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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2014

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: 001-35993

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**OncoMed Pharmaceuticals, Inc.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**38-3572512**  
(I.R.S. Employer  
Identification No.)

**800 Chesapeake Drive**  
**Redwood City, California**  
(Address of Principal Executive Offices)

**94063**  
(Zip Code)

**(650) 995-8200**  
(Registrant's Telephone Number, Including Area Code)

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (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, 2014, the number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 29,832,232.

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**ONCOMED PHARMACEUTICALS, INC.**  
**Condensed Balance Sheets**  
(In thousands, except share and per share amounts)

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
	(Unaudited)	(Note 2)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 29,995	\$ 208,931
Short-term investments	217,878	107,263
Receivables – related parties	—	23
Accounts receivable	2,072	—
Income tax refund receivable	2,562	—
Prepaid and other current assets	<u>3,573</u>	<u>2,527</u>
Total current assets	256,080	318,744
Property and equipment, net	4,965	4,641
Other assets	<u>7,895</u>	<u>10,300</u>
Total assets	<u>\$ 268,940</u>	<u>\$ 333,685</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,795	\$ 5,706
Income tax payable	—	10,758
Accrued liabilities	15,197	9,860
Current portion of deferred revenue	21,186	35,059
Current portion of deferred rent	665	624
Liability for shares issued with repurchase rights	<u>10</u>	<u>10</u>
Total current liabilities	40,853	62,017
Deferred revenue, less current portion	133,699	148,871
Deferred rent, less current portion	2,638	3,146
Non-current income tax payable	2,321	1,515
Liability for shares issued with repurchase rights, less current portion	<u>6</u>	<u>14</u>
Total liabilities	<u>179,517</u>	<u>215,563</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 2014 and December 31, 2013	—	—
Common stock, \$0.001 par value; 145,000,000 shares authorized at September 30, 2014 and December 31, 2013; 29,809,654 shares and 29,397,964 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	30	29
Additional paid-in capital	298,739	292,505
Accumulated other comprehensive income	34	14
Accumulated deficit	<u>(209,380)</u>	<u>(174,426)</u>
Total stockholders' equity	<u>89,423</u>	<u>118,122</u>
Total liabilities and stockholders' equity	<u>\$ 268,940</u>	<u>\$ 333,685</u>

See accompanying notes.

**ONCOMED PHARMACEUTICALS, INC.**

**Condensed Statements of Operations**  
**(Unaudited)**  
(In thousands, except share and per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue:				
Collaboration revenue	\$ 19,015	\$ 12,439	\$ 31,044	\$ 17,317
Collaboration revenue - related party	—	493	—	1,478
Total revenue	<u>19,015</u>	<u>12,932</u>	<u>31,044</u>	<u>18,795</u>
Operating expenses:				
Research and development	21,000	13,126	55,876	33,176
General and administrative	3,515	3,175	10,167	7,111
Total operating expenses	<u>24,515</u>	<u>16,301</u>	<u>66,043</u>	<u>40,287</u>
Loss from operations	(5,500)	(3,369)	(34,999)	(21,492)
Interest and other income (expense), net	49	(117)	82	(235)
Loss before provision for income taxes	(5,451)	(3,486)	(34,917)	(21,727)
Income tax expense	(35)	—	(37)	—
Net loss	<u>\$ (5,486)</u>	<u>\$ (3,486)</u>	<u>\$ (34,954)</u>	<u>\$ (21,727)</u>
Net loss per common share, basic and diluted	<u>\$ (0.18)</u>	<u>\$ (0.15)</u>	<u>\$ (1.18)</u>	<u>\$ (2.55)</u>
Shares used to compute net loss per common share, basic and diluted	<u>29,773,385</u>	<u>23,178,924</u>	<u>29,607,085</u>	<u>8,532,470</u>

See accompanying notes.

**ONCOMED PHARMACEUTICALS, INC.**  
**Condensed Statements of Comprehensive Loss**  
**(Unaudited)**  
**(In thousands)**

	<b>Three Months</b>		<b>Nine Months Ended</b>	
	<b>EndedSeptember 30,</b>	<b>2013</b>	<b>September 30,</b>	<b>2013</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net loss	\$ (5,486)	\$ (3,486)	\$ (34,954)	\$ (21,727)
Other comprehensive income:				
Unrealized gain on available-for-sale securities, net of tax	45	2	20	2
Total comprehensive loss	<u>\$ (5,441)</u>	<u>\$ (3,484)</u>	<u>\$ (34,934)</u>	<u>\$ (21,725)</u>

See accompanying notes.

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**ONCOMED PHARMACEUTICALS, INC.**  
**Condensed Statements of Cash Flows**  
**(Unaudited)**  
**(In thousands)**

	Nine Months Ended	
	September 30,	
	2014	2013
<b>Operating activities</b>		
Net loss	\$ (34,954)	\$ (21,727)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,055	1,047
Gain on disposal of equipment	(63)	—
Stock-based compensation	4,198	982
Revaluation of convertible preferred stock warrant liability	—	280
Prepaid convertible preferred stock warrant expense	—	2
Amortization of discount on short-term investments	9	(43)
Changes in operating assets and liabilities:		
Receivables – related parties	—	4,000
Accounts receivable	(2,049)	(10,000)
Income tax refund receivable	(2,562)	—
Prepaid and other current assets	(1,046)	(807)
Other assets	2,405	18
Accounts payable	(1,911)	1,251
Accrued liabilities	5,339	3,434
Deferred revenue	(29,045)	(795)
Deferred rent	(467)	(397)
Income tax payable	(9,952)	—
Net cash used in operating activities	<u>(69,043)</u>	<u>(22,755)</u>
<b>Investing activities</b>		
Purchases of property and equipment	(1,316)	(153)
Purchases of short-term investments	(411,877)	(127,534)
Maturities of short-term investments	301,271	60,000
Net cash used in investing activities	<u>(111,922)</u>	<u>(67,687)</u>
<b>Financing activities</b>		
Proceeds from issuance of common stock upon IPO, net	—	85,155
Proceeds from issuance of common stock from exercise of options	1,027	116
Proceeds from issuance of common stock under employee stock purchase plan	1,002	—
Net cash provided by financing activities	<u>2,029</u>	<u>85,271</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(178,936)</u>	<u>(5,171)</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>208,931</u>	<u>16,263</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 29,995</u>	<u>\$ 11,092</u>

See accompanying notes.

**ONCOMED PHARMACEUTICALS, INC.**  
**Notes to the Unaudited Interim Condensed Financial Statements**

**1. Organization**

OncoMed Pharmaceuticals, Inc. (“OncoMed” or the “Company”) is a clinical development-stage biotechnology company focused on discovering and developing first-in-class protein therapeutics targeting cancer stem cells (“CSCs”). The Company was originally incorporated in July 2004 in Delaware. The Company’s operations are based in Redwood City, California and it operates in one segment.

The Company has five anti-CSC product candidates in clinical development. Additionally, the Company recently filed an Investigational New Drug (“IND”) application for a sixth anti-CSC product candidate, an anti-DLL4/anti-VEGF bispecific antibody (OMP-305B83), and has a seventh anti-CSC product candidate, anti-RSPO3 (OMP-131R10) in preclinical development with an IND filing planned for early 2015. The first candidate currently in clinical development, demcizumab (anti-DLL4, OMP-21M18), has completed a single-agent Phase Ia safety and dose escalation trial and is currently in Phase Ib combination therapy trials in patients with non-small cell lung cancer (with carboplatin and pemetrexed) and pancreatic cancer (with gemcitabine and Abraxane®) and a Phase Ib/II trial combining demcizumab with paclitaxel in ovarian cancer. The second candidate, tarextumab (anti-Notch2/3, OMP-59R5), completed a Phase Ia safety and dose escalation trial and is in the Phase II portion of a Phase Ib/II trial in pancreatic cancer (with gemcitabine and Abraxane®) and in a second Phase Ib/II trial in small cell lung cancer (with etoposide and platinum chemotherapy). The third candidate, vantiactumab (anti-Fzd7, OMP-18R5), has completed a single-agent Phase Ia trial and is currently in three separate Phase Ib combination trials, one trial each in patients with breast cancer (with paclitaxel), pancreatic cancer (with gemcitabine and Abraxane®) and non-small cell lung cancer (with docetaxel). The fourth candidate, ipafricept (Fzd8-Fc, OMP-54F28), is in a single-agent Phase Ia safety and dose escalation trial in solid tumor malignancies, and is currently in three separate Phase Ib combination trials, one trial each in patients with ovarian cancer (with carboplatin and paclitaxel), pancreatic cancer (with gemcitabine and Abraxane®) and hepatocellular carcinoma (with sorafenib). The fifth candidate, anti-Notch1 (OMP-52M51), is in two single-agent Phase Ia safety and dose escalation trials in hematologic and solid tumor malignancies.

**Initial Public Offering**

On July 17, 2013, the Company’s registration statement on Form S-1 (File No. 333-181331) relating to the initial public offering (the “IPO”) of its common stock was declared effective by the SEC. The IPO closed on July 23, 2013 at which time the Company sold 5,520,000 shares of its common stock, which included 720,000 shares of common stock purchased by the underwriters upon the full exercise of their option to purchase additional shares of common stock to cover over-allotments. The Company received net cash proceeds of \$82.7 million from the IPO, net of underwriting discounts and commissions and expenses paid by the Company.

On July 23, 2013, prior to the closing of the IPO, all outstanding shares of convertible preferred stock converted into 21,180,280 shares of common stock with the related carrying value of \$182.8 million reclassified to common stock and additional paid-in capital. In addition, all convertible preferred stock warrants were also thereby converted into common stock warrants. Additionally, all shares of Class B common stock were converted into Class A common stock, and the Class A common stock was redesignated “common stock”.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and following the requirements of the Securities and Exchange Commission (the “SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as the Company’s annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of the Company’s results for the interim periods presented. These interim results are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other interim period or for any other future year. The balance sheet as of December 31, 2013 has been derived from audited financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.

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The accompanying condensed financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 18, 2014.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, preclinical study and clinical trial accruals, fair value of assets and liabilities, income taxes and stock-based compensation. Management bases its estimates on historical experience and on various other market-specific and relevant assumptions that management believes to be reasonable under the circumstances. Actual results may differ from those estimates.

### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with original maturities of 90 days or less at the date of purchase to be cash and cash equivalents.

### **Short-Term Investments**

Short-term investments consist of debt securities classified as available-for-sale and have maturities greater than 90 days, but less than 365 days from the date of acquisition. Short-term investments are carried at fair value based upon quoted market prices. Unrealized gains and losses on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive income (loss). The cost of available-for-sale securities sold is based on the specific-identification method.

### **Revenue Recognition**

The Company generates substantially all its revenue from collaborative research and development agreements with pharmaceutical companies. The terms of the agreements may include nonrefundable upfront payments, milestone payments, other contingent payments and royalties on any product sales derived from collaborations. These multiple element arrangements are analyzed to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting.

The determination of stand-alone value is generally based on whether any deliverable has stand-alone value to the customer. The Company determines how to allocate arrangement consideration to identified units of accounting based on the selling price hierarchy provided under the relevant guidance. The selling price used for each unit of accounting is based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available or estimated selling price if neither vendor-specific nor third-party evidence is available. Management may be required to exercise considerable judgment in determining whether a deliverable is a separate unit of accounting and in estimating the selling prices of identified units of accounting for new agreements.

Typically, the Company has not granted licenses to collaborators at the beginning of its arrangements and thus there are no delivered items separate from the research and development services provided. As such, upfront payments are recorded as deferred revenue in the balance sheet and are recognized as collaboration revenue over the estimated period of performance that is consistent with the terms of the research and development obligations contained in the collaboration agreement. The Company regularly reviews the estimated period of performance based on the progress made under each arrangement.

Payments that are contingent upon achievement of a substantive milestone are recognized in their entirety in the period in which the milestone is achieved. Milestones are defined as an event that can only be achieved based on the Company's performance and there is substantive uncertainty about whether the event will be achieved at the inception of the arrangement. Events that are contingent only on the passage of time or only on counterparty performance are not considered milestones. Further, the amounts received must relate solely to prior performance, be reasonable relative to all of the deliverables and payment terms within the agreement and commensurate with the Company's performance to achieve the milestone after commencement of the agreement. Other contingent payments received for which payment is contingent solely on the results of a collaborative partner's performance (bonus payments) are not accounted for using the milestone method. Such bonus payments will be recognized as revenue when collectability is reasonably assured. Payments related to options to license the Company's program candidates are considered substantive if, at the inception of the arrangement, the Company is at risk as to whether the collaboration partner will choose to exercise the option. Factors that the Company considers in evaluating whether an option is substantive include the overall objective of the arrangement, the benefit the collaborator might obtain from the arrangement without exercising the option, the cost to exercise the option and the likelihood that the option will be exercised. For arrangements under which an option is considered substantive, the Company does not consider the item underlying the option to be a deliverable at the inception of the arrangement and the associated option fees are not included in allocable arrangement consideration, assuming the option is not priced at a significant and incremental discount. Conversely, for



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arrangements under which an option is not considered substantive or if an option is priced at a significant and incremental discount, the Company would consider the item underlying the option to be a deliverable at the inception of the arrangement and a corresponding amount would be included in allocable arrangement consideration.

### Customer Concentration

Customers whose collaborative research and development revenue accounted for 10% or more of total revenues were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
GlaxoSmithKline LLC (“GSK”)	60%	*	38%	*
Bayer Pharma AG (“Bayer”)	23%	96%	30%	92%
Celgene Corporation (“Celgene”)	17%	—	32%	—

\* Less than 10%.

### Net Loss per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per common share is computed by dividing the net loss by the weighted-average number of common shares and common share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, potentially dilutive securities consisting of convertible preferred stock, common stock subject to repurchase, stock options and warrants are considered to be common stock equivalents and were excluded in the calculation of diluted net loss per common share because their effect would be anti-dilutive for all periods presented.

### Recent Adopted Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (“FASB”) issued final guidance that a performance target that affects vesting of a share-based payment and that could be achieved after the requisite service period is a performance condition under Accounting Standards Codification (“ASC”) 718, Compensation — Stock Compensation. As a result, the target is not reflected in the estimation of the award’s grant date fair value. Compensation cost for such an award would be recognized over the required service period, if it is probable that the performance condition will be achieved. The guidance is effective for all entities for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The guidance should be applied on a prospective basis to awards that are granted or modified on or after the effective date. The Company does not believe the adoption of this guidance will have a material impact on its financial statement.

In May 2014, the FASB and the International Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2014-09 (Topic 606)—Revenue from Contracts with Customers (“ASU 2014-09”). This ASU affects any entity that either enters into contracts with customers to transfer goods and services or enters into contracts for the transfer of nonfinancial assets. This ASU will supersede the revenue recognition requirements in Topic 605, and most industry specific guidance. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company for annual periods beginning after December 15, 2016, including interim periods within that period. Entities can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Entities electing the full retrospective adoption will apply the standard to each period presented in the financial statements. This means that entities will have to apply the new guidance as if it had been in effect since the inception of all its contracts with customers presented in the financial statements. Entities that elect the modified retrospective approach will apply the guidance retrospectively only to the most current period presented in the financial statements. This means that entities will have to recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application. Early adoption is not permitted under U.S. GAAP. The Company is currently evaluating the impact of adoption on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15 (Subtopic 205-40) — Presentation of Financial Statements—Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”) which provides guidance about management’s responsibility to evaluate whether or not there is substantial doubt about the Company’s ability to continue as a going concern and to provide related footnote disclosure. ASU 2014-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early application is permitted. The adoption of this standard is not expected to have an impact on the Company’s financial statements.

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### 3. Cash Equivalents and Short-Term Investments

The fair value of securities, not including cash, at September 30, 2014 was as follows (in thousands):

	Amortized Cost	September 30, 2014		Fair Value
		Gains	Losses	
Money market funds	\$ 8,440	\$ —	\$ —	\$ 8,440
U.S. treasury bills	217,844	58	(24)	217,878
Total available-for-sale securities	<u>\$226,284</u>	<u>\$ 58</u>	<u>\$ (24)</u>	<u>\$226,318</u>
Classified as:				
Cash equivalents				\$ 8,440
Short-term investments				217,878
Total cash equivalents and investments				<u>\$226,318</u>

As of September 30, 2014, the Company had a total of \$247.9 million in cash, cash equivalents, and short-term investments, which included \$21.6 million in cash and \$226.3 million in cash equivalents and short-term investments.

The fair value of securities, not including cash, at December 31, 2013 was as follows (in thousands):

	Amortized Cost	December 31, 2013		Fair Value
		Gains	Losses	
Money market funds	\$ 7,980	\$ —	\$ —	\$ 7,980
U.S. treasury bills	267,242	14	—	267,256
Total available-for-sale securities	<u>\$275,222</u>	<u>\$ 14</u>	<u>\$ —</u>	<u>\$275,236</u>
Classified as:				
Cash equivalents				\$167,973
Short-term investments				107,263
Total cash equivalents and investments				<u>\$275,236</u>

All available-for-sale securities held as of September 30, 2014 and December 31, 2013 had contractual maturities of less than one year. There have been no significant realized gains or losses on available-for-sale securities for the periods presented.

### 4. Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable and accounts payable, approximate their fair value due to their short maturities. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level 1: Inputs which include quoted prices in active markets for identical assets and liabilities.
- Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

	September 30, 2014			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Money market funds	\$8,440	\$ —	\$ —	\$ 8,440
U.S. treasury bills	—	217,878	—	217,878
Total	<u>\$8,440</u>	<u>\$217,878</u>	<u>\$ —</u>	<u>\$226,318</u>
<b>December 31, 2013</b>				
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Money market funds	\$7,980	\$ —	\$ —	\$ 7,980
U.S. treasury bills	—	267,256	—	267,256
Total	<u>\$7,980</u>	<u>\$267,256</u>	<u>\$ —</u>	<u>\$275,236</u>

Where quoted prices are available in an active market, securities are classified as Level 1. The Company classifies money market funds as Level 1. When quoted market prices are not available for the specific security, then the Company estimates fair value by using benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. The Company classifies U.S. Treasury securities as Level 2. There were no transfers between Level 1 and Level 2 during the periods presented.

## 5. Collaborations

The Company has recognized the following revenues from its collaboration agreements with Celgene, GSK and Bayer during the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>GSK:</b>				
Recognition of upfront payments	\$ 312	\$ 493	\$ 936	\$ 1,478
Milestone revenue	11,000	—	11,000	—
GSK total	<u>11,312</u>	<u>493</u>	<u>11,936</u>	<u>1,478</u>
<b>Bayer:</b>				
Recognition of upfront payments	2,439	2,439	7,317	7,317
Milestone revenue	2,000	10,000	2,000	10,000
Bayer total	<u>4,439</u>	<u>12,439</u>	<u>9,317</u>	<u>17,317</u>
<b>Celgene:</b>				
Recognition of upfront payments	3,264	—	9,791	—
Celgene total	<u>3,264</u>	<u>—</u>	<u>9,791</u>	<u>—</u>
Total collaboration related revenue	<u>\$19,015</u>	<u>\$12,932</u>	<u>\$31,044</u>	<u>\$18,795</u>

## GSK Strategic Alliance

In October 2012, the Company received a \$3.0 million payment from GSK upon the initiation of the Phase Ib portion of the tarextumab (anti-Notch2/3, OMP-59R5) program which was considered as an advance payment on a future substantive milestone. In June 2013, the Company also received an \$8.0 million advance payment from GSK pursuant to the terms of the tarextumab program. The total of \$11.0 million was recorded as deferred revenue and not recognized as collaboration revenue until the achievement of the underlying substantive milestone in July 2014 when the Company began dosing patients in the randomized, placebo-controlled Phase II portion of its clinical trial of tarextumab in pancreatic cancer.

As of September 30, 2014, the Company was eligible to receive in its collaboration with GSK up to \$81.0 million in future development milestone payments prior to the completion of certain Phase II proof-of-concept ("POC") clinical trials. These remaining potential development milestones include up to \$5.0 million for the advancement into specified clinical testing related to the

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anti-Notch1 (OMP-52M51) program, up to \$16.0 million for the start of certain Phase II clinical trials, including a \$5.0 million bonus payment, and up to \$60.0 million if GSK exercises its options for the anti-Notch1 and tarextumab programs, including a \$10.0 million bonus payment. GSK has the option to license the anti-Notch1 program as early as the end of Phase Ia or both programs at Phase II POC, and will be responsible for all further development and commercialization following such option exercise. If GSK successfully develops and commercializes both candidates for more than one indication, the Company could receive contingent consideration payments of up to \$309.0 million for the achievement of regulatory events and up to \$280.0 million upon the achievement of certain levels of worldwide net sales, for a total of \$670.0 million of potential future payments. In addition, the Company can earn royalty payments on all future collaboration product sales, if any. As all contingent consideration is based solely on the performance of GSK, the Company would recognize the contingent payments upon receipt immediately as collaboration revenue if the Company had no further performance obligations under the agreement with GSK.

As of December 31, 2013, GSK was no longer considered a related party due to an equity placement from Celgene pursuant to the Master Research and Collaboration Agreement the Company entered into with Celgene in December 2013 (the “Celgene Agreement”) that reduced GSK’s ownership of the Company’s voting common stock to below 10% of the Company’s total outstanding stock. Previously, GSK was deemed a related party by ownership of more than 10% of the voting common stock of the Company. Accordingly, related party transactions were reported as receivable—related party in the Company’s balance sheet and collaboration revenue—related party in the Company’s statement of operations as of September 30, 2013.

### **Bayer Strategic Alliance**

In September 2014, the Company earned \$2.0 million in milestone payments from Bayer as a result of the commencement of preclinical development of a small molecule product candidate. As of September 30, 2014, the Company was eligible to receive up to \$10.0 million in future development milestone payments in its collaboration with Bayer for the Company’s development of biologic product candidates, prior to the point that Bayer exercises its options. The Company is eligible to receive up to \$55.0 million if Bayer exercises its options for biologic product candidates. Bayer will be responsible for all further development and commercialization following the exercise of an option for a product candidate. The Company is eligible to receive up to \$22.0 million in development milestone payments for the small molecule candidates. If Bayer successfully develops and commercializes all of the product candidates for more than one indication, the Company could receive contingent consideration payments of up to \$185.0 million for the achievement of regulatory events (up to \$135.0 million for biologics and \$50.0 million for small molecules) and up to \$1.0 billion upon the achievement of specified future product sales (up to \$862.5 million for biologics and \$140.0 million for small molecules). As all contingent consideration is based solely on the performance of Bayer, the Company would recognize the contingent payments upon receipt immediately as collaboration revenue if the Company had no further performance obligations under the agreement with Bayer.

### **Celgene Strategic Alliance**

In December 2013, the Company entered into the Celgene Agreement pursuant to which the Company and Celgene will collaborate on research and development programs directed to the discovery and development of novel biologic therapeutic programs to target CSCs, and, if Celgene exercises an option to do so, the discovery, development and commercialization of novel small molecule therapeutic programs to target CSCs. Pursuant to the biologic therapeutic programs, the Company will conduct further development of demcizumab (anti-DLL4, OMP-21M18), anti-DLL4/anti-VEGF bispecific antibody (OMP-305B83), biologic therapeutics directed to targets in the RSPO-LGR signaling pathway, and biologic therapeutics directed to targets in an undisclosed pathway. Celgene has options to obtain exclusive licenses to develop further and commercialize biologic therapeutics in specified programs, which may be exercised during time periods specified in the Celgene Agreement through completion of certain clinical trials, provided that such option exercise occurs within the contractual option period of 12 years (“Option Period”). The Company at its option may enter into co-commercialization and co-development agreements for five of the six biologic programs. During the Option Period, the Company will provide research and development services and the resultant data to Celgene for analysis in order for Celgene to determine whether or not to exercise its options.

Pursuant to the Celgene Agreement, the Company leads the discovery and development of biologic therapeutic products prior to Celgene’s exercise of its option. With respect to biologic therapeutics targeting the RSPO-LGR signaling pathway and the undisclosed pathway, prior to Celgene’s exercise of its option for a given program, Celgene is required to designate each program for which it wishes to retain the right to exercise its option, based on data generated by the Company, for up to a maximum of four programs. The Company is entitled to receive certain fees for each program that Celgene designates. Celgene has the right to designate programs until December 2, 2017, with an option to extend for another two years upon payment of an extension fee. Following such designation(s), Celgene will have the right to exercise its option for each such program within the Option Period.

With respect to biologic therapeutic programs, with the exception of one program targeting either the RSPO-LGR signaling pathway or the undisclosed pathway, and any program for which the Company elects not to exercise its co-development and co-commercialization right, following Celgene’s exercise of its option, the Company and Celgene will enter into an agreed form of

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co-development and co-commercialization agreement for such program. The Company will have the right to co-develop and to co-commercialize products arising out of such program in the United States, and Celgene will have the exclusive right to develop and commercialize products arising out of such program outside of the United States. The Company's involvement in co-commercialization will include participation in specified promotion activities by means of a dedicated sales force of up to half of the overall sales force for the applicable program products, as well as marketing and other commercial activities, with Celgene recording all product sales. The Company will also bear a one-third share of all development costs, with Celgene bearing the remaining two-thirds. However, for one program targeting either the RSPO-LGR signaling pathway or the undisclosed pathway, and any program for which the Company elects not to co-develop and co-commercialize products arising from such program, the Company and Celgene will instead enter into an agreed form of a license agreement, pursuant to which Celgene retains all rights to develop further and commercialize biologic therapeutic products arising from such program on a worldwide basis, with certain support for development from the Company. The Company may elect not to co-develop and co-commercialize any products arising under such programs at any time, either prior to, or following Celgene's option exercise, with the exception of a defined period of time near commercial launch of a product under a program. If the Company opts out of its co-development and co-commercialization rights with respect to a program, Celgene will have the exclusive right to develop and commercialize products arising out of such program, at Celgene's expense.

With respect to small molecule therapeutics targeting an undisclosed pathway, following Celgene's exercise of its option, the Company will collaborate with Celgene on the discovery of and research on small molecule therapeutics, but Celgene will be solely responsible for development and commercialization of such therapeutics.

Under the terms of the Celgene Agreement, the Company received an upfront cash payment of \$155.0 million from Celgene. In addition, Celgene purchased 1,470,588 shares of the Company's common stock at a price of \$15.13 per share, resulting in gross proceeds of \$22.2 million. The price paid by Celgene for the common stock represented a premium over the closing price of the Company's common stock on the date of the Celgene Agreement. The Company accounted for the \$1.7 million premium as additional consideration under the Celgene Agreement and the common stock was recorded at its fair market value of \$20.5 million. The Company is also eligible to receive option fees upon Celgene's exercise of the option for each biologic therapeutic program. The collaboration also includes milestone payments for achievement of specified development, regulatory and commercial milestones, paid on a per-product and per-program basis. The payments for option exercise, program designation and achievement of development, regulatory and commercial milestones may total up to (1) \$791.0 million for products in the demcizumab program, including a payment upon the achievement of certain pre-determined safety criteria in Phase II clinical trials with respect to demcizumab, (2) \$505.0 million for products in the anti-DLL4/anti-VEGF bispecific antibody program, (3) up to \$442.8 million for each of the four products achieving regulatory approval that are directed to targets in each of the RSPO-LGR signaling pathway and the undisclosed pathway programs for which Celgene exercises its option, and (4) \$107.0 million for products in the small molecule therapeutic program.

For programs in which the Company is co-developing and co-commercializing biologic therapeutic products in the United States, the Company is also entitled to share 50% of all product profits and losses in the United States. For such programs outside the United States, the Company is eligible to receive tiered royalties equal to a percentage of net product sales outside of the United States. If the Company elects not to co-develop or co-commercialize biologic therapeutic products or does not have the right to do so for a given program, Celgene is required to pay the Company tiered royalties equal to a percentage of net product sales worldwide, with such royalties being increased where the Company had the right to co-develop and co-commercialize such biologic therapeutic products under such program but elected not to do so. The Company is responsible for funding all research and development activities for biologic therapeutics under the collaboration prior to Celgene's exercise of the option for such program.

In addition to the development and regulatory milestone payments the Company will be entitled to receive if Celgene exercises its option for the small molecule program, the Company may also receive royalties equal to a percentage of worldwide net sales of small molecule products in the low- to mid-single digits.

The Celgene Agreement will terminate upon the expiration of all of Celgene's payment obligations under all license or co-development and co-commercialization agreements entered into with respect to programs following Celgene's exercise of an option for a given program, or if Celgene fails to exercise any of its options within the Option Period. The Celgene Agreement will also terminate, on a program-by-program basis, on the expiration of the option term, if Celgene fails to exercise its option for such program. The Company may also terminate the Celgene Agreement with respect to one or more programs in the event that Celgene challenges the licensed patents with respect to such program.

If Celgene does not exercise its option with respect to a biologic therapeutic program within the Option Period, the Company retains worldwide rights to such program(s), except that if Celgene exercises its option to obtain a license for either the demcizumab program or the anti-DLL4/anti-VEGF bispecific antibody program, then for so long as such license is in effect, the Company cannot develop or commercialize products under the other of such two programs. In addition, under certain termination circumstances, the Company would also have worldwide rights to the terminated biologic therapeutic programs.

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The Company's deliverables under the arrangement with Celgene are research and development services, including the obligation that the Company provides the resultant data to Celgene, which are accounted for as a single unit of accounting. The Company has determined that the options to license programs are substantive options. Additionally, as a result of the uncertain outcome of the discovery, research and development activities, the Company is at risk with regard to whether Celgene will exercise the options. Accordingly, the options are not considered deliverables at the inception of the arrangement and the associated option fees are not included in allocable arrangement consideration. The Company has identified the initial arrangement consideration to be approximately \$156.7 million which will be recognized on a straight-line basis over the estimated period of performance of 12 years. Due to the uncertain timeline associated with the deliverables at the outset of the Celgene Agreement, the Company determined it will use 12 years, which is the maximum period under the Celgene Agreement for Celgene to exercise its options. The Company will reevaluate the estimated performance period at each reporting period.

As of September 30, 2014, the Company was eligible to receive in its collaboration with Celgene up to \$90.0 million in future development milestones across all programs under the collaboration, prior to the point that Celgene exercises its options. The Company is also eligible to receive up to \$240.0 million of contingent consideration if Celgene exercises all its options for the biologic and small molecule therapeutic programs. Celgene will be responsible for all further development and commercialization following the exercise of the options for specified programs. If Celgene successfully develops and commercializes all of the product candidates, the Company could receive additional contingent consideration of up to \$2.8 billion for the achievement of regulatory events (up to \$2.7 billion for biologics and \$95.0 million for small molecules). As all contingent consideration is based solely on the performance of Celgene, the Company would recognize the contingent payments upon receipt immediately as collaboration revenue if the Company had no further performance obligations under the Celgene Agreement.

For additional information about the Company's collaborations with GSK, Bayer and Celgene, including the upfront payments received under those collaborations, see Note 10 to the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed with SEC on March 18, 2014.

## 6. Equity Plans

### Equity Incentive Award and Stock Incentive Plans

As of September 30, 2014, a total of 1,768,645 shares of common stock have been authorized under the 2013 Equity Incentive Award Plan (the "2013 Plan"), including the additional 1,175,918 shares of common stock that became available for future issuance under the 2013 Plan as of January 1, 2014 as a result of an annual automatic increase provision in the 2013 Plan. As of September 30, 2014, a total of 932,065 shares are subject to options outstanding under the 2013 Plan. There are 2,115,802 shares subject to options outstanding under 2004 Stock Incentive Plan (the "2004 Plan") as of September 30, 2014, which will become available for issuance under the 2013 Plan to the extent the options are forfeited or lapse unexercised without issuance of such shares under the 2004 Plan.

The following table summarizes activity under 2004 Plan and 2013 Plan during the nine months ended September 30, 2014, including grants to nonemployees and restricted stock units ("RSUs") granted:

<b>(In thousands)</b>	<b>Shares Available for Grant of Options and Awards</b>	<b>Options and Awards Outstanding</b>
Balances at December 31, 2013	117	2,930
Additional shares authorized	1,176	—
Options granted	(205)	205
Options exercised	—	(344)
Options cancelled	37	(37)
RSUs granted	(294)	294
Balances at September 30, 2014	<u>831</u>	<u>3,048</u>

The weighted-average grant date estimated fair value of options and RSUs granted during the nine months ended September 30, 2014 was \$17.84 per share and \$31.03 per share, respectively.

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[Table of Contents](#)**Liability for Shares with Repurchase Rights**

At September 30, 2014 and December 31, 2013, there were 3,509 and 5,088 shares of common stock, respectively, subject to the Company's right of repurchase at a price of \$4.56 per share. At September 30, 2014 and December 31, 2013, the Company recorded \$16,000 and \$24,000, respectively, as liabilities associated with shares issued with repurchase rights.

**Employee Stock Purchase Plan**

As of September 30, 2014, a total of 593,979 shares of common stock have been authorized and 528,070 shares of common stock are available for future issuance under the Company's Employee Stock Purchase Plan (the "ESPP"). This authorized number includes the additional 293,979 shares of common stock that became available for future issuance under the ESPP as of January 1, 2014 as a result of an annual automatic increase provision in the ESPP. The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The ESPP provides for six-month offering periods, and at the end of each offering period, employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last day of the offering period.

During the nine months ended September 30, 2014, the Company issued 65,909 shares under the ESPP. The Company used the following assumptions to estimate the fair value of the ESPP offered for the nine months ended September 30, 2014: expected term of 0.5 years, weighted-average volatility from 65.7% to 115.4%, risk-free interest rate from 0.05% to 0.08% and expected dividend yield of zero.

**Restricted Stock Units**

In March 2014, the Company awarded 293,980 RSUs under the 2013 Plan. Each vested RSU represents the right to receive one share of common stock. The fair value of the RSU awards was calculated based on the NASDAQ quoted stock price on the date of the grant with the expense being recognized over the vesting period. The RSUs are generally scheduled to vest at the end of three years at March 31, 2017. However, the vesting will be accelerated to 25% of the awarded RSUs upon the payment by Celgene of a designated milestone payment related to Phase II clinical trials of demcizumab (anti-DLL4, OMP-21M18). The stock-based compensation expense for these RSUs is being amortized on the straight-line basis over the three-year vesting period. The Company continues to assess at each reporting date whether achievement of any performance condition is probable and would begin recognizing compensation costs based on the accelerated vesting if and when achievement of the performance condition becomes probable. There were no RSUs awarded during the three months ended September 30, 2014. The Company has recognized the stock-based compensation expense of \$762,000 and \$1.6 million related to these RSUs for the three and nine months ended September 30, 2014, respectively.

**Stock-Based Compensation**

The following table presents stock-based compensation expense recognized for stock options, RSUs and the ESPP in the Company's statements of operations (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Research and development	\$ 1,119	\$ 244	\$ 2,507	\$ 518
General and administrative	882	248	1,691	464
Total	<u>\$ 2,001</u>	<u>\$ 492</u>	<u>\$ 4,198</u>	<u>\$ 982</u>

As of September 30, 2014, the Company had \$6.9 million and \$7.6 million of unrecognized compensation expense related to unvested stock options and RSUs, respectively, which are expected to be recognized over an estimated weighted-average period of 2.45 years and 2.50 years, respectively.

The estimated grant date fair value of employee stock options was calculated using the Black-Scholes valuation model, based on the following assumptions:

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Weighted-average volatility	68.8%	68.3%	69.6%	68.3%
Weighted-average expected term (years)	6.2	6.2	6.2	6.2
Risk-free interest rate	2.23%	1.91%	2.23%	1.80%
Expected dividend yield	—	—	—	—

### 7. Net Loss per Common Share

The following outstanding common stock equivalents were excluded from the computation of diluted net loss per common share for the periods presented because including them would have been antidilutive:

	As of September 30,	
	2014	2013
Options to purchase common stock	2,753,887	2,945,483
RSUs	293,980	—
Warrants to purchase convertible preferred stock	—	25,921
	<u>3,047,867</u>	<u>2,971,404</u>

### 8. Income Taxes

During the three and nine months ended September 30, 2014, the Company recorded an income tax expense of \$35,000 and \$37,000, respectively. During the three and nine months ended September 30, 2013, the Company did not record a provision for income taxes because it expected to generate a net operating loss for the year ending December 31, 2013. The current expected income tax provision (derived from applying the federal and state statutory rates to the Company's pre-tax income for the three and nine months ended September 30, 2014) differed from the Company's recorded income tax provision primarily due to discrete items resulting from interest on prior years' uncertain tax provisions. The Company expects to generate operating losses for the year ended December 31, 2014. The net operating losses can be carried back to prior tax years in order to obtain a cash refund of prior income taxes paid. The expected carryback amount decreased compared to the year ended December 31, 2013 due to utilization of additional research and development credits in 2013 for income tax purposes resulting in a true-up of the Company's deferred tax asset and ASC 740-10 liability balances. The Company anticipates filing a carryback claim soon as practicable in order to claim these refunds.

### 9. Subsequent Events

In November 2014, the Company received a designation notice from Celgene relating to the Company's anti-RSPO3 product candidate, which is currently in preclinical testing. This designation triggered a \$2.5 million payment due to the Company from Celgene under the Celgene Agreement.

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

*You should read the following discussion in conjunction with our condensed financial statements (unaudited) and related notes included elsewhere in this report. This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts contained in this report are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "could," "will," "would," "should," "expect," "plan," "anticipate," "believe," "estimate," "intend," "predict," "seek," "contemplate," "potential" or "continue" or the negative of these terms or other comparable terminology. These forward-looking statements, include, but are not limited to, the initiation, timing, progress and results of our preclinical studies and clinical trials, and our research and development programs; our ability to advance product candidates into, and successfully complete, clinical trials; our receipt of future milestone payments and/or royalties, and the expected timing of such payments; our collaborators' exercise of their license options; the commercialization of our product candidates; the implementation of our business model, strategic plans for our business, product candidates and technology; the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates and technology; estimates of our expenses, future revenues, capital requirements and our needs for additional financing; the timing or likelihood of regulatory filings and approvals; our ability to maintain and establish collaborations or obtain additional government grant funding; our use of proceeds from our IPO; our financial performance; and developments relating to our competitors and our industry. These statements reflect our current views with respect to future events or our future financial performance, are based on assumptions, and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, described in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014 or described in this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date hereof. Except as required by law, we assume no obligation to update or revise these*



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*forward-looking statements for any reason, even if new information becomes available in the future. Unless the context requires otherwise, in this Quarterly Report on Form 10-Q, the terms “OncoMed,” “Company,” “OncoMed Pharmaceuticals,” “we,” “us” and “our” refer to OncoMed Pharmaceuticals, Inc., a Delaware corporation, unless otherwise noted.*

### **Overview**

OncoMed is a clinical development-stage biopharmaceutical company focused on discovering and developing first-in-class protein therapeutics targeting CSCs. Our approach has been to target CSCs, also known as tumor-initiating cells. Common cancer drugs target bulk tumor cells but have limited impact on CSCs, thereby providing a path for recurrence of the tumor. We utilize our proprietary technologies to identify and validate multiple potential targets critical to CSC self-renewal and differentiation. These targets are in pathways implicated in cancer biology and stem cell biology, including the Notch, Wnt, RSPO-LGR and other fundamental CSC pathways. We believe our product candidates are quite distinct from current generations of chemotherapies and targeted therapies, and have the potential to significantly impact cancer treatment and the clinical outcome of patients with cancer. All of our product candidates were discovered internally in our own research laboratories.

We have five anti-CSC product candidates in clinical development. The first candidate, demcizumab (anti-DLL4, OMP-21M18), has completed a single-agent Phase Ia safety and dose escalation trial and is currently in Phase Ib combination therapy trials in patients with non-small cell lung cancer (with carboplatin and pemetrexed) and pancreatic cancer (with gemcitabine and Abraxane<sup>®</sup>) and a Phase Ib/II trial combining demcizumab with paclitaxel in ovarian cancer. The second candidate, tarextumab (anti-Notch2/3, OMP-59R5), completed a Phase Ia safety and dose escalation trial and is in the Phase II portion of a Phase Ib/II trial in pancreatic cancer (with gemcitabine and Abraxane<sup>®</sup>) and in a second Phase Ib/II trial in small cell lung cancer (with etoposide and platinum chemotherapy). The third candidate, vantiactumab (anti-Fzd7, OMP-18R5), has completed a single-agent Phase Ia trial and is currently in three separate Phase Ib combination trials, one trial each in patients with breast cancer (with paclitaxel), pancreatic cancer (with gemcitabine and Abraxane<sup>®</sup>) and non-small cell lung cancer (with docetaxel). The fourth candidate, ipafricept (Fzd8-Fc, OMP-54F28), is in a single-agent Phase Ia safety and dose escalation trial in solid tumor malignancies, and is currently in three separate Phase Ib combination trials, one trial each in patients with ovarian cancer (with carboplatin and paclitaxel), pancreatic cancer (with gemcitabine and Abraxane<sup>®</sup>) and hepatocellular carcinoma (with sorafenib). The fifth candidate, anti-Notch1 (OMP-52M51), is in two single-agent Phase Ia safety and dose escalation trials in hematologic and solid tumor malignancies. Clinical trials for all five of these product candidates are ongoing, with the intent of gathering additional data required to proceed to later stage clinical trials and product approval. In addition, we recently filed an IND application for a sixth product candidate, anti-DLL4/anti-VEGF bispecific antibody (OMP-305B83), and plan to file an IND application for a seventh product candidate, anti-RSPO3 (OMP-131R10), in early 2015.

### **Financial Operations Overview**

#### **Revenue**

We have not generated any revenue from product sales. Our revenue to date has been primarily derived from upfront payments and development milestones received from GSK, Bayer and Celgene. We recognize revenue from upfront payments ratably over the term of our estimated period of performance under the agreements. In addition to receiving upfront payments, we may also be entitled to milestone and other contingent payments upon achieving predefined objectives or the exercise of options for specified programs by our strategic partners. Such payments are recorded as revenue when we achieve the underlying milestone if there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved.

The following table summarizes our revenue for the three and nine months ended September 30, 2014 and 2013, which is related to the recognition of upfront payments and milestone payments received under our various collaboration arrangements (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>GSK:</b>				
Recognition of upfront payments	\$ 312	\$ 493	\$ 936	\$ 1,478
Milestone revenue	11,000	—	11,000	—
GSK total	11,312	493	11,936	1,478
<b>Bayer:</b>				
Recognition of upfront payments	2,439	2,439	7,317	7,317
Milestone revenue	2,000	10,000	2,000	10,000
Bayer total	4,439	12,439	9,317	17,317
<b>Celgene:</b>				
Recognition of upfront payments	3,264	—	9,791	—
Celgene total	3,264	—	9,791	—
Total collaboration related revenue	<u>\$19,015</u>	<u>\$12,932</u>	<u>\$31,044</u>	<u>\$18,795</u>

We expect that any revenue we generate will fluctuate from period to period as a result of the timing and amount of milestones and other payments from our collaborations with GSK, Bayer and Celgene or any new collaboration we may enter into, and any new potential government grants that we may receive in the future.

**Research and Development**

Research and development expenses represent costs incurred to conduct research such as the discovery and development of clinical candidates for GSK, Bayer and Celgene as well as discovery and development of our proprietary un-partnered product candidates. We expense all research and development costs as they are incurred. Our research and development expenses consist of employee salaries and related benefits, including stock-based compensation, third-party contract costs relating to research, manufacturing, preclinical studies, clinical trial activities, laboratory consumables, and allocated facility costs.

At any point in time, we typically have various early stage research and drug discovery projects. Our internal resources, employees and infrastructure are not directly tied to any one research or drug discovery project and are typically deployed across multiple projects. As such, we do not maintain information regarding these costs incurred for these early stage research and drug discovery programs on a project-specific basis.

The following table (in thousands) summarizes our research and development expenses for the three and nine months ended September 30, 2014 and 2013. The internal costs include personnel, facility costs, laboratory consumables and discovery and research related activities associated with our pipeline. The external program costs reflect external costs attributable to our clinical development candidates and preclinical candidates selected for further development. Such expenses include third-party contract costs relating to manufacturing, clinical trial activities, translational medicine and toxicology activities.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Internal Costs:</b>				
Cancer biology, pathology and toxicology	\$ 3,623	\$ 3,402	\$10,479	\$ 8,748
Molecular and cellular biology	1,968	1,603	5,429	4,764
Process development and manufacturing	1,445	1,208	4,106	3,334
Product development	2,008	1,552	5,663	3,806
Subtotal internal costs	9,044	7,765	25,677	20,652
<b>External Program Costs:</b>				
Manufacturing	5,256	1,527	12,053	3,176
Clinical	5,356	3,272	14,212	7,755
Translational medicine	1,024	529	1,984	1,265
Toxicology	320	33	1,950	328
Subtotal external program costs	11,956	5,361	30,199	12,524
Total research and development expense	<u>\$21,000</u>	<u>\$13,126</u>	<u>\$55,876</u>	<u>\$33,176</u>

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Our research and development expenses have increased as we have progressed our product candidates, and we expect that these expenses may increase with continued pipeline advancement and conduct of our development activities under our agreements with GSK, Bayer and Celgene. The process of conducting preclinical studies and clinical trials necessary to obtain regulatory approval is costly and time consuming. We or our partners may never succeed in achieving marketing approval for any of our product candidates. The probability of success of each product candidate may be affected by numerous factors, including preclinical data, clinical data, competition, manufacturing capability and commercial viability. For the biologic programs covered under our strategic alliances with GSK, Bayer and Celgene, we are responsible for development of each product candidate prior to the exercise of GSK's, Bayer's or Celgene's option to exclusively license such product candidate. GSK and Bayer may exercise such an option on a product-by-product basis, and Celgene may exercise such option on a program-by-program basis, in each case, during certain time periods, which for GSK, Bayer and Celgene are through the end of certain Phase I or Phase II trials, depending on the applicable product candidate or program. If GSK exercises its option for a product candidate, all further development obligations for such product candidate are assumed by GSK. If Bayer exercises its option for a product candidate, all development obligations for such product candidate after such product candidate reaches a defined early development stage are assumed by Bayer. With respect to biologic therapeutic programs, if Celgene exercises its option for a given program, we will have the option to co-develop and co-commercialize up to five of the six such product candidates in the United States. If we do so, we will be responsible for a one-third share of the global development costs of such product candidates, with Celgene bearing the remaining two-thirds of such costs, and we will be entitled to participate in the commercialization activities for such product candidates in the United States, and to share 50% of all profits and losses arising from U.S. sales of such product candidates. Otherwise, we may enter into a license agreement with Celgene for such product candidate whereupon Celgene would be responsible for all further development costs. In addition, if Celgene exercises its option under the Celgene Agreement to further develop and commercialize small molecule therapeutics directed to targets in an undisclosed pathway, all further development obligations with respect to the small molecule therapeutic program will be assumed by Celgene.

Most of our product development programs are at an early stage; therefore, the successful development of our product candidates is highly uncertain and may not result in approved products. Completion dates and completion costs can vary significantly for each product candidate and are difficult to predict. Given the uncertainty associated with clinical trial enrollments and the risks inherent in the development process, we are unable to determine the duration and completion costs of current or future clinical trials of our product candidates or if and to what extent we will generate revenues from the commercialization and sale of any of our product candidates. We anticipate that we and our strategic alliance partners will make determinations as to which programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment as to each product candidate's commercial potential. We may need to raise additional capital or may seek additional strategic alliances in the future in order to complete the development and commercialization of our product candidates.

### ***General and Administrative***

Our general and administrative expenses consist primarily of personnel costs, allocated facilities costs and other expenses for outside professional services, including legal, human resource, audit, tax and accounting services. Personnel costs consist of salaries, benefits and stock-based compensation. We expect to incur additional expenses as a result of being a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange and costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC. In addition, we have incurred and expect to continue to incur increased expenses related to additional insurance, investor relations and other increases related to needs for additional human resources and professional services associated with being a public company.

### ***Interest and Other Income (Expense), Net***

Interest income consists primarily of interest received on our cash, cash equivalents and short-term investments balances.

Prior to our IPO in July 2013, other income (expense) included gains and losses from the remeasurement of our liabilities related to our convertible preferred stock warrants. The outstanding preferred stock warrants were converted to common stock warrants upon the completion of the IPO and were no longer subject to remeasurement following this time. There were no warrants outstanding during the nine months ended September 30, 2014.

### ***Critical Accounting Policies and Estimates***

Our financial statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in

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the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

There have been no significant and material changes in our critical accounting policies during the three and nine months ended September 30, 2014, as compared to those disclosed in "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2013.

### Results of Operations

#### Comparison of the Three Months Ended September 30, 2014 and 2013

(In thousands)	Three Months Ended September 30,		Dollar Change
	2014	2013	
Revenue:			
Collaboration revenue	\$19,015	\$ 12,439	\$ 6,576
Collaboration revenue—related party	—	493	(493)
Total revenue	19,015	12,932	6,083
Operating expenses:			
Research and development	21,000	13,126	7,874
General and administrative	3,515	3,175	340
Total operating expenses	24,515	16,301	8,214
Loss from operations	(5,500)	(3,369)	(2,131)
Interest and other income (expense), net	49	(117)	166
Loss before provision for income taxes	(5,451)	(3,486)	(1,965)
Income tax expense	(35)	—	(35)
Net loss	<u>\$ (5,486)</u>	<u>\$ (3,486)</u>	<u>\$ (2,000)</u>

#### Revenue

Total revenue for the three months ended September 30, 2014 was \$19.0 million, an increase of \$6.1 million, or 47%, compared to total revenue of \$12.9 million for the three months ended September 30, 2013. This increase is mainly due to (1) recognition of \$11.0 million in collaboration revenue from GSK for the achievement of a development milestone, such funds had been previously deferred, related to first patient enrollment in the Phase II portion of our tarextumab (anti-Notch2/3, OMP-59R5) clinical trial, (2) the recognized revenue of \$3.3 million from the amortization of the upfront payments received in 2013 under the Celgene Agreement, and (3) \$2.0 million of milestone revenue from Bayer as a result of the commencement of preclinical development of a small molecule product candidate. These increases were partially offset by the achievement of a \$10.0 million development milestone for dose escalation of vactictumab (OMP-18R5) in Phase Ia as well as agreement on the Phase Ib trial design in August 2013.

#### Research and Development

Research and development expenses were \$21.0 million for the three months ended September 30, 2014, an increase of \$7.9 million, or 60%, compared to research and development expenses of \$13.1 million for the three months ended September 30, 2013. The increase was comprised of a \$6.6 million increase in our external program costs and a \$1.3 million increase in our internal program cost.

The increase in our external program costs of \$6.6 million was primarily due to an increase of \$3.7 million in manufacturing costs primarily due to the increased production of anti-RSPO3 (OMP-131R10), tarextumab (anti-Notch 2/3, OMP-59R5), and ipafricept (Fzd8-Fc, OMP-54F28), an increase of \$2.1 million in clinical costs resulting from higher patient enrollment and advancement of our pipeline for various programs, and an increase of \$0.7 million in biomarker costs. We expect that our external program costs may increase in future periods as we continue to enroll patients in various programs and initiate new clinical trials.

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The increase in our internal costs of \$1.3 million was primarily due to an increase of \$1.2 million in personnel-related costs including stock-based compensation expense, and an increase of \$0.2 million in lab-related expenses, partially offset by a \$0.2 million decrease in contracted services.

### **General and Administrative**

General and administrative expenses were \$3.5 million for the three months ended September 30, 2014, an increase of \$0.3 million, or 9%, compared to general and administrative expenses of \$3.2 million for the three months ended September 30, 2013. The increase was due to an increase of employee costs of \$0.4 million related to increased headcount and stock-based compensation expense, and \$0.1 million of higher consulting fees and insurance costs, partially offset by lower legal fees of \$0.2 million.

### **Interest and Other Income (Expense), Net**

Interest and other income (expense), net was \$49,000 for the three months ended September 30, 2014, a change of \$166,000, compared to interest and other income (expense), net of \$(117,000) for the three months ended September 30, 2013. The change from expense to income was primarily due to the conversion of our preferred stock warrants to common stock warrants following the completion of the IPO in July 2013, such that warrants were no longer subject to remeasurement.

### **Comparison of the Nine Months Ended September 30, 2014 and 2013**

(In thousands)	Nine Months Ended September 30,		Dollar Change
	2014	2013	
Revenue:			
Collaboration revenue	\$ 31,044	\$ 17,317	\$ 13,727
Collaboration revenue—related party	—	1,478	(1,478)
Total revenue	31,044	18,795	12,249
Operating expenses:			
Research and development	55,876	33,176	22,700
General and administrative	10,167	7,111	3,056
Total operating expenses	66,043	40,287	25,756
Loss from operations	(34,999)	(21,492)	(13,507)
Interest and other income (expense), net	82	(235)	317
Loss before provision for income taxes	(34,917)	(21,727)	(13,190)
Income tax expense	(37)	—	(37)
Net loss	<u>\$(34,954)</u>	<u>\$(21,727)</u>	<u>\$(13,227)</u>

### **Revenue**

Total revenue for the nine months ended September 30, 2014 was \$31.0 million, an increase of \$12.2 million, or 65%, compared to total revenue of \$18.8 million for the nine months ended September 30, 2013. This increase is primarily due to (1) recognition of \$11.0 million in collaboration revenue from GSK for the achievement of a development milestone, such funds had been previously deferred, related to first patient enrollment in the Phase II portion of our tarextumab (anti-Notch2/3, OMP-59R5) clinical trial, (2) the recognized revenue of \$9.8 million from the amortization of the upfront payments received in 2013 under the Celgene Agreement, and (3) \$2.0 million of milestone revenue from Bayer as a result of the commencement of preclinical development of a small molecule product candidate. These increases were partially offset by the achievement of a \$10.0 million development milestone for dose escalation of vantictumab (OMP-18R5) in Phase Ia as well as agreement on the Phase Ib trial design in August 2013.

### **Research and Development**

Research and development expenses were \$55.9 million for the nine months ended September 30, 2014, an increase of \$22.7 million, or 68%, compared to research and development expenses of \$33.2 million for the nine months ended September 30, 2013. The increase was comprised of a \$17.7 million increase in our external program costs and a \$5.0 million increase in our internal program cost.

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The increase in our external program costs of \$17.7 million was due to an increase of \$8.9 million in manufacturing costs primarily due to the increased production of anti-RSPO3 (OMP-131R10), tarextumab (anti-Notch 2/3, OMP-59R5), and ipafricept (Fzd8-Fc, OMP-54F28), an increase of \$6.7 million in clinical costs resulting from higher patient enrollment and advancement of our pipelines for various programs, an increase of \$1.2 million in various program toxicology studies, and an increase of \$0.9 million in biomarker costs. We expect that our external program costs may increase in future periods as we continue to enroll patients in various programs and initiate new clinical trials.

The increase in our internal costs of \$5.0 million was due to an increase of \$3.9 million in personnel-related costs including stock-based compensation expense, an increase of \$0.6 million in lab-related expenses, and an increase in contract services and facility-related costs of \$0.5 million.

### ***General and Administrative***

General and administrative expenses were \$10.2 million for the nine months ended September 30, 2014, an increase of \$3.1 million, or 44%, compared to general and administrative expenses of \$7.1 million for the nine months ended September 30, 2013. The increase is primarily due to an increase of employee costs of \$1.4 million related to increased headcount including stock-based compensation expense, higher legal fees of \$0.2 million, higher consulting fees from third-party vendors of \$1.0 million associated with public company operations and higher insurance costs of \$0.4 million.

### ***Interest and Other Income (Expense), Net***

Interest and other income (expense), net was \$82,000 for the nine months ended September 30, 2014, a change of \$317,000, compared to interest and other income (expense), net of \$(235,000) for the nine months ended September 30, 2013. The change from expense to income was primarily due to the conversion of our outstanding preferred stock warrants to common stock warrants upon the completion of the IPO in July 2013, such that the warrants were no longer subject to remeasurement.

### **Liquidity and Capital Resources**

As of September 30, 2014, we had cash, cash equivalents, and short term investments totaling \$247.9 million. In connection with our IPO in July 2013, we received cash proceeds of \$82.7 million, net of underwriters' discounts and commissions and expenses paid by us. In December 2013, we received total cash proceeds of \$177.2 million as the result of the Celgene Agreement, including the sale of common stock to Celgene.

Our primary uses of cash are to fund operating expenses, primarily related to research and development product candidate expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the change in our outstanding accounts payable and accrued expenses.

We believe that our existing cash, cash equivalents and short-term investments as of September 30, 2014 will be sufficient to meet our anticipated cash requirements at least through 2016, even without taking into account potential future milestone payments to us. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially.

Our future capital requirements are difficult to forecast and will depend on many factors, including:

- the achievement of milestones and/or exercise of options under our agreements with GSK, Bayer and Celgene;
- the initiation, progress, timing and completion of preclinical studies and clinical trials for our product candidates and potential product candidates;
- the number and characteristics of product candidates that we pursue;
- the progress, costs and results of our clinical trials;
- the outcome, timing and cost of regulatory approvals;
- delays that may be caused by changing regulatory requirements;
- funding we may receive under any new collaborations we may enter into or new government grants we may be awarded in the future;
- the costs and timing of hiring new employees to support our continued growth; and
- the costs and timing of procuring clinical supplies of our product candidates.

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The following table summarizes our cash flows for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Cash used in operating activities	\$ (69,043)	\$(22,755)
Cash used in investing activities	(111,922)	(67,687)
Cash provided by financing activities	2,029	85,271

### ***Cash Flows from Operating Activities***

Cash used in operating activities for the nine months ended September 30, 2014 was \$69.0 million. Our net loss of \$34.9 million for the nine months ended September 30, 2014 was offset by non-cash charges of \$1.1 million for depreciation and amortization, and \$4.2 million for stock-based compensation. The change in net operating assets of \$39.3 million was primarily due to the decrease in income tax payable of \$10.8 million upon payment of federal income tax that resulted mainly from the receipt of the Celgene upfront payment in December 2013, a decrease in deferred revenue of \$29.0 million from the amortization of upfront payments from collaboration partners, and an increase in accounts payable and accrued liabilities of \$4.2 million as a result of the timing of our payments.

Cash used in operating activities for the nine months ended September 30, 2013 was \$22.8 million. The net loss of \$21.7 million was offset by non-cash charges of \$1.0 million for depreciation and amortization, \$1.0 million for stock-based compensation and \$0.3 million for the revaluation of the convertible preferred stock warrant liability. The change in net operating assets of \$3.3 million was due to the increase in accounts receivable – collaboration of \$10.0 million due from Bayer for the achievement of a development milestone for dose escalation of vantictumab (anti-Fzd7, OMP-18R5) in Phase Ia as well as agreement on the Phase Ib trial design, partially offset by the collection of a related party receivable from GSK of \$4.0 million and an increase in accounts payable and accrued liabilities of \$4.7 million as a result of the timing of our payments. Deferred revenue decreased by \$0.8 million due to receipt of \$8.0 million payment from GSK related to the initiation of the Phase Ib clinical trial in the second indication of our tarextumab (anti-Notch2/3, OMP-59R5) program, partially offset by the amortization of upfront and milestone payments from the GSK and Bayer arrangements in the amount of \$8.8 million.

### ***Cash Flows from Investing Activities***

Cash used in investing activities of \$111.9 million for the nine months ended September 30, 2014 was due to purchases of short-term investments of \$411.9 million and our acquisition of property and equipment of \$1.3 million, offset by maturities of short-term investments of \$301.3 million.

Cash used in investing activities of \$67.7 million for the nine months ended September 30, 2013 was due to purchases of short-term investments of \$127.5 million and our acquisition of property and equipment of \$0.2 million, offset by maturities of short-term investments of \$60.0 million.

### ***Cash flows from Financing Activities***

Cash provided by financing activities of \$2.0 million for the nine months ended September 30, 2014 was due to the proceeds of \$1.0 million from the issuance of common stock upon the exercise of stock option and \$1.0 million from purchases of common stock under our ESPP.

Cash provided by financing activities for the nine months ended September 30, 2013 was primarily due to the net proceeds of \$85.2 million from the IPO.

### **Off-Balance Sheet Arrangements**

As of September 30, 2014, we did not have any off-balance sheet arrangements or any holdings in variable interest entities.

### **Recent Adopted Accounting Pronouncements**

In June 2014, FASB issued final guidance that a performance target that affects vesting of a share-based payment and that could be achieved after the requisite service period is a performance condition under ASC 718, Compensation — Stock Compensation. As a result, the target is not reflected in the estimation of the award's grant date fair value. Compensation cost for such an award would be recognized over the required service period, if it is probable that the performance condition will be achieved. The guidance is effective

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for all entities for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The guidance should be applied on a prospective basis to awards that are granted or modified on or after the effective date. We do not believe the adoption of this guidance will have a material impact on our financial statement.

In May 2014, the FASB and the International Accounting Standards Board issued ASU 2014-09. This ASU affects any entity that either enters into contracts with customers to transfer goods and services or enters into contracts for the transfer of nonfinancial assets. This ASU will supersede the revenue recognition requirements in Topic 605, and most industry specific guidance. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us for annual periods beginning after December 15, 2016, including interim periods within that period. Entities can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Entities electing the full retrospective adoption will apply the standard to each period presented in the financial statements. This means that entities will have to apply the new guidance as if it had been in effect since the inception of all its contracts with customers presented in the financial statements. Entities that elect the modified retrospective approach will apply the guidance retrospectively only to the most current period presented in the financial statements. This means that entities will have to recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application. Early adoption is not permitted under U.S. GAAP. We are currently evaluating the impact of adoption on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15 which provides guidance about management's responsibility to evaluate whether or not there is substantial doubt about our ability to continue as a going concern and to provide related footnote disclosure. ASU 2014-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early application is permitted. The adoption of this standard is not expected to have an impact on our financial statements.

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

We are exposed to market risks in the ordinary course of our business. These risks primarily include risk related to interest rate sensitivities.

#### **Interest Rate Sensitivity**

We had cash, cash equivalents and short-term investments of \$247.9 million as of September 30, 2014, which consist of bank deposits, money market funds and U.S. Treasury Bills. Such interest-earning instruments carry a degree of interest rate risk; however, historical fluctuations in interest income have not been significant. We had no outstanding debt as of September 30, 2014.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

#### **Foreign Currency Exchange Rate Sensitivity**

We face foreign exchange risk as a result of entering into transactions denominated in currencies other than U.S. dollars, particularly in Euro and British Sterling. Due to the uncertain timing of expected payments in foreign currencies, we do not utilize any forward foreign exchange contracts. All foreign transactions settle on the applicable spot exchange basis at the time such payments are made.

An adverse movement in foreign exchange rates could have a material effect on payments we make to foreign suppliers. The impact of an adverse change in foreign exchange rates may be offset in the event we receive a milestone payment from a foreign partner. A hypothetical 10% change in foreign exchange rates during any of the preceding periods presented would not have a material impact on our financial statements.



#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2014. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in

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evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2014, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2014, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to any material litigation or other material legal proceedings.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014 and in our other public filings with the SEC. The risks described in our 2013 Annual Report on Form 10-K, in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014 and in our other public filings with the SEC are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes to our risk factors from those set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, other than as previously disclosed in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014 and as described in the updated risk factor provided below.

*If we are required to suspend or discontinue clinical trials due to side effects or other safety risks, or if we are required to conduct studies on the long-term effects associated with the use of our product candidates, our ability to commercialize our product candidates could be adversely affected or delayed.*

Our clinical trials may be suspended, delayed, or terminated at any time for a number of safety-related reasons. For example, we may voluntarily suspend, delay, or terminate our clinical trials if at any time we believe that our product candidates present an unacceptable safety risk to the clinical trial patients. In addition, IRBs or regulatory agencies may order the temporary discontinuation or termination of our clinical trials at any time if they believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements, including if they present an unacceptable safety risk to patients. Administering any product candidate to humans may produce undesirable side effects. The existence of undesirable side effects resulting from our product candidates could cause us or regulatory authorities, such as the FDA, to interrupt, delay or halt clinical trials of our product candidates and could result in the FDA or other regulatory agencies denying further development or approval of our product candidates for any or all targeted indications. This, in turn, could affect whether GSK, Bayer and/or Celgene exercise their development options under our strategic collaborations and could prevent us from commercializing our product candidates. Further, our programs modulate novel classes of targets. As a result, we may experience unforeseen adverse side effects with our existing and future product candidates, including demcizumab (anti-DLL4, OMP-21M18).

The pharmacokinetic, pharmacodynamic, and safety profile of preclinical studies may not be indicative of results in any clinical trial. As of the date of this Quarterly Report on Form 10-Q, five of our current product candidates have been tested in cancer patients. We have observed adverse events in clinical trials for all five of our product candidates. We currently believe these adverse events are manageable. Nevertheless, such adverse events may cause challenges in development, approval and/or commercialization.

For example, following the occurrence of certain bone-related adverse events, we voluntarily halted enrollment and dosing in our ongoing Phase 1 clinical trials of our vantiactumab (anti-Fzd7, OMP-18R5) and ipafricept (Fzd8-Fc, OMP-54F28) programs until revised protocols and risk mitigation plans could be submitted to and concurred with by the FDA and the study sites’ IRBs. In view of our voluntary halt of these programs, the FDA subsequently placed these programs on partial clinical hold. After review of our revised protocols and risk mitigation plans, the FDA removed its partial clinical holds on our vantiactumab and ipafricept programs in August 2014 and September 2014, respectively. Although we believe our revised protocols and risk mitigation plans will be satisfactory to each of the study sites’ IRBs to allow re-initiation of enrollment in our vantiactumab and ipafricept clinical trials at those sites, we cannot assure you that this will be the case. If the revised protocols and risk mitigation plans are not accepted by the IRBs of certain sites in our vantiactumab or ipafricept clinical trials, reinitiation of enrollment may be delayed, subsequent enrollment may be slowed, and additional costs may be incurred. Failure can occur at any stage of the drug development process, and we cannot assure you that vantiactumab, ipafricept or any of our product candidates will reach the point where they are able to be successfully commercialized.

The toxicity profile of demcizumab has been shown to include cardiopulmonary events, including hypertension that was generally manageable. In certain patients treated with demcizumab, pulmonary hypertension and/or heart failure have been observed, resulting in the implementation of a risk mitigation strategy including limiting the duration of therapy in our Phase Ib trials so as to optimize the therapeutic index, to maximize efficacy while managing tolerability, of the product candidate and minimize potential cardiopulmonary toxicity. The most common treatment-related adverse events experienced by patients treated with demcizumab include fatigue, vomiting, hypertension and nausea. The most common treatment-related adverse events experienced by patients treated with tarextumab (anti-Notch2/3, OMP-59R5) include diarrhea, fatigue and nausea. The most common treatment-related

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adverse events experienced by patients treated with anti-Notch1 (OMP-52M51) include diarrhea, nausea, fatigue and rash. The toxicity profile of vantictumab has been shown to include certain bone effects, including mild to moderate grade bone adverse events, resulting in the implementation of a bone risk mitigation plan involving monitoring, prophylactic supplements and administration of zoledronic acid, if indicated, in our vantictumab trials. The most common treatment-related adverse events experienced by patients treated with vantictumab include fatigue and nausea. The most common treatment-related adverse events experienced by patients treated with ipafricept include decreased appetite, muscle spasms, nausea, and dysgeusia (altered taste sensation). The toxicity profile of ipafricept has also been shown to include certain bone effects, including mild to moderate grade bone adverse events, and a bone risk mitigation plan that involves monitoring, prophylactic supplements and administration of zoledronic acid, if indicated, has been implemented in our ipafricept trials.

Further treatment of patients in the ongoing trials or subsequent trials of any of our product candidates could reveal significant harmful side effects. We have not conducted complete studies on the long-term effects associated with the use of all of our product candidates. Studies of these long-term effects may be required for regulatory approval and such requirement would delay our introduction of our product candidates, including those under our collaborations with GSK, Bayer, and/or Celgene into the market. These studies could also be required at any time after regulatory approval of any of our product candidates. Absence of long-term data may also limit the approved uses of our products, if any, to short-term use. Some or all of our product candidates may prove to be unsafe for human use, which would materially harm our business.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

*(a)*

Not applicable

*(b)*

On July 23, 2013, we closed our IPO, in which we sold an aggregate of 5,520,000 shares of common stock at a price to the public of \$17.00 per share. The aggregate offering price for shares sold in the offering was \$93.9 million. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-181331), which was declared effective by the SEC on July 17, 2013.

There has been no material change in the planned use of proceeds from our IPO as described in the Prospectus. We invested the funds received in short-term, interest-bearing investment-grade securities and government securities.

*(c)*

Not applicable.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

### **ITEM 5. OTHER INFORMATION**

*(a)*

Not applicable

*(b)*

Not applicable.

### **ITEM 6. EXHIBITS**

See the Exhibit Index on the page immediately following the signature page to this Quarterly Report on Form 10-Q for a list of the exhibits filed as part of this Quarterly Report, which Exhibit Index is incorporated herein by reference.

**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.

**OncoMed Pharmaceuticals, Inc.**

Date: November 4, 2014

By: \_\_\_\_\_ /s/ Sunil Patel

**Sunil Patel**  
**Chief Financial Officer, Senior Vice President, Corporate**  
**Development and Finance**  
**(principal financial and accounting officer)**

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**EXHIBIT INDEX**

Listed and indexed below are all Exhibits filed as part of this report.

<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibit</u></b>
3.1	Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K on July 23, 2013 and incorporated herein by reference).
3.2	Amended and Restated Bylaws (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K on July 23, 2013 and incorporated herein by reference).
4.1	Form of Common Stock Certificate (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-181331), effective July 17, 2013, and incorporated herein by reference).
4.2(A)	Amended and Restated Investor Rights Agreement, dated October 7, 2008, by and among the Registrant and certain stockholders (filed as Exhibit 4.4(A) to the Registrant's Registration Statement on Form S-1 (File No. 333-181331), effective July 17, 2013, and incorporated herein by reference).
4.2(B)	Amendment and Consent, dated September 16, 2010, by and among the Registrant and certain stockholders (filed as Exhibit 4.4(B) to the Registrant's Registration Statement on Form S-1 (File No. 333-181331), effective July 17, 2013, and incorporated herein by reference).
4.3	Registration Rights Agreement, dated as of December 2, 2013, by and between the Registrant and Celgene Corporation (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K on December 3, 2013 and incorporated herein by reference).
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.
101*	The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in eXtensible Business Reporting Language (XBRL) includes: (i) Condensed Balance Sheets at September 30, 2014 (unaudited) and December 31, 2013, (ii) Condensed Statements of Operations and Comprehensive Loss (unaudited) for the three and nine months ended September 30, 2014 and 2013, (iii) Condensed Statements of Cash Flows (unaudited) for the nine months ended September 30, 2014 and 2013, and (iv) Notes to the Condensed Financial Statements.

\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
**REQUIRED UNDER RULE 13A-14(A) AND 15D-14(A)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Paul J. Hastings, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OncoMed Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2014

/s/ Paul J. Hastings

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Paul J. Hastings  
Chairman and Chief Executive Officer  
(principal executive officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**  
**REQUIRED UNDER RULE 13A-14(A) AND 15D-14(A)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Sunil Patel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OncoMed Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2014

/s/ Sunil Patel

\_\_\_\_\_  
Sunil Patel  
Chief Financial Officer, Senior Vice President, Corporate  
Development and Finance  
(principal financial and accounting officer)



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of OncoMed Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2014, as filed with the Securities and Exchange Commission (the "Report"), Paul J. Hastings, Chairman and Chief Executive Officer of the Company, and Sunil Patel, Chief Financial Officer, Senior Vice President, Corporate Development and Finance, of the Company, respectively, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2014

/s/ Paul J. Hastings

Paul J. Hastings  
Chairman and Chief Executive Officer  
(principal executive officer)

/s/ Sunil Patel

Sunil Patel  
Chief Financial Officer, Senior Vice President, Corporate  
Development and Finance  
(principal financial and accounting officer)

