Net cash used in investing activities during the three months ended March 31, 2016 was primarily due to investing our cash in marketable securities.

Financing Activities

Net cash provided by financing activities for the three month periods ended March 31, 2017 and 2016 reflects cash from stock option exercises.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined under the rules and regulations of the Securities and Exchange Commission.

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. We also seek to maximize income from our investments without assuming significant risk. Our current investment policy is to invest principally in deposits and securities issued by the U.S. government and its agencies, Government Sponsored Enterprise agency debt obligations, corporate debt obligations and money market instruments. As of March 31, 2017, we had cash, cash equivalents and marketable securities of $248.1 million. Our primary exposure to market risk is related to changes in interest rates. Due to the short-term maturities of our cash equivalents and marketable securities and the low risk profile of our marketable securities, an immediate 100 basis point 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 market 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, 2017. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in this Quarterly Report on Form 10-Q has been appropriately recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control

No change in our internal control over financial reporting has occurred during the three months ended March 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition and liquidity, see the risk factors discussion provided under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016. See also, "Forward-Looking Statements" included in this Quarterly Report on Form 10-Q.

Item 6. Exhibits

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
32.2	Section 1350 Certification of 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

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.

MACROGENICS, INC.

BY: /s/ Scott Koenig
Scott Koenig, M.D., Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

BY: /s/ James Karrels
James Karrels
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated: May 3, 2017

EXHIBIT INDEX
Exhibit Page Number

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
32.2	Section 1350 Certification of 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