



Edgar Filing: MACROGENICS INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer (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

As of October 30, 2015, the number of outstanding shares of the registrant's common stock, par value \$0.01 per share, was 34,312,353 shares.

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## FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements, including, without limitation, our examination of historical operating trends, within the meaning of federal securities laws. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. 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 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, 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 clinical product candidates and the progress of our product development efforts;

- our intended use of our platforms and our technology expertise;

- our ongoing and planned clinical trials, including the timing of initiation of and enrollment in the trials, the timing of availability of data from the trials and the anticipated results of the trials;

- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;

- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;

- our ability to enter into new collaborations or to identify additional products or product candidates with significant commercial potential that are consistent with our commercial objectives;

- the rate and degree of market acceptance and clinical utility of our products;

- our commercialization and marketing capabilities and strategy;

- the build-out, qualification and operation of our manufacturing facilities, including the scale and production of clinical trial and potentially commercial materials;

- 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 intellectual property position;

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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.

The factors, risks and uncertainties referred to above and others are more fully described under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as updated from time to time in our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. The forward-looking statements contained herein represent our judgment as of the date of this report. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events.

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

MACROGENICS, INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share data)

|  | September<br>30, 2015 | December<br>31, 2014 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| Assets   |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 365,767            | \$ 157,591           |
| Accounts receivable  | 2,744                 | 2,935                |
| Prepaid expenses   | 1,984                 | 4,211                |
| Total current assets   | 370,495               | 164,737              |
| Restricted cash  | —                     | 300                  |
| Property and equipment, net  | 11,530                | 6,785                |
| Other assets   | 2,064                 | 2,064                |
| Total assets   | \$ 384,089            | \$ 173,886           |
| Liabilities and stockholders' equity   |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable   | \$ 2,541              | \$ 1,669             |
| Accrued expenses   | 9,120                 | 7,930                |
| Lease exit liability   | 1,958                 | 1,642                |
| Deferred revenue   | 7,163                 | 14,248               |
| Other liabilities  | 1,605                 | 1,605                |
| Total current liabilities  | 22,387                | 27,094               |
| Lease exit liability, net of current portion   | 3,215                 | 6,364                |
| Deferred rent liability  | 7,272                 | 2,670                |
| Deferred revenue, net of current portion   | 11,889                | 16,472               |
| Total liabilities  | 44,763                | 52,600               |
| Stockholders' equity:  |                       |                      |
| Common stock, \$0.01 par value – 125,000,000 shares authorized, 34,248,240 and 27,995,638 shares outstanding at September 30, 2015 and December 31, 2014, respectively | 342                   | 280                  |
| Treasury stock, at cost; no shares at September 30, 2015 and 865 shares at December 31, 2014   | —                     | (19 )                |
| Additional paid-in capital   | 544,719               | 335,071              |
| Accumulated deficit  | (205,735 )            | (214,046)            |
| Total stockholders' equity   | 339,326               | 121,286              |
| Total liabilities and stockholders' equity   | \$ 384,089            | \$ 173,886           |

See accompanying notes.

## MACROGENICS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands, except share and per share data)

|  | Three Months Ended |            | Nine Months Ended |             |
|--|--------------------|------------|-------------------|-------------|
|  | September 30,      |            | September 30,     |             |
|  | 2015               | 2014       | 2015              | 2014        |
| Revenues:  |                    |            |                   |             |
| Revenue from collaborative research                | \$14,681           | \$18,283   | \$91,444          | \$41,886    |
| Grant revenue                                      | —                  | 99         | 1,232             | 435         |
| Total revenues                                     | 14,681             | 18,382     | 92,676            | 42,321      |
| Costs and expenses:                                |                    |            |                   |             |
| Research and development                           | 24,103             | 18,632     | 68,227            | 50,536      |
| General and administrative                         | 6,021              | 3,678      | 16,050            | 11,081      |
| Total costs and expenses                           | 30,124             | 22,310     | 84,277            | 61,617      |
| Income (loss) from operations                      | (15,443 )          | (3,928 )   | 8,399             | (19,296 )   |
| Other income (expense)                             | 1                  | —          | (88 )             | 1           |
| Net comprehensive income (loss)                    | \$(15,442 )        | \$(3,928 ) | \$8,311           | \$(19,295 ) |
| Basic net income (loss) per common share           | \$(0.46 )          | \$(0.14 )  | \$0.27            | \$(0.71 )   |
| Diluted net income (loss) per common share         | \$(0.46 )          | \$(0.14 )  | \$0.25            | \$(0.71 )   |
| Basic weighted average common shares outstanding   | 33,339,163         | 27,751,437 | 30,952,458        | 27,227,151  |
| Diluted weighted average common shares outstanding | 33,339,163         | 27,751,437 | 32,960,233        | 27,227,151  |

See accompanying notes.

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

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2015                               | 2014        |
| Cash flows from operating activities   |                                    |             |
| Net income (loss)  | \$8,311                            | \$(19,295 ) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                    |             |
| Depreciation expense   | 1,671                              | 1,317       |
| Share-based compensation   | 5,631                              | 2,249       |
| Changes in operating assets and liabilities:   |                                    |             |
| Accounts receivable  | 191                                | (3,311 )    |
| Prepaid expenses   | 2,227                              | (1,481 )    |
| Restricted cash  | 300                                | 105         |
| Other assets   | —                                  | 152         |
| Accounts payable   | 872                                | 1,219       |
| Accrued expenses   | 1,190                              | 447         |
| Lease exit liability   | (2,833 )                           | (1,067 )    |
| Deferred revenue   | (11,668 )                          | 7,266       |
| Deferred rent  | 4,602                              | (196 )      |
| Net cash provided by (used in) operating activities  | 10,494                             | (12,595 )   |
| Cash flows from investing activities   |                                    |             |
| Purchases of property and equipment  | (6,417 )                           | (1,914 )    |
| Net cash used in investing activities  | (6,417 )                           | (1,914 )    |
| Cash flows from financing activities   |                                    |             |
| Proceeds from issuance of common stock, net of offering costs                                      | 203,467                            | 76,733      |
| Proceeds from stock option exercises   | 632                                | 486         |
| Net cash provided by financing activities  | 204,099                            | 77,219      |
| Net change in cash and cash equivalents  | 208,176                            | 62,710      |
| Cash and cash equivalents at beginning of period   | 157,591                            | 116,481     |
| Cash and cash equivalents at end of period   | \$365,767                          | \$179,191   |

See accompanying notes.

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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 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 3, 2015.

There have been no material changes to the significant accounting policies previously disclosed in the Company's 2014 Annual Report on Form 10-K.

### Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers (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 was originally effective for annual reporting periods beginning after December 15, 2016. On July 9, 2015, the FASB voted for a one-year deferral of the effective date of the standard to annual reporting periods beginning after December 15, 2017, with an option that would permit companies to adopt the standard as early as the original effective date for annual reporting periods after December 15, 2016. Early adoption prior to the original effective date is not permitted. The new standard may be adopted either retrospectively or on a modified retrospective basis whereby the new standard 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 addition, the FASB is contemplating making additional changes to certain elements of the new standard. Management is currently assessing the impact the adoption of ASU 2014-09, as amended, will have on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (ASU 2015-05). ASU 2015-05 clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. The Company has not elected early adoption and management has determined that the provisions of ASU 2015-05 will not have a material impact on its consolidated financial statements.

## 2. Fair Value of Financial Instruments

The fair market values of the financial instruments included in the financial statements, which include cash equivalents and money market accounts, approximate their carrying values at September 30, 2015 due to their short-term maturities. The Company accounts for recurring and non-recurring fair value measurements in accordance with FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a fair value hierarchy for assets and liabilities measured at fair value, and requires expanded 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 and liabilities subject to fair value measurements were as follows (in thousands):

|                           | Fair Value Measurements at September 30, 2015 |   |   |  |      |
|---------------------------|---|---|---|--|------|
|                           | Total   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |      |
| Assets:                   |   |   |   |  |      |
| Cash and cash equivalents | \$ 114,721                                    | \$ 114,721  | \$ —  | \$ —   | \$ — |
| Money market funds        | 251,046                                       | 251,046   | —   | —  | —    |
| Total Assets              | \$ 365,767                                    | \$ 365,767  | \$ —  | \$ —   | \$ — |

| Fair Value Measurements at December 31, 2014 |  |  |                                       |
|--|--|--|---------------------------------------|
|  | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs |

|                           | Total      | Assets     |         |         |
|---------------------------|------------|------------|---------|---------|
|                           |            | Level 1    | Level 2 | Level 3 |
| Assets:                   |            |            |         |         |
| Cash and cash equivalents | \$ 131,545 | \$ 131,545 | \$ —    | \$ —    |
| Money market funds        | 26,046     | 26,046     | —       | —       |
| Restricted cash           | 300        | 300        | —       | —       |
| Total Assets              | \$ 157,891 | \$ 157,891 | \$ —    | \$ —    |

### 3. Lease Exit Liability

On July 16, 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. Raven was considered a development-stage enterprise as defined in ASC 915, Development Stage Entities.

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. The terms of the operating lease extend into 2018.

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

|                                       |         |
|---------------------------------------|---------|
| Accrual balance at December 31, 2014  | \$8,006 |
| Principal payments                    | (2,833) |
| Accrual balance at September 30, 2015 | \$5,173 |

The purchase agreement provides for a specified total of certain contingent milestones that are based on the achievement of certain product sales derived from the acquired Raven technology. Also, a onetime payment of \$5.0 million will be made to the Raven stockholders upon the initiation of patient dosing in the first Phase 2 clinical trial of any product derived from the Raven "Cancer Stem Cell Program." No payment shall be made if the Phase 2 trial start date has not occurred on or before July 15, 2018. Other consideration includes a percentage of revenue (excluding consideration for research and development and equity) received by MacroGenics for license of a product derived from the Raven "Cancer Stem Cell Program" and a onetime payment ranging from \$8.0 million to \$12.0 million dependent upon a specified level of sales of products derived from the Raven "Cancer Stem Cell Program."

Any contingent consideration would be accounted for as additional purchase price and recorded as incremental in-process research and development expense when and if it is deemed probable that the contingencies will be attained. No such payments were made during the three and nine months ended September 30, 2015 and 2014.

### 4. 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), a product candidate that incorporates the Company's proprietary Dual-Affinity Re-Targeting (DART®) technology to simultaneously target CD19 and CD3 for the potential treatment of B-cell malignancies. The Company contemporaneously entered into a stock purchase agreement and investor agreement, each with Johnson & Johnson Innovation – JJDC, Inc. (JJDC). JJDC agreed to purchase 1,923,077 new shares of the Company's common stock at a price of \$39.00 per share, representing proceeds of \$75.0 million. The effectiveness of these agreements was subject to the early termination or expiration of any applicable waiting periods under Hart-Scott-Rodino Antitrust Improvements Act of 1976. The waiting period expired in January 2015, at which time the Company received a \$50.0 million upfront payment from Janssen and JJDC purchased \$75.0 million of the Company's common stock.

Under the collaboration and license agreement, the Company granted an exclusive license to Janssen to develop and commercialize MGD011. Following the Company's submission of the Investigational New Drug (IND) application, Janssen became fully responsible for the development and commercialization of MGD011. Assuming successful development and commercialization, the Company could receive up to \$205.0 million in clinical milestone payments, \$220.0 million in regulatory milestone payments and \$150.0 million in commercialization milestone payments. The Company determined that each potential future clinical, development, 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 in the U.S. and Canada. If commercialized, the Company would be eligible to receive 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 collaboration and license agreement with Janssen 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 pre-clinical research period (through the filing of the IND for MGD011). The Company evaluated the collaboration and license agreement with Janssen and determined that the license and pre-clinical research and development activities represented one unit of accounting, and thus the total arrangement consideration was allocated using the relative selling price method to the deliverables. After identifying the deliverables included within the arrangement, the Company determined its best estimate of selling price for each of the deliverables. 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. 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 pre-clinical research and development activities, and a de minimis amount to the ongoing research and development activities. The Company submitted the IND and therefore met its performance obligation during the nine months ended September 30, 2015.

In July 2015, Janssen dosed the first patient in an open-label Phase 1 study of MGD011 which triggered a \$10.0 million milestone to the Company. During the three and nine months ended September 30, 2015, the Company recognized revenues of approximately \$10.0 million and \$72.3 million, respectively, under the agreement.

#### Takeda Pharmaceutical Company Limited

In May 2014, the Company entered into a license and option agreement with Takeda Pharmaceutical Company Limited (Takeda) for the development and commercialization of MGD010, a product candidate that incorporates the Company's proprietary DART technology to simultaneously engage CD32B and CD79B, which are two B-cell surface proteins. MGD010 is being developed for the treatment of autoimmune disorders. Upon execution of the agreement, Takeda made a non-refundable payment of \$15.0 million to the Company. Takeda has an option to obtain an exclusive worldwide license for MGD010 following the completion of a pre-defined Phase 1a study. The Company will lead all product development activities until that time. If Takeda exercises its option, it will assume responsibility for future development and pay the Company a license fee of \$15.0 million. Assuming successful development and commercialization of MGD010, the Company is eligible to receive up to \$93.0 million in clinical and regulatory milestone payments and \$375.5 million in sales milestone payments. If commercialized, the Company would receive double-digit royalties on any global net sales and has the option to co-promote MGD010 with Takeda in the United States. Finally, the Company may elect to fund a portion of Phase 3 clinical development in exchange for a North American profit share.

The Company evaluated the license and option agreement with Takeda and determined that it is a revenue arrangement with multiple deliverables, or performance obligations. The Company's substantive performance obligations under the license and option agreement include exclusivity, research and development services through the Phase 1a study and delivery of a future license for an initial research compound. The Company concluded that the MGD010 option is substantive and that the license fee payable upon exercise of the option is not a deliverable at the inception of the arrangement as there is considerable uncertainty that the option would be exercised. The Company has determined that each potential future development 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. The Company determined that these performance obligations represent a single unit of accounting, because the exclusivity clause does not have stand-alone value to Takeda without the Company's technical expertise and development through the pre-defined Phase 1a study.

After identifying the deliverables included within the arrangement, the Company determined its best estimate of selling price. The Company allocated \$10.0 million to the exclusivity clause to its technology and the research and development services and \$5.0 million to the exclusive license for the initial research compound. The Company's determination of best estimate of selling price for the research and development services relied upon other similar transactions. The Company relied upon the income approach (e.g., future cash flows) to determine the value of the license of the to-be-delivered compound along with other similar license transactions with differing indications but similar stage of development. The portion of the up-front fee allocated to the MGD010 option is being recognized over an initial 24-month period, which represents the expected period of development through the completion of a pre-defined Phase 1a study. The portion of the up-front fee allocated to the license for the initial research compound was deferred until the research collaboration and license option agreement was executed and the license delivered.

The Company recognized revenue of approximately \$1.3 million during each of the three months ended September 30, 2015 and 2014 under the MGD010 agreement. The Company recognized revenue of approximately \$6.8 million and \$1.7 million under the MGD010 agreement during the nine months ended September 30, 2015 and 2014, respectively, including a \$3.0 million milestone payment received upon initiation of a Phase 1a trial of MGD010 during the nine months ended September 30, 2015. At September 30, 2015, \$3.3 million of revenue was deferred under this agreement, all of which was current. At December 31, 2014, \$7.1 million of revenue was deferred under this agreement, \$5.0 million of which was current and \$2.1 million of which was non-current.

In September 2014, the Company and Takeda executed a research collaboration and license option agreement, which formalized the license for the initial research compound contemplated in the May 2014 arrangement. Under the terms of the agreement, Takeda may identify up to three additional compounds, which will be subject to separate research and development plans. The Company determined that it could recognize the entire license fee as (1) the executed contract constituted persuasive evidence of an arrangement, (2) the delivery of the license occurred and the Company had no current or future performance obligations, (3) the total consideration for the license was fixed and known at the time of its execution and there were not any extended payment terms or rights of return, and (4) the cash was received. The Company is also entitled to receive reimbursement for research and development services provided to Takeda with respect to the initial research compound under a separate research plan. During the three and nine months ended September 30, 2015, the Company recognized \$0.5 million and \$1.1 million, respectively, in revenue related to the reimbursement of these research and development services.

#### Les Laboratoires Servier

In November 2011, the Company entered into a right-to-develop collaboration agreement with Les Laboratoires Servier and Institut de Recherches Servier (collectively, Servier) for the development and commercialization of enoblituzumab (MGA271) in all countries other than the United States, Canada, Mexico, Japan, South Korea and India.

Upon execution of the agreement, Servier made a non-refundable payment of \$20.0 million to the Company. The Company is eligible to receive up to \$30.0 million in license fees, \$47.0 million in clinical milestone payments, \$140.0 million in regulatory milestone payments and \$208.0 million in sales milestone payments if Servier exercises the option, obtains regulatory approval for and successfully commercializes enoblituzumab. The Company concluded that the license fees are not deliverables at the inception of the arrangement. The Company has determined that each potential future clinical, development 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. In the event Servier exercises its option to continue development of enoblituzumab, Servier must pay a license fee. Under this agreement, Servier would be obligated to pay the Company from low double digit to mid-teen royalties on 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 the option is substantive and that the license fee for this option is not a deliverable at the inception of the arrangement as there is considerable uncertainty that the option would be exercised and the additional fee to be paid upon exercise of the option represents its estimated selling price (i.e., no substantial discount was given). 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 these performance obligations 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 payment was deferred and was being recognized ratably over the initial 27-month period, which represented the expected period of development and the Company's participation on the research and development committee. During 2014, the Company determined that the development period will last longer than originally estimated, and prospectively adjusted its period of recognition of the upfront payment to a 42-month period.

During the three months ended September 30, 2015 and 2014, the Company recognized revenue of \$14,000 and \$0.2 million, respectively, under this agreement. During the nine months ended September 30, 2015 and 2014, the Company recognized revenue of \$0.1 million and \$0.6 million, respectively, under this agreement. At December 31, 2014, \$0.1 million of revenue remained deferred under this agreement, all of which was current. There was no remaining deferred revenue under this agreement at September 30, 2015.

In September 2012, the Company entered into a second right-to-develop collaboration agreement with Servier and granted it options to obtain three separate exclusive licenses to develop and commercialize DART-based molecules, consisting of those designated by the Company as MGD006 (also known as 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.

Upon execution of the agreement, Servier made a non-refundable payment of \$20.0 million to the Company. In addition, the Company will be eligible to receive up to \$65.0 million in license fees, \$98.0 million in clinical milestone payments, including \$5.0 million upon IND acceptance for each of MGD006, MGD007 and a third DART molecule, \$300.0 million in regulatory milestone payments and \$630.0 million in sales milestone payments if Servier exercises all of the 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, development 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 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 pre-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 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.

During the nine months ended September 30, 2014, Servier exercised its exclusive option to develop and commercialize MGD006. As a result of the exercise, the Company received a \$15.0 million payment from Servier for its license to develop and commercialize MGD006 in its territories. Upon exercise of the option, the Company evaluated its performance obligations with respect to the license for MGD006. 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 MGD006. In accordance with the agreement, the Company and Servier will share costs incurred to develop MGD006. 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 nine months ended September 30, 2015, the Company recorded approximately \$0.5 million as an offset to research and development costs under this collaboration arrangement. No such offset to research and development costs was recorded during the three months ended September 30, 2015, nor the three and nine months ended September 30, 2014.

The Company recognized revenue of \$0.8 million and \$5.8 million during the three months ended September 30, 2015 and 2014, respectively, under this agreement. The Company recognized revenue of \$2.6 million and \$15.9 million during the nine months ended September 30, 2015 and 2014, respectively, under this agreement. Revenue during the three months ended September 30, 2014 includes \$5.0 million from Servier upon the achievement of a clinical milestone related to the IND application for MGD007 clearing the 30-day review period by the U.S. Food and Drug Administration (FDA). Revenue during the nine months ended September 30, 2014 includes \$10.0 million in milestone payments related to the IND applications for MGD006 and MGD007 clearing their respective 30-day review periods by the FDA. No milestones were recognized under this agreement during the three and nine months ended September 30, 2015.

At September 30, 2015, \$15.2 million of revenue was deferred under this agreement, \$3.3 million of which was current and \$11.9 million of which was non-current. At December 31, 2014, \$17.7 million of revenue was deferred under this agreement, \$3.3 million of which was current and \$14.4 million of which was non-current.

#### Boehringer Ingelheim International GmbH

In October 2010, the Company entered into a collaboration and license agreement with Boehringer Ingelheim International GmbH (Boehringer) to discover, develop and commercialize up to ten DART molecules which span multiple therapeutic areas. Under the terms of the agreement, the Company granted Boehringer an exclusive,

worldwide, royalty-bearing license under its intellectual property to research, develop, and market DARTs generated under the agreement throughout the world.

Upon execution of the agreement, the Company received an upfront payment of \$15.0 million. The Company subsequently received three annual maintenance payments. These maintenance payments are being recognized over the estimated period of development. The Company has the potential to earn milestone payments of approximately \$41.0 million related to pre-clinical and clinical development, \$89.0 million related to regulatory milestones and \$83.0 million related to sales milestones for each of the DART programs under this agreement in the case of full commercial success of multiple DART products. The Company has determined that each potential future clinical, development 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. Boehringer also provides funding for the Company's internal and external research costs and is required to pay the Company mid-single digit royalties on product sales.

The Company determined that the deliverables under the Boehringer agreement include the license, the research and development services to be performed by the Company, and the co-promotion/manufacturing services. The Company concluded that the co-promotional activities were optional and were subject to further negotiation upon reaching regulatory approval. As such, the co-promotional period is not included in the expected obligation period to perform services.

The Company concluded that the undelivered element of research and development services had fair value. The Company concluded that the license does not have value on a standalone basis (e.g., absent the provision of the research and development services) and therefore does not represent a separate unit of accounting. The Company concluded that because the drug candidate has not yet been developed, the license is of no value to Boehringer without the ensuing research and development activities using the DART technology, which is proprietary to the Company. Likewise, Boehringer could not sell the license to another party (without the Company agreeing to provide the research and development activities for the other party). Therefore, the upfront license fee and research and development services were treated as a combined unit of accounting and recognized over the expected obligation period associated with the research and development services through October 2015, which represents the estimated period of development.

The Company and Boehringer have also agreed to establish a joint research committee to facilitate the governance and oversight of the parties' activities under the agreements. Management considered whether participation on the joint committee may be a deliverable and determined that it was not a deliverable. However, had management considered participation on the joint committee as a deliverable, it would not have had a material impact on the accounting for the arrangement as the period of participation in this committee matched the obligation period for the research and development services.

The Company recognized revenues of approximately \$1.8 million and \$4.9 million during the three months ended September 30, 2015 and 2014, respectively. The Company recognized revenues of approximately \$7.0 million and \$11.0 million during the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, \$0.3 million of revenue was deferred under this agreement, all of which was current. At December 31, 2014, \$5.8 million of revenue was deferred under this agreement, all of which was 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 reimbursement for research and development services do not have value on a standalone basis and therefore do not represent a separate unit 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 the nine months ended September 30, 2014.

The Company recognized revenues of approximately \$0.2 million and \$0.1 million under this agreement during the three months ended September 30, 2015 and 2014, respectively. The Company recognized revenues of approximately \$0.4 million and \$1.6 million under this agreement during the nine months ended September 30, 2015 and 2014, respectively.

At September 30, 2015 and December 31, 2014, there was \$0.9 million and \$0.5 million in unbilled receivables under this agreement, which is included in other assets on the consolidated balance sheet.

#### 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 no revenue under this contract during the period ended September 30, 2015.

The development of a DART molecule targeting HIV will be funded in part with Federal funds from the National Institute of Allergy and Infectious Diseases, National Institutes of Health, Department of Health and Human Services under Contract No. HHSN272201500032C. The Company has evaluated this contract and determined that its filing is not required.

## 5. Stock-Based Compensation

The Company's 2000 Stock Option and Incentive Plan (2000 Plan) allowed for the grant of awards in respect of an aggregate of 150,297 shares of the Company's common stock in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units and other performance awards. The 2000 Plan has expired, and no further awards may be issued under the plan. Any shares of common stock subject to awards under the 2000 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 2013 Stock Incentive Plan (2013 Plan) up to a specified number of shares.

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 allowed for the grant of awards in respect of an aggregate of 4,336,731 shares of the Company's common stock. 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 October 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 2013 Plan, up to a specified number of shares.

In October 2013, the Company implemented the 2013 Plan. The 2013 Plan provides for the grant of stock options and other stock-based awards, as well as cash-based performance awards. The aggregate number of shares of common stock initially available for issuance pursuant to awards under the 2013 Plan was 1,960,168 shares. 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. If an option expires or terminates for any reason without having been fully exercised, if any shares of restricted stock are forfeited, or if any award terminates, expires or is settled without all or a portion of the shares of common stock covered by the award being issued, such shares are available for the grant of additional awards. However, any shares that are withheld (or delivered) to pay withholding taxes or to pay the exercise price of an option are not available for the grant of additional awards.

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

|  | Three Months Ended |       | Nine Months Ended |         |
|--|--------------------|-------|-------------------|---------|
|  | September 30,      |       | September 30,     |         |
|  | 2015               | 2014  | 2015              | 2014    |
| Research and development               | \$916              | \$380 | \$2,607           | \$1,062 |
| General and administrative             | 1,182              | 476   | 3,024             | 1,187   |
| Total stock-based compensation expense | \$2,098            | \$856 | \$5,631           | \$2,249 |

## 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:

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|                         | Nine Months Ended |             |
|-------------------------|-------------------|-------------|
|                         | September 30,     |             |
|                         | 2015              | 2014        |
| Expected dividend yield | 0%                | 0%          |
| Expected volatility     | 74 % - 75 %       | 67 %        |
| Risk-free interest rate | 1.6% - 2.1%       | 2.0% - 2.3% |
| Expected term           | 6.25 years        | 6.25 years  |

The following table summarizes stock option activity under the Plan during the nine months ended September 30, 2015:

|                                 | Shares     | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (in thousands) |
|---------------------------------|------------|---------------------------------|---|--|
| Outstanding, December 31, 2014  | 3,572,116  | \$ 11.40                        | 7.3   |  |
| Granted                         | 199,438    | 32.98                           |   |  |
| Exercised                       | (276,700 ) | 2.40                            |   |  |
| Forfeited or expired            | (31,874 )  | 22.25                           |   |  |
| Outstanding, September 30, 2015 | 3,462,980  | 13.26                           | 6.9   | \$ 37,397                                |
| As of September 30, 2015:       |            |                                 |   |  |
| Exercisable                     | 1,898,382  | 6.58                            | 5.6   | 29,810                                   |
| Vested and expected to vest     | 3,261,836  | 12.89                           | 6.9   | 36,179                                   |

The weighted-average grant-date fair value of options granted for the nine months ended September 30, 2015 was \$21.95. The total intrinsic value of options exercised during the nine months ended September 30, 2015 was approximately \$8.6 million, and the total cash received for options exercised was approximately \$0.6 million. The total fair value of shares vested in the nine months ended September 30, 2015 was approximately \$4.9 million. As of September 30, 2015, the total unrecognized compensation expense related to non-vested stock options, net of related forfeiture estimates, was approximately \$17.8 million, which the Company expects to recognize over a weighted-average period of approximately three years.

## 6. Commitments and Contingencies

### Operating Leases

The Company leases office and laboratory space for its headquarters in Rockville, Maryland under a lease that expires on January 31, 2020. In addition, in 2014, the Company leased additional office space adjacent to its headquarters under a lease that expires on March 31, 2020. The Company has an option under each lease to continue the respective lease for five years under the same terms. The Company leases a manufacturing facility in Rockville under a lease that expires on December 31, 2019. The Company also entered into a new four-year lease for additional space in the manufacturing facility effective April 1, 2014. This lease also has an option to continue the lease for five years under the same terms.

In July 2015, the Company executed a seven-year lease for additional space that the Company intends to use as mixed-use office, laboratory and manufacturing space. Under the terms of the lease, the Company received an assignment fee from the former tenant and a tenant improvement allowance from the landlord totaling \$5.1 million, which has been recorded as deferred rent and will be recognized over the lease term.

The Company also leases office and laboratory space in South San Francisco under a lease that expires on February 28, 2018.

All of the leases contain rent escalation clauses and certain leases contain rent abatements. For financial reporting purposes, rent expense is charged to operations on a straight-line basis over the term of the lease.

Future minimum lease payments under noncancelable operating leases as of September 30, 2015 are as follows (in thousands):

|                              |          |
|------------------------------|----------|
| Fourth quarter 2015          | \$1,055  |
| Year Ended December 31, 2016 | 6,130    |
| Year Ended December 31, 2017 | 6,314    |
| Year Ended December 31, 2018 | 4,211    |
| Year Ended December 31, 2019 | 3,803    |
| Thereafter                   | 7,298    |
|                              | \$28,811 |

## 7. Net Income (Loss) Per Share

Basic income (loss) per common share is determined by dividing income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted income (loss) per share is computed by dividing the income (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. 1,916,156 and 2,264,749 stock options (common stock equivalents) were excluded from the calculation of diluted loss per share for the three months ended September 30, 2015 and 2014, respectively, because their inclusion would have been anti-dilutive. 911,304 and 2,274,734 stock options were excluded from the calculation of diluted loss per share for the nine months ended September 30, 2015 and 2014, respectively, because their inclusion would have been anti-dilutive.

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

|   | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|-------------|------------------------------------|--------------|
|   | 2015                                | 2014        | 2015                               | 2014         |
| Numerator:  |                                     |             |                                    |              |
| Net income (loss) used for calculation of basic and diluted EPS | \$ (15,442 )                        | \$ (3,928 ) | \$8,311                            | \$ (19,295 ) |
| Denominator:  |                                     |             |                                    |              |
| Weighted average shares outstanding, basic                      | 33,339,163                          | 27,751,437  | 30,952,458                         | 27,227,151   |
| Effect of dilutive securities:                                  |                                     |             |                                    |              |
| Stock options and restricted stock units                        | -                                   | -           | 2,007,775                          | -            |
| Weighted average shares outstanding, diluted                    | 33,339,163                          | 27,751,437  | 32,960,233                         | 27,227,151   |
| Net income (loss) per share, basic                              | \$ (0.46 )                          | \$ (0.14 )  | \$0.27                             | \$ (0.71 )   |
| Net income (loss) per share, diluted                            | \$ (0.46 )                          | \$ (0.14 )  | \$0.25                             | \$ (0.71 )   |

## 8. Subsequent Event

Under the terms of the Servier enoblituzumab agreement described in Note 4 to the financial statements, Servier obtained an option to develop and commercialize enoblituzumab in Europe and other countries. In October 2015, Servier notified the Company that they would not exercise this option, and therefore MacroGenics has now regained worldwide development and commercialization rights to enoblituzumab.

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 accounting principles generally accepted in the United States of America, (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, 2014 and our subsequent Quarterly and Current Reports on Forms 10-Q and 8-K.

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. These include two product candidates developed using our proprietary "Fc Optimization" platform, namely margetuximab, an antibody that we are developing for treatment of certain types of metastatic breast cancers and gastroesophageal cancers, and enoblituzumab (formerly known as MGA271), an antibody that we believe has the potential for broad impact across a variety of different tumor types through multiple potential mechanisms of action. In addition, we created a number of product candidates based on our proprietary Dual-Affinity Re-Targeting, or DART<sup>®</sup>, platform and five of these are currently in human clinical development. For example, during the third quarter of 2015, we initiated a Phase 1 clinical study of MGD009 in patients with various solid tumors. Also during the quarter, Janssen Biotech, Inc. (Janssen) dosed the first patient in an open-label Phase 1 clinical study of MGD011, a DART molecule being developed for treatment of various hematological malignancies. We specifically designed these DART product candidates with the goal of harnessing the power of the immune system to destroy cancerous cells. In contrast, the flexibility of the DART platform has also allowed us to create MGD010, a clinical-stage DART molecule designed to moderate the hyperactivity of the immune system seen in various autoimmune disorders.

We develop new therapeutic product candidates ourselves using our antibody-based technology platforms and also in partnership with other biopharmaceutical companies, when such a partnership is advantageous for strategic or financial reasons. These collaborations have allowed us to expand and accelerate the breadth of product candidates that can be developed and also have generated a significant portion of the funding we have received to date.

Key ongoing programs include:

- Margetuximab is an antibody that targets HER2-expressing tumors, including certain types of breast and gastroesophageal cancers. HER2, or human epidermal growth factor receptor 2, is critical for the growth of many types of tumors. In July 2015, we enrolled the first patient in SOPHIA, a Phase 3 potential registration clinical trial with margetuximab in patients with metastatic breast cancer expressing HER2 who have failed therapy with other HER2 therapeutic agents. We also plan to commence a Phase 1b/2 study combining margetuximab with pembrolizumab in patients with advanced gastric cancer. We are also currently enrolling a Phase 2a clinical trial in patients with lower levels of expressed HER2.

Enoblituzumab (MGA271) is an antibody that targets B7-H3, a member of the B7 family of molecules that are involved in immune regulation and that is over-expressed on a wide variety of solid tumor types. We continue to enroll patients in additional expansion cohorts of a Phase 1 monotherapy study as well as clinical studies combining enoblituzumab with either ipilimumab or pembrolizumab.

MGD006 (also known as S80880) is a DART molecule that recognizes both CD123 and CD3. CD123, the Interleukin-3 receptor alpha chain, is expressed on leukemia and leukemic stem cells, but only at very low levels or not at all on normal hematopoietic stem cells. T cells, which express CD3, can destroy tumor cells. In pre-clinical studies, we have demonstrated the ability of MGD006 to recruit, activate, and expand T cell populations to eliminate leukemia cells. We are currently enrolling patients in the dose escalation portion of a Phase 1 clinical trial of MGD006.

MGD007 is a DART molecule that recognizes both the glycoprotein A33, or gpA33, and CD3. MGD007 has been engineered for extended pharmacokinetic properties and convenient intermittent dosing. gpA33 is expressed on gastrointestinal tumors, including more than 95% of human colon cancers. We have demonstrated that this molecule is able to mediate T cell killing of gpA33-expressing cancer cells and cancer stem-like cells in pre-clinical experiments. We are currently enrolling patients in the dose escalation portion of a Phase 1 clinical trial of MGD007. MGD010 is a DART molecule designed to address limitations of existing B cell-targeted therapies by binding to the CD32B and CD79B proteins found on human B cells. In pre-clinical studies, this DART molecule modulates the function of human B cells without B cell depletion. In normal conditions, B cells utilize CD32B as one of the key checkpoints or negative regulators to ensure that tolerance to self is maintained and autoimmune disease does not occur. MGD010 is designed to further exploit this mechanism by triggering this inhibitory "immune checkpoint" loop. We believe this molecule preferentially blocks those B cells that are activated, including those that produce the pathogenic antibodies that promote the autoimmune process. We initiated a Phase 1a clinical trial with MGD010 in normal healthy volunteers in the first quarter of 2015.

MGD011 (also known as JNJ-64052781) is a DART molecule that targets both CD19 and CD3 and is being developed for the treatment of B-cell hematological malignancies. CD19, a lymphocyte-specific marker expressed from early B-lymphocyte development through mature memory B cells, is highly represented in B-cell malignancies. MGD011 is designed to redirect T cells, via their CD3 component, to eliminate CD19-expressing cells found in many hematological malignancies. MGD011 has been engineered to address half-life challenges posed by other programs targeting CD19 and CD3. Under our collaboration and license agreement with Janssen, Janssen is developing the 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 profit-share, and dosed the first patient in an open-label Phase 1 study of MGD011 in July 2015.

MGD009 is a DART molecule that recognizes B7-H3 and CD3, and has been engineered for extended pharmacokinetic properties. We have demonstrated that this molecule is able to mediate T cell killing of cancer cells in pre-clinical experiments. During the third quarter of 2015, we initiated Phase 1 clinical testing of MGD009. In addition to these clinical-stage programs, we have research and discovery programs underway that are based on our scientific expertise in protein engineering and the use of our core Fc optimization and DART platform technologies, as well as our recently introduced Trident™ platform for design of tri-specific molecules. For example, key active pre-clinical programs include:

- Creating multi-specific molecules using our DART and Trident platforms that target one or more immune system checkpoints, the first of which is expected to be a DART molecule targeting PD-1 and LAG-3 (MGD013),
- Developing antibody-drug conjugate (ADC) product candidates against tumor targets of interest, the first of which is expected to extend our B7-H3 franchise using a complementary mechanism of action to enoblituzumab and MGD009, the two other programs in this franchise, and

- Applying our DART technology to the potential treatment of an infectious disease, which we are doing by advancing MGD014 as one of two DART molecules for the potential treatment of HIV under a contract with the National Institute for Allergy and Infectious Diseases (NIAID).

We commenced active operations in 2000, and have since devoted substantially all of our resources to staffing our company, business planning, raising capital, developing our technology platforms, identifying potential product candidates, undertaking pre-clinical studies and conducting clinical trials. We have not generated any revenues from the sale of any products to date. We have financed our operations primarily through the private placements of convertible preferred stock, the public offerings of our common stock, collaborations, and government grants and contracts. Prior to our Initial Public Offering (IPO), we received approximately \$151.3 million from the sale of convertible preferred stock and warrants. We raised \$83.8 million net of expenses in October 2013 through the sale of common stock in connection with our IPO and exercise by the underwriters of their over-allotment option. We raised an additional \$76.7 million and approximately \$141.0 million net of expenses through public offerings of our common stock and full exercise by the underwriters of their option to purchase additional shares in February 2014 and July 2015, respectively. In addition, we have received significant capital from our collaborators in the form of equity investments, upfront fees, milestone payments, annual maintenance payments and license option fees as well as reimbursement payments through our collaborations 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 and cash

equivalents as of September 30, 2015, combined with collaboration payments we anticipate receiving, will enable us to fund our operations into 2018, assuming all of our collaboration programs advance as currently contemplated. Through September 30, 2015, we had an accumulated deficit of \$205.7 million. We expect that over the next several years we will increase our expenditures in research and development in connection with our ongoing activities with several clinical trials.

#### Strategic Collaborations and Licenses

We have entered into several strategic collaborations which provide us with significant additional funding in order to continue development of our pipeline and to extend our technology platforms and on-going programs. Our collaborations have allowed us to accelerate the progress of our on-going pre-clinical and clinical stage programs. 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 MGD011, a product candidate that incorporates our proprietary DART technology to simultaneously target CD19 and CD3 for the potential treatment of B-cell malignancies. We contemporaneously entered into a stock purchase agreement and investor agreement, each with Johnson & Johnson Innovation – JJDC, Inc. (JJDC), under which JJDC agreed to purchase 1,923,077 new shares of our common stock at a price of \$39.00 per share, representing proceeds of \$75.0 million. The effectiveness of these agreements was subject to the early termination or expiration of any applicable waiting periods under Hart-Scott-Rodino Antitrust Improvements Act of 1976, which occurred in January 2015. Upon closing, we received a \$50.0 million upfront payment from Janssen as well as the \$75.0 million investment in our common stock from JJDC. Janssen became fully responsible for developing MGD011 following submission of the IND, which was completed in March 2015. Assuming successful development and commercialization, we could receive up to an additional \$575.0 million in clinical, regulatory and commercialization milestone payments. In July 2015, Janssen dosed the first patient in an open-label Phase 1 study of MGD011, which triggered a \$10.0 million milestone to us. We may elect to fund a portion of late-stage clinical development in exchange for a profit share in the U.S. and Canada. If commercialized, we would be eligible to receive double-digit royalties on any global net sales and have the option to co-promote the molecule with Janssen in the U.S.

**Takeda.** In May 2014, we entered into a license and option agreement with Takeda Pharmaceutical Company Limited (Takeda) for the development and commercialization of MGD010, a product candidate that incorporates our proprietary DART technology to simultaneously engage CD32B and CD79B, which are two B-cell surface proteins. Upon execution of the agreement, Takeda made a non-refundable payment of \$15.0 million to us. Takeda has an option to obtain an exclusive worldwide license for MGD010 following the completion of a pre-defined Phase 1a study. We initiated clinical testing of MGD010 for the treatment of autoimmune disorders in March 2015, which resulted in a \$3.0 million milestone payment from Takeda. If Takeda exercises its option, it will assume responsibility for future development and pay us a license option fee of \$15.0 million. Assuming successful development and commercialization of MGD010, we are eligible to receive up to \$468.5 million in development, regulatory and sales milestone payments. If commercialized, we would receive double-digit royalties on any global net sales and have the option to co-promote MGD010 with Takeda in the United States. Finally, we may elect to fund a portion of Phase 3 clinical development in exchange for a North American profit share.

In September 2014, we entered into a research collaboration and license option agreement with Takeda for an initial research compound and up to three additional compounds. Under the terms of this agreement, Takeda received an option to obtain an exclusive worldwide license for each of four product candidates, of which three options remain as of September 30, 2015. For each nominated target combination, Takeda will fund all research and development activities, including reimbursement of our expenses. Assuming successful development and commercialization by Takeda, we could receive up to approximately \$400.0 million in program initiation, pre-clinical, clinical, regulatory and commercialization milestone payments for each of the potential product candidates. If commercialized, we would receive double-digit royalties on any global net sales and have the option to co-promote each product candidate with Takeda in the United States. Finally, we may elect to fund a portion of Phase 3 clinical development of each product candidate in exchange for a North American profit share.

**Servier.** In November 2011, we entered into a collaboration agreement with Les Laboratoires Servier and Institut de Recherches Servier (collectively, Servier) under which we granted Servier an option to obtain an exclusive license to develop and commercialize enoblituzumab in all countries other than the United States, Canada, Mexico, Japan, South

Korea and India. Servier was required to exercise this option within 90 days after receipt of a data package delivered in July 2015 containing initial monotherapy data from the enoblituzumab Phase 1 clinical study. Because Servier has not exercised this option, MacroGenics now has worldwide development and commercialization rights to enoblituzumab. Under this agreement, through September 30, 2015, we received a \$20.0 million option grant fee and a \$10.0 million milestone payment.

In September 2012, we entered into a second agreement with Servier and granted it options to obtain three separate exclusive licenses to develop and commercialize DART molecules, consisting of those designated by us as MGD006 and MGD007, as well as a third DART molecule, 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 if Servier exercises all three of its options and successfully develops, obtains regulatory approval for, and commercializes a product under each license.

In February 2014, Servier exercised its option to develop and commercialize MGD006, for which we received a \$15.0 million license option fee. We also received two \$5.0 million milestone payments from Servier in connection with the IND applications for MGD006 and MGD007 clearing their respective 30-day review periods by the U.S. Food and Drug Administration (FDA). Additionally, under this agreement, and assuming exercise of the applicable 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.

Boehringer. In October 2010, we entered into an agreement with Boehringer Ingelheim International GmbH (Boehringer) to discover, develop and commercialize up to ten DART molecules which may span multiple therapeutic areas. We granted Boehringer an exclusive worldwide, royalty-bearing license and received an upfront payment of \$15.0 million. During 2014, Boehringer nominated a lead candidate generated by our DART technology for pre-clinical development. This formal selection of a development candidate triggered a \$2.0 million milestone payment to us under the agreement. We have the potential to earn development, regulatory and sales milestone payments that can reach up to approximately \$210.0 million for each of the DART programs under this agreement. Boehringer provides funding for our internal and external research costs and is required to pay us mid-single digit royalties on product sales.

#### 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, 2014. There have been no material changes to our critical accounting policies during the three months ended September 30, 2015.

#### Results of Operations

##### Research and Development Revenue

The following represents a comparison of our research and development revenue for the three and nine months ended September 30, 2015 and 2014:

|  |      |                     |
|--|------|---------------------|
| Three<br>Months<br>Ended<br>September<br>30,<br>2015 | 2014 | Increase/(Decrease) |
| (dollars in millions)                                |      |                     |

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|                                     |         |         |           |        |
|-------------------------------------|---------|---------|-----------|--------|
| Revenue from collaborative research | \$ 14.7 | \$ 18.3 | \$ (3.6 ) | (20 %) |
| Grant revenue                       | -       | 0.1     | (0.1 )    | NA     |
| Total revenue                       | \$ 14.7 | \$ 18.4 | \$ (3.7 ) | (20 )% |

Nine Months  
 Ended  
 September  
 30, Increase/(Decrease)  
 2015 2014  
 (dollars in millions)

|                                     |         |         |         |       |
|-------------------------------------|---------|---------|---------|-------|
| Revenue from collaborative research | \$ 91.4 | \$ 41.9 | \$ 49.5 | 118 % |
| Grant revenue                       | 1.2     | 0.4     | 0.8     | 200 % |
| Total revenue                       | \$ 92.6 | \$ 42.3 | \$ 50.3 | 119 % |

Collaboration revenue for the three months ended September 30, 2015 decreased by \$3.6 million compared to the same period in 2014. This decrease is primarily due to a decrease in research and development services under the Boehringer agreement and the recognition in the third quarter of 2014 of a \$5.0 million milestone from Servier for MGD007 and a \$5.0 million license fee from Takeda for the research and collaboration license option agreement. These decreases are offset by the \$10.0 million milestone payment from Janssen recognized in the third quarter of 2015. The increase in collaboration revenue of \$49.5 million for the nine months ended September 30, 2015 compared to the same period in 2014 is primarily due to the \$72.3 million in revenue recognized under the Janssen agreement. This increase is partially offset by decreases in revenue from Gilead because the development period ended, from Boehringer because of a reduction in research and development services, and from Servier because the prior period included \$10.0 million in milestones.

Research and Development Expense

The following represents a comparison of our research and development expense for the three and nine months ended September 30, 2015 and 2014:

|  | Three<br>Months<br>Ended<br>September<br>30, |         | Increase/(Decrease) |        |
|--|--|---------|---------------------|--------|
|  | 2015   | 2014    |                     |        |
|  | (dollars in millions)                        |         |                     |        |
| Margetuximab   | \$ 8.7                                       | \$ 6.3  | \$ 2.4              | 38 %   |
| Enoblituzumab  | 3.5  | 3.5     | -                   | 0 %    |
| MGD006   | 0.8  | 0.6     | 0.2                 | 33 %   |
| MGD007   | 1.3  | 0.9     | 0.4                 | 44 %   |
| MGD010   | 1.8  | 1.2     | 0.6                 | 50 %   |
| MGD011   | 0.4  | 1.1     | (0.7 )              | (64 %) |
| Other pre-clinical and clinical programs, collectively | 7.6  | 5.0     | 2.6                 | 52 %   |
| Total research and development expense                 | \$ 24.1                                      | \$ 18.6 | \$ 5.5              | 30 %   |

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|  | Nine Months<br>Ended<br>September<br>30, |        | Increase/(Decrease) |        |
|--|--|--------|---------------------|--------|
|  | 2015                                     | 2014   |                     |        |
|  | (dollars in millions)                    |        |                     |        |
| Margetuximab   | \$28.1                                   | \$13.9 | \$ 14.2             | 102 %  |
| Enoblituzumab  | 8.5                                      | 11.4   | (2.9 )              | (25 %) |
| MGD006   | 1.8                                      | 2.8    | (1.0 )              | (36 %) |
| MGD007   | 2.7                                      | 3.1    | (0.4 )              | (13 %) |
| MGD010   | 6.1                                      | 2.5    | 3.6                 | 144 %  |
| MGD011   | 1.8                                      | 3.6    | (1.8 )              | (50 %) |
| Other pre-clinical and clinical programs, collectively | 19.2                                     | 13.2   | 6.0                 | 45 %   |
| Total research and development expense                 | \$68.2                                   | \$50.5 | \$ 17.7             | 35 %   |

During the three and nine months ended September 30, 2015, our research and development expense increased by \$5.5 million and \$17.7 million, respectively, compared to the same periods in 2014. This increase was primarily due to preparations for the margetuximab Phase 3 study, the commencement of the MGD010 Phase 1 study in 2015 and increased activity to prepare the IND for MGD009. These increases were partially offset by decreases in MGD011 expenses as development was transferred to Janssen after the IND was filed in March 2015. In addition, there was also a decrease in enoblituzumab clinical manufacturing costs as more drug product was manufactured during the nine months ended September 30, 2014 than the same period in 2015.

#### General and Administrative Expense

The following represents a comparison of our general and administrative expense for the three and nine months ended September 30, 2015 and 2014:

|                                    | Three<br>Months<br>Ended<br>September<br>30, |       | Increase/(Decrease) |      |
|------------------------------------|--|-------|---------------------|------|
|                                    | 2015   | 2014  |                     |      |
|                                    | (dollars in millions)                        |       |                     |      |
| General and administrative expense | \$6.0  | \$3.7 | \$ 2.3              | 62 % |

|                                    | Nine Months<br>Ended<br>September<br>30, |        | Increase/(Decrease) |      |
|------------------------------------|--|--------|---------------------|------|
|                                    | 2015                                     | 2014   |                     |      |
|                                    | (dollars in millions)                    |        |                     |      |
| General and administrative expense | \$16.1                                   | \$11.1 | \$ 5.0              | 45 % |

General and administrative expense increased for the three and nine months ended September 30, 2015 by \$2.3 million and \$5.0 million, respectively, compared to the same periods in 2014 primarily due to an increase in labor-related costs, including stock-based compensation expense and information technology-related expenses.

#### Cash Flows

The following table represents a summary of our cash flows for the nine months ended September 30, 2015 and 2014:

|   | Nine Months<br>Ended<br>September 30,<br>2015    2014<br>(dollars in<br>millions) |          |
|---|---|----------|
| Net cash provided by (used in):           |   |          |
| Operating activities                      | \$10.5  | \$(12.6) |
| Investing activities                      | \$(6.4 )  | \$(1.9 ) |
| Financing activities                      | \$204.1   | \$77.2   |
| Net increase in cash and cash equivalents | \$208.2   | \$62.7   |

#### Operating Activities

Net cash provided by (used in) operating activities reflects, among other things, revenue generated from our collaboration arrangements offset by amounts used to fund our clinical trials and pre-clinical activities. The change from net cash used in operating activities during the nine months ended September 30, 2014 to net cash provided by operating activities during the nine months ended September 30, 2015 was primarily due to the \$72.3 million of revenue recognized under the Janssen agreements partially offset by increased research and development expenses.

#### Investing Activities

Net cash used in investing activities was primarily due to the acquisition of additional lab equipment needed to further our research and development activities.

#### Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2015 includes approximately \$62.7 million from JJDC's purchase of common stock, \$141.0 million in net proceeds from our public offering in July 2015 and cash received from stock option exercises. Net cash provided by financing activities for the nine months ended September 30, 2014 includes net proceeds from our public offering of approximately \$76.7 million plus cash from stock option exercises.

#### Liquidity and Capital Resources

We have financed our operations primarily through the private placements of convertible preferred stock, the public offerings of our common stock, upfront fees, milestone payments, annual maintenance payments and license option fees from collaborators and reimbursement through government grants and contracts. As of September 30, 2015, we had \$365.8 million in cash and cash equivalents.

In addition to our existing cash and cash equivalents, we are eligible to continue to receive reimbursement from our collaborators for research and development services rendered, additional milestone and opt-in payments and grant revenue. 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 pre-clinical 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 and cash equivalents as of September 30, 2015 and collaboration payments we anticipate receiving will enable us to fund our operations into 2018, assuming all of our programs advance as currently contemplated.

#### 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.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary objective when considering our investment activities is to preserve capital in order to fund our operations. Our primary exposure to market risk is related to changes in interest rates. Our current investment policy is to invest principally in deposits and securities issued by the U.S. government and its agencies, Government Sponsored Enterprise agency debt obligations, corporate debt obligations and money market instruments. As of September 30, 2015, we had cash and cash equivalents of \$365.8 million, of which \$251.0 million was invested in money market funds and the remainder was in our corporate operating account. We do not believe that our cash and cash equivalents have significant risk.

### 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 September 30, 2015. 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 quarterly period ended September 30, 2015, 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

The following factors, which supplement or update the risk factors set forth in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 may affect our future financial condition and results of operations. The risks described below are not the only risks we face. In addition to the risks set forth in our Form 10-K, as supplemented or superseded by the risk factors set forth below, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business.

We intend to design and build a manufacturing facility that could support future commercial production of our product candidates. We have no experience in large-scale or commercial manufacturing, and there can be no assurance that we will be able to build our manufacturing facility or, if built, we will be able to manufacture commercial products. We intend to expand our manufacturing capacity to support future commercial production and have identified a potential site near our headquarters for this purpose. Although our employees have experience in the manufacturing of pharmaceutical products from prior employment at other companies, we as a company have no prior experience in large-scale or commercial manufacturing. In addition, government approvals would be required for us to operate a manufacturing facility and can be time-consuming to obtain. As a manufacturer of pharmaceutical products, we also would be required to demonstrate and maintain compliance with current Good Manufacturing Practices, or cGMPs, which include requirements related to production processes, quality control and assurance and recordkeeping. Furthermore, establishing commercial manufacturing operations may require a reallocation of other resources, particularly the time and attention of our senior management. Any failure or delay in the development of our

commercial manufacturing capabilities could adversely impact the commercialization of our product candidates. We are obligated to develop and maintain proper and effective internal control over financial reporting. If these internal controls are determined not to be effective, investor confidence in our company may be adversely affected and, as a result, the value of our common stock.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies. We are required under the Sarbanes-Oxley Act of 2002 to report annually on our internal control over financial reporting, but as an emerging growth company we have been exempt from the requirement to have our independent accountants attest to our internal control over financial reporting. As of December 31, 2015, we will no longer qualify as an emerging growth company. As a result, our independent registered public accounting firm will be required to issue an attestation report on the effectiveness of our internal control over financial reporting. We are in the process of determining whether our existing internal controls over financial reporting systems are compliant with Section 404. This process requires the investment of substantial time and resources, including by members of our senior management, and may divert internal resources and take a significant amount of time and effort to complete. In addition, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses or significant deficiencies with respect to our internal controls or the level at which our internal controls are documented, designed, implemented or reviewed.

If it were to be determined that our internal control over financial reporting is not effective, such a shortcoming could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively affect the market price of our shares, increase the volatility of our stock price and adversely affect our ability to raise additional funding.

The contract with the National Institute of Allergy and Infectious Diseases (NIAID) makes us a government contractor. Laws and regulations affecting government contracts may make it more costly and difficult for us to successfully conduct our business.

We must comply with numerous laws and regulations relating to the procurement, formation, administration and performance of government contracts. Failure to comply with these laws could result in significant civil and criminal penalties. Among the most significant government contracting regulations that may affect our business are: the Federal Acquisition Regulation, or FAR, and NIH-NIAID-specific regulations supplemental to the FAR, which comprehensively regulate the procurement, formation, administration and performance of government contracts; business ethics and public integrity obligations, which govern conflicts of interest and the hiring of former government employees, restrict the granting of gratuities and funding of lobbying activities and incorporate other requirements such as the Anti-Kickback Act, the Procurement Integrity Act, and the False Claims Act; export and import control laws and regulations; and laws, regulations and executive orders restricting the use and dissemination of sensitive information we may receive pursuant to our performance of the government contract. U.S. government agencies routinely audit and investigate government contractors for compliance with applicable laws and standards. If we are audited, such audit could result in disallowance of expected cost reimbursement, or if such audit were to uncover improper or illegal activities, we could be subject to civil and criminal penalties, administrative sanctions, including suspension or debarment from government contracting and significant reputational harm.

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Item 6. Exhibits

- 10.1 Assignment and Assumption of Lease by and between J. Craig Venter Institute and the Company dated July 31, 2015
  - 10.2 Second Amendment to Lease by and between BMR-Medical Center Drive LLC and the Company dated July 31, 2015
  - 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
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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: November 4, 2015

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EXHIBIT INDEX

Exhibit Page Number

|         |   |
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