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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, 2018

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)

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

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

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 31, 2018, the number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 38,630,145.

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**ONCOMED PHARMACEUTICALS, INC.**  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## OncoMed Pharmaceuticals, Inc.

Condensed Balance Sheets  
(Unaudited)

(In thousands, except share and per share amounts)

	September 30, 2018	December 31, 2017 (Note 2)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,406	\$ 13,277
Short-term investments	62,450	89,814
Accounts receivable and other receivables	416	405
Prepaid and other current assets	1,913	1,709
Total current assets	73,185	105,205
Property and equipment, net	2,362	3,275
Other assets	1,606	1,842
Total assets	<u>\$ 77,153</u>	<u>\$ 110,322</u>
<b>Liabilities and stockholders' equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 3,163	\$ 2,565
Accrued liabilities	4,571	3,940
Accrued clinical liabilities	2,327	4,434
Current portion of deferred revenue	11,278	82,193
Total current liabilities	21,339	93,132
Deferred revenue, less current portion	—	61,645
Deferred rent	4,090	3,765
Non-current income tax payable	—	383
Total liabilities	<u>25,429</u>	<u>158,925</u>
Stockholders' equity (deficit):		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized at September 30, 2018 and December 31, 2017; no shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Common stock, \$0.001 par value; 145,000,000 shares authorized at September 30, 2018 and December 31, 2017; 38,525,781 and 38,212,505 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	38	38
Additional paid-in capital	408,868	403,077
Accumulated other comprehensive income (loss)	(62)	289
Accumulated deficit	(357,120)	(452,007)
Total stockholders' equity (deficit)	51,724	(48,603)
Total liabilities and stockholders' equity (deficit)	<u>\$ 77,153</u>	<u>\$ 110,322</u>

See accompanying notes to the condensed financial statements.

**OncoMed Pharmaceuticals, Inc.**

**Condensed Statements of Operations  
(Unaudited)**

(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Revenue:</b>				
Collaboration revenue	\$ 19,518	\$ 5,013	\$ 34,237	\$ 15,467
Other revenue	—	93	—	2,048
Total revenue	19,518	5,106	34,237	17,515
<b>Operating expenses:</b>				
Research and development	10,025	12,191	26,466	51,268
General and administrative	3,702	3,871	12,800	12,952
Restructuring charges	—	69	—	2,513
Total operating expenses	13,727	16,131	39,266	66,733
Income (loss) from operations	5,791	(11,025)	(5,029)	(49,218)
Interest and other income, net	324	337	1,211	705
Income (loss) before provision for income taxes	6,115	(10,688)	(3,818)	(48,513)
Income tax provision (benefit)	—	4	(383)	12
Net income (loss)	\$ 6,115	\$ (10,692)	\$ (3,435)	\$ (48,525)
Net income (loss) per common share, basic and diluted	\$ 0.16	\$ (0.28)	\$ (0.09)	\$ (1.29)
Shares used to compute net income (loss) per common share, basic	38,508,204	37,662,868	38,381,374	37,520,608
Shares used to compute net income (loss) per common share, diluted	38,512,526	37,662,868	38,381,374	37,520,608

See accompanying notes to the condensed financial statements.

**OncoMed Pharmaceuticals, Inc.**

**Condensed Statements of Comprehensive Income (Loss)**  
**(Unaudited)**  
(In thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net income (loss)	\$ 6,115	\$ (10,692)	\$ (3,435)	\$ (48,525)
Other comprehensive income (loss):				
Unrealized loss on available-for-sale securities, net of tax	(5)	(97)	(351)	(85)
Total comprehensive income (loss)	<u>\$ 6,110</u>	<u>\$ (10,789)</u>	<u>\$ (3,786)</u>	<u>\$ (48,610)</u>

See accompanying notes to the condensed financial statements.

**OncoMed Pharmaceuticals, Inc.**  
**Condensed Statements of Cash Flows**  
**(Unaudited)**  
(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Net loss	\$ (3,435)	\$ (48,525)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,288	1,286
Stock-based compensation	5,702	7,278
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	(11)	2,167
Prepaid and other current assets	(204)	65
Other assets	236	680
Accounts payable	598	(4,111)
Accrued liabilities	394	(3,651)
Accrued clinical liabilities	(2,107)	(12,975)
Deferred revenue	(34,237)	(15,497)
Deferred rent	325	662
Net cash used in operating activities	<u>(31,451)</u>	<u>(72,621)</u>
<b>Investing activities</b>		
Purchases of property and equipment	(522)	(484)
Purchases of short-term investments	(77,379)	(107,502)
Maturities of short-term investments	104,392	157,327
Net cash provided by investing activities	<u>26,491</u>	<u>49,341</u>
<b>Financing activities</b>		
Proceeds from issuance of common stock related to the exercise of options and employee stock plan purchases	89	2,204
Net cash provided by financing activities	<u>89</u>	<u>2,204</u>
Net decrease in cash and cash equivalents	(4,871)	(21,076)
Cash and cash equivalents at beginning of period	13,277	36,953
Cash and cash equivalents at end of period	<u>\$ 8,406</u>	<u>\$ 15,877</u>
<b>Supplemental cash flow information:</b>		
Accrued liabilities for purchase of property and equipment	<u>\$ 26</u>	<u>\$ —</u>

See accompanying notes to the condensed financial statements.

## OncoMed Pharmaceuticals, Inc.

### Notes to the Unaudited Condensed Financial Statements

#### 1. Organization

OncoMed Pharmaceuticals, Inc. (“OncoMed,” the “Company,” “us,” “we,” or “our”) is a clinical-stage biopharmaceutical company focused on discovering and developing novel therapeutics that address the fundamental biology driving cancer’s growth, resistance, recurrence and metastasis. The Company currently has three anti-cancer therapeutic candidates in active clinical development. The Company is also pursuing discovery of additional novel approaches to cancer treatment, including new immuno-oncology therapeutic candidates. The Company’s operations are based in Redwood City, California and it operates in one segment.

#### 2. Summary of Significant Accounting Policies

##### *Basis of Presentation*

The Company’s financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim reporting. 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 financial information. These interim results are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any subsequent interim period.

The condensed balance sheet data as of December 31, 2017 was derived from the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. 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, 2017, filed with the Securities and Exchange Commission (the “SEC”) on March 9, 2018.

There have been no material changes to our significant accounting policies as of and for the nine months ended September 30, 2018, except for the policy related to revenue recognition.

##### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP 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, but not limited to, those related to revenue recognition, preclinical study and clinical trial accruals, fair value of assets and liabilities, restructuring charges, stock-based compensation and income taxes. 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.

##### *Revenue Recognition*

Effective January 1, 2018, the Company adopted Accounting Standards Codification, or ASC, Topic 606, Revenue from Contracts with Customers, using the modified retrospective transition method. Under this method, the Company recorded a cumulative adjustment to the opening balance of accumulated deficit and to deferred revenue. Under Topic 606, the Company recognizes revenue when it transfers control of promised goods or services to its customers in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once a contract is determined to be within the scope of Topic 606, the Company assesses the goods or services promised within the contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The Company evaluated its existing contracts and only applied Topic 606 to those contracts that were not completed at January 1, 2018. As a result of this evaluation, the Company determined that only its collaboration with Celgene Corporation (“Celgene”) is

within the scope of Topic 606. The terms of this arrangement include payment to the Company of a non-refundable upfront fee; potential development, regulatory and sales milestones; program opt-in payments; and royalties on net product sales. Each of these payments results in collaboration revenue, except for revenues from royalties on net product sales, which would be classified as royalty revenues. In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its collaboration agreement with Celgene, the Company applies the five-step model. As part of the accounting for this arrangement, the Company must develop assumptions that require judgment to determine the stand-alone selling price for each performance obligation identified in the contract. The Company also must develop assumptions that require judgment in determining the measure of progress used to recognize revenue.

#### *Milestone Payments*

At the inception of each arrangement that includes development, regulatory or commercial milestone payments, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or partner, such as regulatory approvals, are not considered probable of being achieved until those approvals are received or the underlying activity has been completed. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of such development milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect collaboration revenues and earnings in the period of adjustment.

#### **Customer Concentration**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Celgene Corporation ("Celgene")	100%	100%	100%	88%
Bayer Pharma AG ("Bayer")	—	—	—	11%

#### **Net Income (Loss) per Common Share**

Basic net income (loss) per common share is calculated by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net income (loss) per common share is computed by dividing the net income (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 stock options and restricted stock units are considered to be common stock equivalents. Common stock equivalents were excluded in the calculation of diluted net loss per common share because their effect would be anti-dilutive.

#### **Newly Adopted and Recent Accounting Pronouncements**

*Accounting Standard Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition.*

##### *Collaboration with Celgene*

The Company adopted the accounting standard update on January 1, 2018 using the modified retrospective approach, for its collaboration agreement with Celgene. Therefore, comparative historical information will not be adjusted and will continue to be reported under ASC 605 with the impact of the transition reflected in the opening balance of accumulated deficit as of January 1, 2018. The Company is eligible to receive consideration under this agreement that includes non-refundable upfront payments; development, regulatory, and sales milestone payments; and program opt-in payments; and royalties on net product sales. The new revenue recognition standard differs from ASC 605 in many respects, such as in the accounting for variable consideration and the measurement of progress toward completion of performance obligations. The most significant impact of the standard relates to the Company's method of revenue recognition for performance obligations that are delivered over time. Under the new standard, milestone payments are included in the transaction price as variable consideration, subject to a constraint, and are allocated to the performance obligations in the contract when recognized. Through December 31, 2017, the Company also received payments from



Celgene to reimburse the costs of research and development services performed by the Company; these payments were historically recorded as other revenue. As the performance of these research and development services was at the Company's discretion and is not reflective of a commitment or performance obligation pursuant to the Celgene agreement, the reimbursement paid to the Company has been excluded from the transaction price.

The Company's deferred revenue associated with its Celgene collaboration agreement as of December 31, 2017 under Topic 605 was \$143.8 million. As a result of adopting Topic 606, the Company recorded a \$98.3 million reduction to its deferred revenue and opening accumulated deficit on January 1, 2018 as a result of the cumulative impact of the change in the recognition of the upfront and milestone payments using the input method (described further in Note 5, "Collaborations") under Topic 606, rather than on a ratable basis which was applied in prior periods. Under Topic 606, the deferred revenue balance was \$45.5 million as of January 1, 2018. The remaining performance obligation under the contract is estimated to be substantially complete by the third quarter of 2019.

#### *Collaborations with Bayer and GlaxoSmithKline ("GSK")*

As the GSK collaboration was terminated in its entirety on October 28, 2017, this arrangement was outside the scope of Topic 606 as of the adoption date. For the Bayer collaboration, Bayer terminated all biologic therapeutic programs under the collaboration effective June 16, 2017, while the small molecule therapeutics program remained active. Refer to Note 5, "Collaborations," for further details. The Company has determined that the small molecule therapeutic program remaining as of December 31, 2017 is immaterial in the context of the collaboration agreement relative to the biologics therapeutic programs that was terminated during 2017. The Company's performance obligations under the small molecule therapeutic program with respect to Bayer were substantially complete at December 31, 2017, and any future receipts in the form of milestones or royalties are contingent upon the achievement of specified development, commercial and/or sales targets. The Company has concluded that there was no transition adjustment to be recognized on January 1, 2018 for these two agreements.

#### *Impact of Adoption*

The following table summarizes the impact of adopting Topic 606 on select unaudited condensed balance sheet and condensed statement of operations line items (in thousands, except per share data):

	<u>Balance at December 31, 2017</u>	<u>Adjustment</u>	<u>Balance at January 1, 2018</u>
<b>Condensed Balance Sheets:</b>			
Deferred revenue, current portion	\$ 82,193	\$ (51,299)	\$ 30,894
Deferred revenue, non-current portion	61,645	(47,023)	14,622
Accumulated deficit	(452,007)	98,322	(353,685)

	<u>Three months ended September 30, 2018</u>		
	<u>As reported under Topic 606</u>	<u>Adjustment</u>	<u>Balances without the adoption of Topic 606</u>
<b>Condensed Statements of Operations:</b>			
Collaboration revenue	\$ 19,518	\$ 1,031	\$ 20,549
Income from operations	5,791	1,031	6,822
Net income	6,115	1,031	7,146
Net income per common shares, basic and diluted	\$ 0.16	\$ 0.03	\$ 0.19

	<u>Nine months ended September 30, 2018</u>		
	<u>As reported under Topic 606</u>	<u>Adjustment</u>	<u>Balances without the adoption of Topic 606</u>
<b>Condensed Statements of Operations:</b>			
Collaboration revenue	\$ 34,237	\$ 27,410	\$ 61,647
Income (loss) from operations	(5,029)	27,410	22,381
Net income (loss)	(3,435)	27,410	23,975
Net income (loss) per common shares, basic and diluted	\$ (0.09)	\$ 0.71	\$ 0.62

### Contract Balances

Upfront payments and fees may be required to be recorded as deferred revenue upon receipt or when due, and recognized in a future period when or as the Company performs its obligations under these arrangements. Amounts payable to the Company are recorded as accounts receivable when the Company's right to consideration is unconditional.

As of September 30, 2018, the Company's contract liabilities, which consisted of deferred revenue, decreased by a total of \$132.6 million from December 31, 2017, of which \$98.3 million was related to the cumulative adjustment to the opening balance of accumulated deficit upon the adoption of Topic 606 on January 1, 2018 and \$34.2 million related to revenue recognized for the nine months ended September 30, 2018. The remaining performance obligation under the Company's collaboration agreement with Celgene is expected to be substantially complete by the third quarter of 2019. Upon adoption of the standard as of January 1, 2018, the Company had a \$45.5 million contract liability. As of September 30, 2018, the Company had a \$11.3 million contract liability. There were no changes in transaction price during the three and nine month periods ended September 30, 2018.

### ASU No. 2016-02, Leases (Topic 842)

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize almost all leases with a term greater than one year as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. ASU 2016-02 notes that the guidance should be adopted using a modified retrospective approach. The guidance will become effective for the Company beginning in the first quarter of 2019 with early adoption permitted. While the Company is currently evaluating the impact of the adoption of this standard on its financial statements, the Company anticipates recognition of additional assets and corresponding liabilities related to leases on its Balance Sheet. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842) Targeted Improvements*, which provides entities with an additional (and optional) transition method which would enable entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings/accumulated deficit. This optional transition method is in addition to the modified retrospective transition approach included in ASU 2016-02.

### ASU No. 2018-07, Improvement to Nonemployees Share-based Payment Accounting (Topic 718)

In June 2018, the FASB issued ASU No. 2018-07, *Stock Compensation*. ASU No. 2018-07 simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but not earlier than the Company's adoption of Topic 606. The Company chose to adopt the guidance early, in the second quarter of 2018. The adoption of the standard did not have material impact on the Company's financial statements.

### ASU No. 2018-13, Fair Value Measurements (Topic 820)

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement*. ASU 2018-13 eliminates certain disclosure requirements for fair value measurements for all entities, requires public entities to disclose certain new information and modifies some disclosure requirements. This guidance will become effective for the Company in the first quarter of 2020, with early adoption permitted. The Company plans to adopt the guidance in the first quarter of 2020. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

## 3. Cash, Cash Equivalents and Investments

The fair value of securities at September 30, 2018 and December 31, 2017, was as follows (in thousands):

	Amortized Cost	September 30, 2018		Fair Value
		Gains	Losses	
Money market funds	\$ 169	\$ —	\$ —	\$ 169
U.S. treasury bills	62,512	—	(62)	62,450
Total available-for-sale securities	<u>\$ 62,681</u>	<u>\$ —</u>	<u>\$ (62)</u>	<u>\$ 62,619</u>
Classified as:				
Cash equivalents				\$ 169
Short-term investments				62,450
Total				<u>\$ 62,619</u>

As of September 30, 2018, the Company had a total of \$70.9 million in cash, cash equivalents and short-term investments, which includes \$8.4 million in cash and cash equivalents and \$62.5 million in short-term investments.

	December 31, 2017			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Money market funds	\$ 99	\$ —	\$ —	\$ 99
U.S. treasury bills	89,525	289	—	89,814
Total available-for-sale securities	<u>\$ 89,624</u>	<u>\$ 289</u>	<u>\$ —</u>	<u>\$ 89,913</u>
Classified as:				
Cash equivalents				\$ 99
Short-term investments				89,814
Total				<u>\$ 89,913</u>

As of December 31, 2017, the Company had a total of \$103.1 million in cash, cash equivalents and short-term investments, which includes \$13.3 million in cash and cash equivalents and \$89.8 million in short-term investments.

All available-for-sale securities held as of September 30, 2018 and December 31, 2017 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 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 Company applies the following hierarchy for disclosure of the inputs used to measure fair value, which prioritizes the inputs used into three broad levels 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.

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, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 169	\$ —	\$ —	\$ 169
U.S. treasury bills	—	62,450	—	62,450
Total	<u>\$ 169</u>	<u>\$ 62,450</u>	<u>\$ —</u>	<u>\$ 62,619</u>
	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 99	\$ —	\$ —	\$ 99
U.S. treasury bills	—	89,814	—	89,814
Total	<u>\$ 99</u>	<u>\$ 89,814</u>	<u>\$ —</u>	<u>\$ 89,913</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

### Summary of Collaboration Related Revenue

The Company has recognized the following revenues from its collaboration agreements during the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Celgene:				
Recognition of upfront payments	\$ 19,518	\$ 5,013	\$ 34,237	\$ 15,039
Other revenue	—	93	—	311
Celgene total	19,518	5,106	34,237	15,350
Bayer:				
Recognition of upfront payments	—	—	—	278
Other revenue	—	—	—	1,734
Bayer total	—	—	—	2,012
GSK:				
Recognition of upfront payments	—	—	—	150
Other revenue	—	—	—	3
GSK total	—	—	—	153
Total collaboration related revenue	\$ 19,518	\$ 5,106	\$ 34,237	\$ 17,515

### Adoption of ASU No. 2014-09

On January 1, 2018, the Company adopted ASU No. 2014-09 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Topic 605.

### Celgene Strategic Alliance

In December 2013, the Company entered into a collaboration agreement with Celgene pursuant to which the Company and Celgene are collaborating on research and development programs directed to the discovery and development of novel biologic therapeutics. In September 2018, Celgene informed the Company of Celgene's decision not to exercise its option to license the navicixizumab program due to strategic product portfolio considerations. The Company and Celgene have formalized the termination of the collaboration agreement with respect to the navicixizumab program, and as a result, effective January 23, 2019, the Company will retain worldwide rights to navicixizumab. In October 2018, Celgene notified the Company of its decision not to exercise its option to license rosmantuzumab (anti-RSPO3, OMP-131R10) and terminated the companies' collaboration agreement with respect to rosmantuzumab, effective February 12, 2019. The Company will retain worldwide rights to rosmantuzumab upon termination. The etigilimab (anti-TIGIT, OMP-313M32) program is the only program remaining under the collaboration. As of September 30, 2018, the Company is not eligible to receive any milestone payments under its collaboration with Celgene prior to the point that Celgene exercises its remaining option. The Company is eligible to receive up to approximately \$35.0 million of contingent consideration if Celgene exercises its options for the etigilimab program. Following Celgene's exercise of its option for the etigilimab program, Celgene will have exclusive development and commercialization rights worldwide, with the Company eligible to receive milestones and tiered royalties equal to a percentage of net product sales worldwide in the high-single digits to the mid-teens. If Celgene successfully develops and commercializes product candidates in the etigilimab program, the Company could receive additional contingent consideration of up to \$402.5 million for the achievement of post-option exercise development, regulatory events and sales milestones. 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 agreement with Celgene.

The Company assessed its collaboration agreement with Celgene in accordance with Topic 606 and concluded that Celgene is a customer. The Company determined that its performance obligation under the arrangement with Celgene is research and development services. As part of the promised research and development services, the Company may provide the resultant data to Celgene to assist Celgene in determining whether or not to exercise its options. Under the arrangement, Celgene has options to further develop and commercialize biologic therapeutics in each program under the collaboration, which may be exercised during time periods specified in the agreement. Upon Celgene's exercise of its option for certain programs, the Company may, at its discretion, gain co-development and co-commercialization rights and corresponding obligations. The Company determined that the exclusive

option(s) provided to Celgene is not a material right under Topic 606 and thus it is not a performance obligation. Based on its assessment, the Company has identified the research and development services as the only performance obligation at the inception of the collaboration agreement.

Prior to recognizing revenue, the Company estimates the transaction price, including variable consideration that is subject to a constraint. Amounts of variable consideration are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration includes payments based upon the achievement of specified milestones, and royalty payments based on product sales derived from the collaboration. Under the collaboration agreement, the Company determined that the non-refundable upfront cash payment of \$155.0 million and stock premium of \$1.7 million received in December 2013 constitute consideration to be included in the transaction price. The Company also included in the transaction price the \$70.0 million demcizumab (anti-DLL4, OMP-21M18) safety milestone that was achieved in December 2015 and the two designation milestone payments of \$2.5 million each for the designation of rosmantuzumab and etigilimab as clinical candidates in 2014 and 2015, respectively. The total consideration received of \$231.7 million constitutes the transaction price at the transition date for Topic 606. Through December 31, 2017, the Company also received a total of \$2.5 million in the aggregate from Celgene to reimburse the costs of research and development services performed by the Company; these reimbursements have historically been recorded as other revenue. As the performance of these research and development services was at the Company's discretion and is not a commitment or performance obligation pursuant to the Celgene collaboration agreement, the reimbursement paid to the Company has been excluded from the transaction price. None of the remaining development and regulatory milestone amounts have been included in the transaction price, as all milestone amounts were fully constrained as of January 1, 2018 and September 30, 2018. As part of the Company's evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestone amounts is outside the control of the Company and contingent upon success in future clinical trials. Any consideration related to sales milestones and royalties on net product sales will be recognized at the later of when the related sales occur or the performance obligation to which some or all of the sales milestone or royalty has been allocated is satisfied (in whole or in part) and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

Following the adoption of Topic 606, the Company recognizes collaboration revenue by measuring the progress toward complete satisfaction of the performance obligation using an input measure. The Company concluded the method that best correlates with progress of the services provided to Celgene is the input method, based on actual costs incurred to date compared to the overall total expected costs to satisfy the performance obligation. The Company will evaluate the estimate of expected costs to satisfy the performance obligation each reporting period and make adjustments for any significant changes. Under Topic 606, collaboration revenue under the Company's collaboration agreement with Celgene was \$34.2 million for the nine months ended September 30, 2018 and deferred revenue balance was \$11.3 million as of September 30, 2018. The performance obligation under the contract is estimated to be substantially complete by the third quarter of 2019.

The impact of adopting Topic 606 on the accounting treatment of the Company's collaboration agreement with Celgene primarily relates to the change in the timing of revenue recognition of the transaction price. The Company's deferred revenue associated with its Celgene collaboration agreement as of December 31, 2017 under Topic 605 was \$143.8 million. Upon adoption of the standard as of January 1, 2018, the Company recognized a cumulative catch up adjustment of \$98.3 million, which was recorded as a decrease to the opening balance of accumulated deficit, and a corresponding decrease in the deferred revenue balance from the Company's collaboration with Celgene.

#### ***Bayer Strategic Alliance***

In June 2010, the Company entered into a strategic alliance with Bayer to discover, develop and commercialize novel anti-CSC biologic and small molecule therapeutics targeting the Wnt signaling pathway. Effective June 16, 2017, Bayer terminated all biologic therapeutic programs under its collaboration with the Company. The Company is no longer eligible to receive any payments under its collaboration with Bayer with respect to biologic therapeutic candidates. With respect to the Wnt pathway small molecule program, the Company remains eligible to receive up to \$27.0 million in development milestone payments for each small molecule candidate as well as contingent consideration payments for each small molecule candidate of up to \$15.0 million for the achievement of certain regulatory events and up to \$70.0 million upon the achievement of specified future product sales. As all such contingent consideration is based solely on the performance of Bayer, the Company would recognize the contingent payments upon receipt immediately as collaboration revenue.

The Company evaluated the agreement under Topic 606, and determined that the small molecule therapeutic program remaining as of December 31, 2017 is immaterial in the context of the collaboration agreement relative to the biologics therapeutic programs that was terminated during 2017. Further, the Company's performance obligations under the small molecule therapeutic program were

substantially complete at December 31, 2017, and any future receipts in the form of milestones or royalties are contingent upon the achievement of specified development, commercial and/or sales targets by Bayer.

### ***GSK Strategic Alliance***

Effective October 28, 2017, GSK terminated its collaboration agreement with the Company in its entirety. As a result of such termination, the Company is no longer eligible to receive any payments under the collaboration agreement with GSK and the Company has no remaining performance obligations. As the GSK collaboration was terminated in its entirety on October 28, 2017, this arrangement is outside the scope of Topic 606 as of the adoption date.

## **6. Stockholder's Equity**

### ***Equity Incentive Plans***

As of September 30, 2018, a total of 7,537,838 shares of common stock have been authorized under the 2013 Equity Incentive Award Plan (the "2013 Plan"), including the additional 1,500,000 shares of common stock that became available on January 1, 2018 for future issuance under the 2013 Plan as a result of an annual automatic increase provision in the 2013 Plan. As of September 30, 2018, a total of 5,422,638 shares are subject to options and restricted stock units ("RSUs") outstanding under the 2013 Plan. There are 989,854 shares subject to options outstanding under the 2004 Stock Incentive Plan (the "2004 Plan") as of September 30, 2018, 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 the Company's stock option and RSU award activity under the 2004 Plan and 2013 Plan including grants to nonemployees during the nine months ended September 30, 2018 (in thousands):

	<b>Shares Available for Grant of Options and Awards</b>	<b>Options and Awards Outstanding</b>
Balance at December 31, 2017	606	6,097
Additional shares authorized	1,500	—
RSUs awarded	(70)	70
Options granted	(1,744)	1,744
RSUs vested	—	(268)
Options forfeited	1,089	(1,089)
RSUs forfeited	142	(142)
Balance at September 30, 2018	<u>1,523</u>	<u>6,412</u>

The weighted-average grant date estimated fair value of options granted during the nine months ended September 30, 2018 was \$2.32 per share.

### ***Employee Stock Purchase Plan***

As of September 30, 2018, a total of 1,893,620 shares of common stock have been authorized and 1,510,518 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 350,000 shares of common stock that became available for future issuance under the ESPP as of January 1, 2018 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 trading day of the offering period.

During the nine months ended September 30, 2018, the Company issued 45,352 shares under the ESPP.

### Stock-Based Compensation

Employee stock-based compensation expense was calculated based on awards expected to vest and has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures are expected to differ from those estimates.

Stock-based compensation expense recognized was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development	\$ 954	\$ 970	\$ 2,881	\$ 3,739
General and administrative	638	983	2,821	3,533
Restructuring charges	—	—	—	6
Total	\$ 1,592	\$ 1,953	\$ 5,702	\$ 7,278

As of September 30, 2018, the Company had \$7.3 million, \$1.7 million and \$19,000 of unrecognized stock-based compensation expense related to stock options, RSUs and ESPP shares, respectively, which are expected to be recognized over an estimated weighted-average period of 2.8 years, 0.9 years and 0.4 years, respectively.

### 7. Income Taxes

For the nine months ended September 30, 2018, the Company recorded an income tax benefit of \$0.4 million in the condensed statement of operations as a result of a lapse of statute of limitations on uncertain tax positions and accrued state minimum taxes, treated as a discrete item. The Company's deferred tax assets continue to be fully offset by a valuation allowance.

In the fourth quarter of 2017, the period in which the Tax Cuts and Jobs Act ("Tax Act") was enacted, the Company calculated its best estimate of the impact of the Tax Act in accordance with its understanding of the Tax Act. As a result, the Company recorded \$1.1 million as income tax benefit in the fourth quarter of 2017 and a corresponding receivable for the expected alternative minimum tax credit refund. The Tax Act also included changes to the Internal Revenue Code, such as a tax rate decrease which resulted in a reduction of \$51.7 million in the Company's deferred tax assets, and a corresponding decrease of the same amount in the valuation allowance against these deferred tax assets, as substantially all of the Company's deferred tax assets, net of deferred tax liabilities, are subject to a full valuation allowance. The adjustment to deferred taxes continues to be a provisional amount and a reasonable estimate at September 30, 2018. The Company does not expect any impact on recorded deferred tax balances as the remeasurement of net deferred tax assets will be offset by a change in valuation allowance. The Company is analyzing certain aspects of the Tax Act which could potentially affect the remeasurement of the net deferred tax assets as of September 30, 2018.

### 8. Net Income (Loss) per Common Share

The following is a computation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 6,115	\$ (10,692)	\$ (3,435)	\$ (48,525)
Basic:				
Weighted-average common stock outstanding	38,508	37,663	38,381	37,521
Net income (loss) per share, basic	\$ 0.16	\$ (0.28)	\$ (0.09)	\$ (1.29)
Diluted:				
Weighted-average common stock outstanding	38,508	37,663	38,381	37,521
Add: Common equivalent shares outstanding	5	—	—	—
Weighted-average common stock outstanding and dilutive shares	38,513	37,663	38,381	37,521
Net income (loss) per share, diluted	\$ 0.16	\$ (0.28)	\$ (0.09)	\$ (1.29)

The following outstanding common stock equivalents were excluded from the computation of diluted net income (loss) per common share for the periods presented because including them would have been anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Options to purchase common stock	5,753	4,987	5,873	4,987
RSUs	540	667	540	667
	<u>6,293</u>	<u>5,654</u>	<u>6,413</u>	<u>5,654</u>

#### 9. Subsequent Events

In October 2018, the Company signed an agreement to sublease a specified portion of the Company's office facility located in Redwood City, California. The sublease has a term of 24 months and will expire in 2020. The aggregate sublease proceeds for the term of the lease are approximately \$1.8 million.



## 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 therapeutic 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 therapeutic candidates; the implementation of our business model, strategic plans for our business, therapeutic candidates and technology; the scope of protection we are able to establish and maintain for intellectual property rights covering our therapeutic 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 at-the-market offering and our underwritten public offering; our financial performance; the anticipated timing, expected costs and financial impact of our restructuring plan and related reduction in force, and the financial impact of other cost saving initiatives; 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, 2017 and 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 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-stage biopharmaceutical company focused on discovering and developing novel therapeutics that address the fundamental biology driving cancer's growth, resistance, recurrence and metastasis. We believe our therapeutic 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 therapeutic candidates were discovered internally in our own research laboratories.

We currently have three therapeutic candidates in active clinical development targeting cancer stem cell, or CSC, pathways and immuno-oncology. The first therapeutic candidate in active clinical development, navicixizumab (anti-DLL4/VEGF bispecific, OMP-305B83), has completed a single-agent Phase Ia trial in patients with advanced solid tumors, and we are conducting a Phase Ib clinical trial of navicixizumab in combination with standard chemotherapy regimens in patients with platinum-resistant ovarian cancer. In September 2018, Celgene Corporation, or Celgene, informed us of its decision not to exercise its option to license navicixizumab due to strategic product portfolio considerations. We and Celgene have formalized the termination of the collaboration agreement with respect to navicixizumab, and as a result, effective January 23, 2019, we will retain worldwide rights to navicixizumab. We continue to enroll patients in our Phase Ib clinical trial of navicixizumab while we determine the next steps for the program. Our second therapeutic candidate, etigilimab (anti-TIGIT, OMP-313M32), is currently in both the single-agent Phase Ia portion of a Phase Ia/b clinical trial, which is enrolling patients with advanced or metastatic solid tumors, and the Phase Ib portion of this clinical trial, which combines etigilimab with anti-PD1 (nivolumab). Our third therapeutic candidate, GITRL-Fc (OMP-336B11), is enrolling patients in a single-agent Phase Ia trial in patients with advanced or metastatic solid tumors. Clinical trials for all three of these therapeutic candidates are ongoing, with the intent of gathering additional data required to proceed to later stage clinical trials and potentially product approval. Our Phase Ia/b clinical trial of a fourth clinical stage program, our rosmantuzumab (anti-RSPO3, OMP-131R10) program, failed to provide compelling evidence of clinical benefit and, in October 2018, Celgene notified us of its decision not to exercise its option to license rosmantuzumab and terminated our collaboration agreement with respect to rosmantuzumab, effective February 12, 2019. We will retain worldwide rights to rosmantuzumab upon termination. In addition, we are also pursuing discovery of additional novel approaches to cancer treatment, including new immuno-oncology therapeutic candidates.

## 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 our current collaborators Celgene and Bayer Pharma AG, or Bayer, and our former collaborator GlaxoSmithKline, or GSK. See Note 2, "Summary of Significant Accounting Policies," in the Notes to the Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion regarding our revenue recognition policy.

The following table summarizes our revenue for the three and nine months ended September 30, 2018 and 2017, which is related to the recognition of upfront payments and reimbursements of research and development costs under our various collaboration arrangements (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Celgene:				
Recognition of upfront payments	\$ 19,518	\$ 5,013	\$ 34,237	\$ 15,039
Other revenue	—	93	—	311
Celgene total	<u>19,518</u>	<u>5,106</u>	<u>34,237</u>	<u>15,350</u>
Bayer:				
Recognition of upfront payments	—	—	—	278
Other revenue	—	—	—	1,734
Bayer total	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,012</u>
GSK:				
Recognition of upfront payments	—	—	—	150
Other revenue	—	—	—	3
GSK total	<u>—</u>	<u>—</u>	<u>—</u>	<u>153</u>
Total collaboration related revenue	<u>\$ 19,518</u>	<u>\$ 5,106</u>	<u>\$ 34,237</u>	<u>\$ 17,515</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 that we may receive in the future from our current collaboration with Celgene, our small molecule program collaboration with Bayer or any new collaboration we may enter 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 our prior and current collaborators Celgene, Bayer and GSK, 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 summarizes our research and development expenses for the three and nine months ended September 30, 2018 and 2017 (in thousands). 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,	
	2018	2017	2018	2017
<b>Internal Costs:</b>				
Cancer biology, pathology and toxicology	\$ 1,802	\$ 2,318	\$ 5,769	\$ 10,172
Molecular and cellular biology	1,695	1,343	5,231	5,177
Process development and manufacturing	969	714	2,876	2,923
Product development	1,432	1,957	4,415	7,076
Subtotal internal costs	<u>5,898</u>	<u>6,332</u>	<u>18,291</u>	<u>25,348</u>
<b>External Program Costs:</b>				
Manufacturing	1,453	438	2,081	3,879
Clinical	1,571	4,782	4,323	18,448
Translational medicine	1,021	564	1,414	2,632
Toxicology	82	75	357	961
Subtotal external program costs	<u>4,127</u>	<u>5,859</u>	<u>8,175</u>	<u>25,920</u>
Total research and development expense	<u>\$ 10,025</u>	<u>\$ 12,191</u>	<u>\$ 26,466</u>	<u>\$ 51,268</u>

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 therapeutic candidates. The probability of success of each therapeutic 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 alliance with Celgene, we are responsible for development of each therapeutic candidate prior to the exercise of Celgene's option for the applicable program. Based on the terms of the contract, Celgene may exercise such option on a program-by-program basis during certain time periods through the earlier of completion of certain clinical trials or the twelfth anniversary of the date of our collaboration agreement. During the fourth quarter of 2017, we evaluated the development program status of the product candidates under the collaboration agreement with Celgene and determined that the clinical data we have obtained to date supported a revision in our estimate of the remaining period of performance to two years, up to the third quarter of 2019. If Celgene exercises its option for the etigilimab program, we will enter into a license agreement with Celgene for therapeutic candidates under such program whereupon Celgene would be responsible for all further development costs.

Most of our product development programs are at an early stage; therefore, the successful development of our therapeutic candidates is highly uncertain and may not result in approved products. Completion dates and completion costs can vary significantly for each therapeutic candidate and are difficult to predict. We anticipate that we and Celgene 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 therapeutic candidate, as well as an ongoing assessment as to each therapeutic 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 therapeutic candidates.

#### **General and Administrative**

Our general and administrative expenses consist primarily of personnel costs, allocated facilities-related expenses, depreciation of capital equipment and other expenses for outside professional services. Personnel costs consist of salaries, benefits and stock-based compensation. General and administrative personnel include our executive, finance, human resources, information technology and legal organizations. Our professional fees principally consist of outside legal, human resource, audit, tax and accounting services and other consulting costs.

#### **Interest and Other Income, net**

Interest and other income consist primarily of interest received on our cash and cash equivalents, and investment income from short-term investments.

## Critical Accounting Policies and Estimates

Our condensed financial statements are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The preparation of these condensed 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 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.

Except for the policies related to revenue recognition, there have been no significant and material changes in our critical accounting policies during the three and nine months ended September 30, 2018, 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 fiscal year ended December 31, 2017. See Note 2, “Summary of Significant Accounting Policies,” in the Notes to the Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion regarding our revenue recognition policy.

## Recent Accounting Pronouncements

See Note 2 to the Notes to the Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding recent accounting pronouncements.

## Results of Operations

### Comparison of the Three Months Ended September 30, 2018 and 2017

(In thousands)	Three Months Ended September 30,		Dollar Change
	2018	2017	
Revenue:			
Collaboration revenue	\$ 19,518	\$ 5,013	\$ 14,505
Other revenue	—	93	(93)
Total revenue	19,518	5,106	14,412
Operating expenses:			
Research and development	10,025	12,191	(2,166)
General and administrative	3,702	3,871	(169)
Restructuring charges	—	69	(69)
Total operating expenses	13,727	16,131	(2,404)
Income (loss) from operations	5,791	(11,025)	16,816
Interest and other income, net	324	337	(13)
Income (loss) before provision for income taxes	6,115	(10,688)	16,803
Income tax provision	—	4	(4)
Net income (loss)	\$ 6,115	\$ (10,692)	\$ 16,807

## Revenue

Total revenue was \$19.5 million for the three months ended September 30, 2018, an increase of \$14.4 million, or 282%, compared to \$5.1 million for the three months ended September 30, 2017. Effective January 1, 2018, we adopted Accounting Standards Codification, Topic 606, Revenue from Contracts with Customers, using the modified retrospective method for our collaboration agreement with Celgene. Under this method, the impact of the transition is reflected in the opening balance of the accumulated deficit as of January 1, 2018, while the prior period revenue amounts are not adjusted. For the third quarter of 2018, under Topic 606, we recognized collaboration revenue of \$19.5 million based on a measure of progress toward the completion of the performance obligation. For the third quarter of 2017, we recognized collaboration revenue of \$5.0 million on a straight-line basis as permitted by the legacy revenue recognition guidance. For further discussion regarding our revenue recognition policy, see Note 2, “Summary of Significant Accounting Policies,” in the Notes to the Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Research and Development

Research and development expenses were \$10.0 million for the three months ended September 30, 2018, a decrease of \$2.2 million, or 18%, compared to \$12.2 million for the three months ended September 30, 2017. External costs decreased by \$1.7 million in the third quarter of 2018 compared to the same period in 2017 primarily due to decreases in clinical study costs of \$3.2 million mainly as a result of the discontinuation of various clinical programs in 2017, offset by an increase in manufacturing costs of \$1.0 million as a result of the timing of production of materials used in the various clinical studies. Internal costs decreased by \$0.4 million in the third quarter of 2018 compared to the same period in 2017 primarily due to a decrease in personnel costs as a result of our restructuring actions in April 2017.

### General and Administrative

General and administrative expenses were \$3.7 million for the three months ended September 30, 2018, a decrease of \$0.2 million, or 4%, compared to \$3.9 million for the three months ended September 30, 2017. The decrease in general and administrative expenses in the third quarter of 2018 compared to the same period in 2017 was primarily attributable to a decrease in personnel cost including stock-based compensation as a result of our restructuring actions in April 2017.

We expect that our operating expenses will constitute a material use of our cash balances. We intend to continue to manage our operating activities in line with our existing cash and available financial resources.

### Comparison of the Nine Months Ended September 30, 2018 and 2017

(In thousands)	Nine Months Ended September 30,		Dollar Change
	2018	2017	
<b>Revenue:</b>			
Collaboration revenue	\$ 34,237	\$ 15,467	\$ 18,770
Other revenue	—	2,048	(2,048)
Total revenue	34,237	17,515	16,722
<b>Operating expenses:</b>			
Research and development	26,466	51,268	(24,802)
General and administrative	12,800	12,952	(152)
Restructuring charges	—	2,513	(2,513)
Total operating expenses	39,266	66,733	(27,467)
Loss from operations	(5,029)	(49,218)	44,189
Interest and other income, net	1,211	705	506
Loss before provision for income taxes	(3,818)	(48,513)	44,695
Income tax provision (benefit)	(383)	12	(395)
Net loss	<u>\$ (3,435)</u>	<u>\$ (48,525)</u>	<u>\$ 45,090</u>

### Revenue

Total revenue was \$34.2 million for the nine months ended September 30, 2018, an increase of \$16.7 million, or 95%, compared to \$17.5 million for the nine months ended September 30, 2017. Effective January 1, 2018, we adopted Accounting Standards Codification, Topic 606, Revenue from Contracts with Customers, using the modified retrospective method for our collaboration agreement with Celgene. Under this method, the impact of the transition is reflected in the opening balance of the accumulated deficit as of January 1, 2018, while the prior period revenue amounts are not adjusted. For the nine months ended September 30, 2018, under Topic 606, we recognized collaboration revenue of \$34.2 million based on a measure of progress toward the completion of the combined performance obligation under our collaboration agreement with Celgene. For the nine months ended September 30, 2017, we recognized collaboration revenue of \$15.5 million on a straight-line basis as permitted by the legacy revenue recognition guidance. For further discussion regarding our revenue recognition policy, see Note 2, "Summary of Significant Accounting Policies," in the Notes to the Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Research and Development

Research and development expenses were \$26.5 million for the nine months ended September 30, 2018, a decrease of \$24.8 million, or 48%, compared to \$51.3 million for the nine months ended September 30, 2017. External costs decreased by \$17.7 million in the nine months ended September 30, 2018 compared to the same period in 2017 primarily due to decreases in clinical study costs of \$14.1 million mainly as a result of the discontinuation of various clinical programs in 2017, and in manufacturing costs of \$1.8 million as a result of the timing of production of materials used in the various clinical studies. Internal costs decreased by \$7.1 million

in the nine months ended September 30, 2018 compared to the same period in 2017 primarily due to a decrease in personnel costs as a result of our restructuring actions in April 2017.

#### *General and Administrative*

General and administrative expenses were \$12.8 million for the nine months ended September 30, 2018, a decrease of \$0.2 million, or 1%, compared to \$13.0 million for the nine months ended September 30, 2017.

We expect that our operating expenses will constitute a material use of our cash balances. We intend to continue to manage our operating activities in line with our existing cash and available financial resources.

#### *Restructuring Charges*

Restructuring charges were \$2.5 million for the nine months ended September 30, 2017 primarily related to severance, other one-time benefits and other employee related charges as a result of our restructuring actions in April 2017.

#### **Liquidity and Capital Resources**

As of September 30, 2018, we had cash, cash equivalents and short term investments totaling \$70.9 million.

In June 2015, we filed a shelf registration statement on Form S-3 (File No. 333-204914) that permits: (a) the offering, issuance and sale by us of up to a maximum aggregate offering price of \$250.0 million of our common stock, preferred stock, debt securities, warrants, purchase contracts and/or units; and (b) as part of the \$250.0 million, the offering, issuance and sale by us of up to a maximum aggregate offering price of \$50.0 million of our common stock that may be issued and sold under a sales agreement with Cantor Fitzgerald & Co. in one or more at-the-market offerings. Through September 30, 2018, we have sold 743,987 shares of common stock pursuant to our at-the-market program at a weighted average price of \$8.93 per share, resulting in aggregate net proceeds to us of \$6.5 million, net of offering costs. For the nine months ended September 30, 2018, we did not sell any shares pursuant to our at-the-market program.

On August 23, 2016, we closed the sale of an aggregate of 6,325,000 shares of our common stock at a public offering price of \$10.00 per share. The shares were issued pursuant to a prospectus supplement filed with the SEC on August 17, 2016, and related prospectus, pursuant to the shelf registration statement described above. We received net offering proceeds of approximately \$59.2 million, net of underwriting discounts and commissions and offering costs.

In May 2018, we filed a new shelf registration statement on Form S-3 (File No. 333-225225) that permits: (a) the offering, issuance and sale by us of up to a maximum aggregate offering price of \$150.0 million of our common stock, preferred stock, debt securities, warrants and/or units; and (b) as part of the \$150.0 million, the offering, issuance and sale by us of up to a maximum aggregate offering price of \$30.0 million of our common stock that may be issued and sold under our sales agreement with Cantor Fitzgerald & Co. in one or more at-the-market offerings. As of September 30, 2018, we have not sold any securities pursuant to this shelf registration statement. Following the effectiveness of this shelf registration statement on Form S-3 in June 2018, no additional securities covered by the prior shelf registration statement on Form S-3 (File No. 333-204914) shall be offered or sold.

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 expect that operating expenses will constitute a material use of our cash balances. We intend to continue to manage our operating expenses in line with our existing cash and available financial resources.

We believe that our existing cash, cash equivalents and short-term investments as of September 30, 2018 will be sufficient to meet our anticipated cash requirements through the fourth quarter of 2019, without taking into account potential future milestone payments to us or proceeds to us from any future sales of our securities pursuant to our shelf registration statement including our at-the-market program. 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.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings, a credit facility, government grants and contracts and/or strategic collaborations. Additional financing may not be available to us when we need it or it may not be available to us on favorable terms, if at all. Additionally, to the extent that we seek a new strategic partner to develop any of our programs, we may not be able to secure a collaboration on favorable terms, if at all. A collaboration may not provide sufficient funding or value to bring a product to market, and further funding and/or collaborations may be required. The terms of any such

collaboration may also significantly limit our share of potential future profits from the associated program, may require us to relinquish potentially valuable rights to our current therapeutic candidates, potential products or proprietary technologies, or may grant licenses on terms that are not favorable to us. If we are unable to obtain adequate financing or form favorable collaborations, when needed, we may have to delay, reduce the scope of, or eliminate one or more of our clinical trials or research and development programs or our commercialization efforts. Our future capital requirements are difficult to forecast and will depend on many factors, including:

- the achievement of milestones, the exercise of options, and/or the advancement of the small molecule programs into further development and potential commercialization under our agreements with Bayer and Celgene;
- the initiation, progress, timing and completion of preclinical studies and clinical trials for our therapeutic candidates and potential therapeutic candidates;
- the number and characteristics of therapeutic 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 future growth; and
- the costs and timing of procuring clinical supplies of our therapeutic candidates.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Net cash used in operating activities	\$ (31,451)	\$ (72,621)
Net cash provided by investing activities	26,491	49,341
Net cash provided by financing activities	89	2,204

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

Cash used in operating activities for the nine months ended September 30, 2018 was \$31.4 million. The net loss of \$3.4 million was offset by non-cash charges of \$1.3 million for depreciation and amortization and \$5.7 million for stock-based compensation. The change in net operating assets and liabilities of \$35.0 million was primarily due to a decrease in accrued clinical liabilities of \$2.1 million due to the decrease in our clinical development activities, and a decrease in deferred revenue of \$34.2 million due to the revenue recognized in the nine months ended September 30, 2018 from our collaboration arrangement with Celgene.

Cash used in operating activities for the nine months ended September 30, 2017 was \$72.6 million. The net loss of \$48.5 million was offset by non-cash charges of \$1.3 million for depreciation and amortization and \$7.3 million for stock-based compensation. The change in net operating assets and liabilities of \$32.7 million was primarily due to a decrease in accounts payable of \$4.1 million and accrued liabilities of \$3.7 million due to the timing of vendor payments, a decrease in accrued clinical liabilities of \$13.0 million due to the decrease in our clinical development activities, and a decrease in deferred revenue of \$15.5 million due to the amortization of upfront payments from our collaboration arrangements with GSK, Bayer and Celgene.

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

Cash provided by investing activities of \$26.5 million for the nine months ended September 30, 2018 primarily reflects maturities of short-term investments of \$104.4 million, offset by purchases of short-term investments of \$77.4 million and acquisition of property and equipment of \$0.5 million.

Cash provided by investing activities of \$49.3 million for the nine months ended September 30, 2017 primarily reflects maturities of short-term investments of \$157.3 million, offset by purchases of short-term investments of \$107.5 million and acquisition of property and equipment of \$0.5 million.

*Cash Flows from Financing Activities*

Cash provided by financing activities of \$89,000 and \$2.2 million for the nine months ended September 30, 2018 and 2017, respectively, was due to the proceeds from the issuance of common stock upon the exercise of stock options and from purchases of common stock under our Employee Stock Purchase Plan.



### **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 and foreign currency exchange rate sensitivity. There have been no material quantitative or qualitative changes in our market risk exposures compared to the disclosures in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 9, 2018.

#### ***Interest Rate Sensitivity***

We had cash, cash equivalents and short-term investments of \$70.9 million and \$103.1 million as of September 30, 2018 and December 31, 2017, respectively, which consisted of bank deposits 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, 2018 and December 31, 2017.

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, nor did we in the nine months ended September 30, 2018. All foreign transactions settled on the applicable spot exchange basis at the time such payments were 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**

Management, with the participation of our principal executive and financial officers, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018. 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 its management, including its principal executive and 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 evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2018, our principal executive and financial officers concluded that, as of such date, 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 nine months ended September 30, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in legal proceedings and claims arising in the ordinary course of our business. We are not currently a party to any legal proceedings the outcome of which, if determined adversely to us, we believe would individually or in the aggregate have a material adverse effect on our business, operating results, financial condition or cash flows.

### 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, 2017, in this Quarterly Report on Form 10-Q and in our other public filings with the SEC. The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, in this Quarterly Report on Form 10-Q 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, 2017, other than as described in the updated risk factors provided below.

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

Our clinical trials, and any clinical trials with our therapeutic candidates that may be run by our current or future collaborators, 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 therapeutic candidates present an unacceptable safety risk to the clinical trial patients, and our current or future collaborators may voluntarily suspend, delay, or terminate clinical trials they may run with our therapeutic candidates, if at any time they believe that our therapeutic 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 therapeutic candidate to humans may produce undesirable side effects. The existence of undesirable side effects resulting from our therapeutic candidates could cause us, or our collaborators, or regulatory authorities, such as the FDA, to interrupt, delay or halt clinical trials of our therapeutic candidates and could result in the FDA or other regulatory agencies denying further development or approval of our therapeutic candidates for any or all targeted indications. This, in turn, could affect whether Celgene exercises its remaining development options under our collaboration and could prevent us from commercializing our therapeutic candidates. Further, our programs modulate novel classes of targets and/or modulate targets in novel ways. As a result, we may experience unforeseen adverse side effects with our therapeutic candidates currently in clinical development and any future therapeutic candidates, including navicixizumab (anti-DLL4/VEGF bispecific, OMP-305B83), etigilimab (anti-TIGIT, OMP-313M32), and GITRL-Fc (OMP-336B11).

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, we have observed adverse events in clinical trials for all three of our therapeutic candidates currently in clinical development. We currently believe these adverse events are manageable. Nevertheless, such adverse events may cause challenges in development, approval and/or commercialization.

Patients treated with navicixizumab in our clinical trials have experienced treatment-related adverse events including hypertension, infusion reactions, gastrointestinal/gallbladder perforation, thrombocytopenia, headache, fatigue, proteinuria and pulmonary hypertension. In our earlier clinical trials with a related anti-DLL4 antibody, demcizumab (anti-DLL4, OMP-21M18), cardiopulmonary events, including reversible pulmonary hypertension and/or heart failure, were observed in certain patients and resulted in demcizumab being placed on partial clinical hold until a risk mitigation strategy that included cardiac monitoring and early intervention with cardioprotective medication, if indicated, was implemented. A similar risk mitigation strategy has been implemented in our navicixizumab clinical trials since the initiation of this clinical program. The presence of anti-drug antibodies impacting navicixizumab pharmacokinetics was observed in a subset of patients receiving navicixizumab in our Phase I clinical trials. In several instances, the anti-drug antibodies were associated with infusion reactions to the drug resulting in suspension or termination of navicixizumab administration. Treatment-related adverse events that have occurred in more than one patient treated with etigilimab include rash, pruritis, mucositis and fatigue. Treatment-related adverse events that have occurred in more than one patient treated with GITRL-Fc include nausea and infusion reactions. In addition, anti-drug antibodies have been observed in patients being treated with GITRL-Fc.

Further treatment of patients in the ongoing trials or subsequent trials of any of our therapeutic 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 therapeutic candidates. Studies of these long-term effects may be required for regulatory approval and such requirement would delay the introduction of our therapeutic candidates, including those under our collaborations with Celgene, into the market. These studies could also be required at any time after regulatory approval of any of our therapeutic 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 therapeutic candidates may prove to be unsafe for human use, which would materially harm our business.

*We are highly dependent on the services of our President and Chief Executive Officer, John Lewicki, Ph.D., and other key executives, and if we are not able to retain these members of our management or retain or recruit additional management, clinical and scientific personnel, our business will suffer.*

We may not be able to retain our management, scientific and clinical personnel, or attract qualified management, scientific and clinical personnel in the future, due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses, particularly in the San Francisco Bay Area. Our industry has experienced a high rate of turnover of management personnel in recent years. We have experienced such turnover ourselves recently, with our previous chief executive officer and chief financial officer both resigning in the first quarter of 2018. In addition to the competition for personnel, the San Francisco Bay Area in particular is characterized by a high cost of living. As such, we could have difficulty attracting experienced personnel to our company and may be required to expend significant financial resources in our employee recruitment and retention efforts. If we are not able to attract, retain and motivate necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy.

We are highly dependent on the principal members of our management and scientific staff. The loss of service of any of our management could harm our business. In addition, we are dependent on our continued ability to retain and motivate our existing management, clinical and scientific personnel, and to potentially attract highly qualified additional management, clinical and scientific personnel. The competition for qualified personnel in the pharmaceutical industry is intense. Due to our limited resources, we may not be able to effectively retain our existing personnel or attract and recruit additional qualified personnel. If we are not able to retain our management, particularly our President and Chief Executive Officer, Dr. Lewicki, or to attract, on acceptable terms, additional qualified personnel necessary for the continued development of our business, we may not be able to sustain our operations or grow. Although we have executed employment agreements with each member of our current executive management team, including Dr. Lewicki, these agreements are terminable at will with or without notice and, therefore, we may not be able to retain their services as expected.

In addition, we have scientific and clinical advisors who assist us in formulating our product development and clinical strategies. These advisors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us, or may have arrangements with other companies to assist in the development of products that may compete with ours.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
31.1	<a href="#">Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</a>				X
31.2	<a href="#">Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</a>				X
32.1	<a href="#">Certification of Principal Executive and Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.</a>				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				X

**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.

Date: November 1, 2018

**OncoMed Pharmaceuticals, Inc.**

By: \_\_\_\_\_ /s/ Yvonne Li  
**Yvonne Li**  
**Vice President of Finance,**  
**Controller and Administration**  
**(principal financial and**  
**accounting officer)**

**CERTIFICATION**

I, John Lewicki, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 1, 2018

/s/ John Lewicki

John Lewicki, Ph.D.  
President and Chief Executive Officer  
(principal executive officer)

**CERTIFICATION**

I, Yvonne Li, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 1, 2018

/s/ Yvonne Li

Yvonne Li

Vice President of Finance, Controller and Administration  
(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, 2018, as filed with the Securities and Exchange Commission (the "Report"), John Lewicki, Ph.D., President and Chief Executive Officer of the Company, and Yvonne Li, Vice President of Finance, Controller and Administration of the Company, 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 1, 2018

/s/ John Lewicki

John Lewicki, Ph.D.  
President and Chief Executive Officer  
(principal executive officer)

/s/ Yvonne Li

Yvonne Li  
Vice President of Finance, Controller and Administration  
(principal financial and accounting officer)

This certification is being furnished to accompany the Report pursuant to 18 U.S.C. § 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.