MACROGENICS INC
Form 10-Q
August 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from ______ to ______

Commission File Number: 001-36112

MACROGENICS, INC.
(Exact name of registrant as specified in its charter)

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

301-251-5172
(Registrant's telephone number, including area code)

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

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

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

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

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 July 29, 2016, the number of outstanding shares of the registrant's common stock, par value $0.01 per share, was 34,733,560 shares.

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements can often be identified by the use of terminology such as "subject to", "believe", "anticipate", "plan", "expect", "intend", "estimate", "project", "may", "will", "should", "would", "could", "can", the negatives thereof, variations thereon and similar expressions, or by discussions of strategy.

All forward-looking statements 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 product candidates;
- our ongoing and planned clinical trials;
- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- our ability to enter into new collaborations or to identify additional products or product candidates with significant commercial potential that are consistent with our strategic objectives;
- the rate and degree of market acceptance and clinical utility of our products;
- our commercialization, marketing and manufacturing capabilities and strategy;
- significant competition in our industry;
- costs of litigation and the failure to successfully defend lawsuits and other claims against us;
- economic, political and other risks associated with our international operations;
- our ability to receive research funding and achieve anticipated milestones under our collaborations;
- our ability to protect and enforce patents and other intellectual property;
- costs of compliance and our potential failure to comply with new and existing governmental regulations including, but not limited to, tax regulations;
- loss or retirement of key members of management; and
- failure to successfully execute our growth strategy, including any delays in our planned future growth.

The factors, risks and uncertainties referred to above and others are more fully described under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. 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 except as required by law.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 62,267	$ 196,172
Marketable securities	203,357	142,877
Accounts receivable	78,375	1,224
Prepaid expenses	3,782	1,806
Other current assets	663	305
Total current assets	348,444	342,384
Property and equipment, net	18,294	14,841
Other assets	2,112	2,044
Total assets	$ 368,850	$ 359,269
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,150	$ 2,967
Accrued expenses	12,342	11,708
Deferred revenue	4,578	5,866
Lease exit liability	1,459	2,020
Other liabilities	–	727
Total current liabilities	19,529	23,288
Deferred revenue, net of current portion	10,740	12,631
Lease exit liability, net of current portion	1,120	2,693
Deferred rent liability	6,758	7,320
Other liabilities	727	–
Total liabilities	38,874	45,932
Stockholders' equity:		
Common stock, $0.01 par value – 125,000,000 shares authorized, 34,694,039 and 34,345,754 shares outstanding at June 30, 2016 and December 31, 2015, respectively	347	343
Additional paid-in capital	553,655	547,185
Accumulated deficit	(224,085)	(234,186)
Accumulated other comprehensive income (loss)	59	(5)
Total stockholders' equity	329,976	313,337
Total liabilities and stockholders' equity	$ 368,850	$ 359,269

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Revenue from collaborative research	$78,497	$5,598	$80,390	$76,763
Grant revenue	2,176	1,118	3,129	1,232
Total revenues	80,673	6,716	83,519	77,995
Costs and expenses:				
Research and development	33,340	22,660	60,686	44,124
General and administrative	7,239	5,346	13,372	10,029
Total costs and expenses	40,579	28,006	74,058	54,153
Income (loss) from operations	40,094	(21,290)	9,461	23,842
Other income (expense)	370	(86)	640	(89)
Net income (loss)	40,464	(21,376)	10,101	23,753
Other comprehensive income (loss):				
Unrealized gain on investments	7	-	64	-
Comprehensive income (loss)	$40,471	$(21,376)	$10,165	$23,753
Basic net income (loss) per common share	$1.17	$(0.71)	$0.29	$0.80
Diluted net income (loss) per common share	$1.12	$(0.71)	$0.28	$0.75
Basic weighted average common shares outstanding	34,616,197	30,059,329	34,560,021	29,739,326
Diluted weighted average common shares outstanding	36,017,411	30,059,329	35,966,987	31,797,332

See accompanying notes.

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income	$10,101	$23,753
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	3,557	1,182
Share-based compensation	6,124	3,533
Changes in operating assets and liabilities:		
Accounts receivable	(77,151)	(1,399)
Prepaid expenses	(1,976)	1,145
Other assets	(426)	–
Accounts payable	(355)	184
Accrued expenses	866	375
Lease exit liability	(2,134)	(2,383)
Deferred revenue	(3,179)	(7,812)
Deferred rent	(563)	(450)
Net cash provided by (used in) operating activities	(65,136)	18,128
Cash flows from investing activities		
Purchases of marketable securities	(202,392)	–
Proceeds from sale and maturities of marketable securities	141,611	–
Purchases of property and equipment	(8,339)	(3,809)
Net cash used in investing activities	(69,120)	(3,809)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of offering costs	–	62,692
Proceeds from stock option exercises	351	425
Net cash provided by financing activities	351	63,117
Net change in cash and cash equivalents	(133,905)	77,436
Cash and cash equivalents at beginning of period	196,172	157,591
Cash and cash equivalents at end of period	$62,267	$235,027

See accompanying notes.

MACROGENICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation and Recently Issued Accounting Standards

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of MacroGenics, Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments) that the management of the Company believes are necessary for a fair presentation of the periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period.

The accompanying unaudited interim consolidated financial statements include the accounts of MacroGenics, Inc. and its wholly owned subsidiary, MacroGenics UK Limited. All intercompany accounts and transactions have been eliminated in consolidation. These consolidated financial statements and related notes should be read in conjunction with the financial statements and notes thereto included in the Company's 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 29, 2016.

There have been no material changes to the significant accounting policies previously disclosed in the Company's 2015 Annual Report on Form 10-K other than the adoption of ASU No. 2015-17, Income Taxes, Balance Sheet Classification of Deferred Taxes, as disclosed in the Recently Issued Accounting Standards section below. The new guidance requires all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet.

Recently Issued Accounting Standards

In November 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-17, Income Taxes, Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 requires entities to present deferred tax assets and deferred tax liabilities as noncurrent on a classified balance sheet. ASU 2015-17 is effective for annual and interim reporting periods after December 15, 2016 and companies are permitted to apply ASU 2015-17 either prospectively or retrospectively. Early adoption of ASU 2015-17 is permitted. The Company adopted ASU 2015-17 on a prospective basis in the first quarter of 2016. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on the Company's results of operations or cash flows.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09) as modified by ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date (ASU 2014-14). ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, and interim periods therein. Early adoption at the original effective date, for interim and annual reporting periods beginning after December 15, 2016, will be 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. Management is currently assessing which adoption method will be selected and what effect the adoption of ASU 2014-09 will have on the Company's consolidated financial statements and accompanying notes.

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

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). This amendment addresses several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within that year. Early adoption is permitted. The Company is evaluating the impact of the standard on its consolidated financial statements and related disclosures.

2. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued expenses. The carrying amount of accounts receivable, accounts payable and accrued expenses are generally considered to be representative of their respective fair values because of their short-term nature. The Company accounts for recurring and non-recurring fair value measurements in accordance with FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a fair value hierarchy for assets and liabilities measured at fair value, and requires expanded disclosures about fair value measurements. The ASC 820 hierarchy ranks the quality of reliability of inputs, or assumptions, used in the determination of fair value and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1 – Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.

- Level 2 – Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models, such as interest rates and yield curves that can be corroborated by observable market data.

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

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

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

Fair Value Measurements at June 30, 2016

	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$47,713	$47,713	$ –	$ –
U.S. Treasury securities	5,263	–	5,263	–
Government-sponsored enterprises	29,121	–	29,121	–
Corporate debt securities	168,973	–	168,973	–
Total assets measured at fair value[(a)]	$251,070	$47,713	$ 203,357	$ –

(a) Total assets measured at fair value at June 30, 2016, includes approximately $47.7 million reported in cash and cash equivalents on the balance sheet.

	Fair Value Measurements at December 31, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$62,353	$62,353	$ –	$ –
U.S. Treasury securities	9,349	–	9,349	–
Government-sponsored enterprises	41,202	–	41,202	–
Corporate debt securities	137,928	–	137,928	–
Total assets measured at fair value[(a)]	$250,832	$62,353	$ 188,479	$ –

(a) Total assets measured at fair value at December 31, 2015, includes approximately $108.0 million reported in cash and cash equivalents on the balance sheet.

The fair value of Level 2 securities is determined from market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data.

3. Investments

Available-for-sale investments as of June 30, 2016 and December 31, 2015 were as follows (in thousands):

June 30, 2016
Amortized Gross Gross Fair

	Cost	Unrealized Gains	Unrealized Losses	Value
U.S. Treasury securities	$5,262	$ 1	$ -	$5,263
Government-sponsored enterprises	29,109	12	-	29,121
Corporate debt securities	168,927	81	(35)	168,973
Total	$203,298	$ 94	$ (35)	$203,357

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$9,354	$		