UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(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, 2019

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: 001-38459

SURFACE ONCOLOGY, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**46-5543980**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
50 Hampshire Street, 8th Floor Cambridge, MA	**02139**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (617) 714-4096

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.0001	SURF	The Nasdaq Global Market

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 (§ 232.405 of this chapter) 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, smaller reporting company, or an 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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Small reporting company	☒
Emerging growth Company	☒		

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

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

As of November 7, 2019, the registrant had 27,882,756 shares of common stock, $0.0001 par value per share, outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Qcontains forward-looking statements which are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may be identified by such forward-looking terminology as "may," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. Our forward-looking statements are based on a series of expectations, assumptions, estimates and projections about our company, are not guarantees of future results or performance and involve substantial risks and uncertainty. We may not actually achieve the plans, intentions or expectations disclosed in these forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in these forward-looking statements. Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including the risks and uncertainties inherent in our statements regarding:

- the timing, progress and results of preclinical studies and clinical trials for our current product candidates and other product candidates we may develop, including statements regarding the timing of initiation and completion of studies or trials and related preparatory work, the period during which the results of the trials will become available, and our research and development programs;
- the timing, scope or likelihood of regulatory filings and approvals, including timing of Investigational New Drug application and Biological Licensing Application filings for, and final U.S. Food and Drug Administration approval of, our current product candidates and any other future product candidates;
- the timing, scope or likelihood of foreign regulatory filings and approvals;
- our ability to use our understanding of the tumor microenvironment to identify product candidates and to match immunotherapies to select patient subsets;
- our ability to develop and advance our current product candidates and programs into, and successfully complete, clinical studies;
- our ability to develop combination therapies, whether on our own or in collaboration with third parties;
- our manufacturing, commercialization and marketing capabilities and strategy;
- the pricing and reimbursement of our current product candidates and other product candidates we may develop, if approved;
- the rate and degree of market acceptance and clinical utility of our current product candidates and other product candidates we may develop;
- the potential benefits of and our ability to maintain our collaboration with Novartis, and establish or maintain future collaborations or strategic relationships or obtain additional funding;
- our ability to retain the continued service of our key professionals and to identify, hire and retain additional qualified professionals;
- our intellectual property position, including the scope of protection we are able to establish and maintain for intellectual property rights covering our current product candidates and other product candidates we may develop, the validity of intellectual property rights held by third parties, and our ability not to infringe, misappropriate or otherwise violate any third-party intellectual property rights;
- our competitive position, and developments and projections relating to our competitors and our industry;
- our expectations related to the use of our existing cash, cash equivalents and marketable securities;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing; and
- the impact of laws and regulations.

All of our forward-looking statements are as of the date of this Quarterly Report on Form 10-Q only. In each case, actual results may differ materially from such forward-looking information. We can give no assurance that such expectations or forward-looking statements will prove to be correct. An occurrence of or any material adverse change in one or more of the risk factors or risks and uncertainties referred to in this Quarterly Report on Form 10-Q or included in our other public disclosures or our other periodic reports or other documents or filings filed with or furnished to the Securities and Exchange Commission could materially and adversely affect our business, prospects, financial condition and results of operations. Except as required by law, we do not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections or other circumstances affecting such forward-looking statements occurring after the date of this Quarterly Report on Form 10-Q, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. Any public statements or disclosures by us following this Quarterly Report on Form 10-Q that modify or impact any of the forward-looking statements contained in this Quarterly Report on Form 10-Qwill be deemed to modify or supersede such statementsin this Quarterly Report on Form 10-Q.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

SURFACE ONCOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share and per share data)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 38,523	$ 82,912
Marketable securities	73,281	75,923
Prepaid expenses and other current assets	2,504	5,766
Total current assets	114,308	164,601
Property and equipment, net	7,628	8,226
Operating lease right-of-use asset	15,807	—
Restricted cash	1,198	1,198
Other assets	35	40
Total assets	$ 138,976	$ 174,065
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,647	$ 3,412
Accrued expenses and other current liabilities	8,433	8,803
Deferred revenue - related party	4,236	14,610
Deferred rent	—	352
Operating lease liability	1,257	—
Total current liabilities	15,573	27,177
Deferred revenue - related party, non-current	34,795	39,342
Deferred rent, non-current	—	4,684
Operating lease liability, non-current	19,623	—
Total liabilities	69,991	71,203
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.0001 par value per share; 5,000,000 shares authorized at September 30, 2019 and December 31, 2018; no shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Common stock, $0.0001 par value; 150,000,000 shares authorized at September 30, 2019 and December 31, 2018, respectively; 27,882,756 and 27,772,600 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	3	3
Additional paid-in capital	174,485	169,784
Accumulated other comprehensive income (loss)	138	(119)
Accumulated deficit	(105,641)	(66,806)
Total stockholders' equity	68,985	102,862
Total liabilities and stockholders' equity	$ 138,976	$ 174,065

The accompanying notes are an integral part of these condensed consolidated financial statements.

SURFACE ONCOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)

(in thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Collaboration revenue - related party	$ 344	$ 1,730	$ 14,921	$ 49,653
Operating expenses:				
Research and development	12,916	15,783	40,461	41,971
General and administrative	4,984	3,977	15,494	11,252
Total operating expenses	17,900	19,760	55,955	53,223
Loss from operations	(17,556)	(18,030)	(41,034)	(3,570)
Interest and other income, net	678	808	2,199	1,708
Net loss	(16,878)	(17,222)	(38,835)	(1,862)
Accretion of redeemable convertible preferred stock to redemption value	—	$ —	—	(11)
Net loss attributable to common stockholders	(16,878)	(17,222)	(38,835)	(1,873)
Net loss per share attributable to common stockholders— basic and diluted	$ (0.61)	$ (0.62)	$ (1.39)	$ (0.11)
Weighted average common shares outstanding— basic and diluted	27,862,544	27,598,251	27,844,591	17,398,249
Comprehensive loss:				
Net loss	$ (16,878)	$ (17,222)	$ (38,835)	$ (1,862)
Other comprehensive loss:				
Unrealized gain (loss) on marketable securities, net of tax of $0	(36)	43	257	56
Comprehensive loss	$ (16,914)	$ (17,179)	$ (38,578)	$ (1,806)

The accompanying notes are an integral part of these condensed consolidated financial statements.

SURFACE ONCOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENT STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2018	27,772,600	3	169,784	(119)	(66,806)	102,862
Issuance of common stock upon exercise of stock options	58,082	—	211	—	—	211
Stock-based compensation expense	—	—	1,395	—	—	1,395
Unrealized gain on marketable securities	—	—	—	124	—	124
Net loss	—	—	—	—	(4,199)	(4,199)
Balances at March 31, 2019	27,830,682	3	171,390	5	(71,005)	100,393
Issuance of common stock upon exercise of stock options	21,069	—	33	—	—	33
Stock-based compensation expense	—	—	1,485	—	—	1,485
Unrealized gain on marketable securities	—	—	—	169	—	169
Net loss	—	—	—	—	(17,758)	(17,758)
Balances at June 30, 2019	27,851,751	3	172,908	174	(88,763)	84,322
Issuance of common stock upon exercise of stock options	31,005	—	11	—	—	11
Stock-based compensation expense	—	—	1,566	—	—	1,566
Unrealized loss on marketable securities	—	—	—	(36)	—	(36)
Net loss	—	—	—	—	(16,878)	(16,878)
Balances at September 30, 2019	27,882,756	3	174,485	138	(105,641)	68,985

The accompanying notes are an integral part of these condensed consolidated financial statements.

SURFACE ONCOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)

(in thousands, except share amounts)

	Series A and A-1 Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2017	37,100,000	$ 48,517	2,686,350	$ —	$ 6,877	$ (246)	$ (73,945)	$ (67,314)
Issuance of common stock upon exercise of stock options	—	—	80,675	—	157	—	—	157
Stock-based compensation expense	—	—	—	—	1,291	—	—	1,291
Accretion of redeemable convertible preferred stock to redemption value	—	11	—	—	(11)	—	—	(11)
Adjustment due to the adoption of ASC 606	—	—	—	—	—	—	13,736	13,736
Unrealized loss on marketable securities	—	—	—	—	—	(50)	—	(50)
Net income	—	—	—	—	—	—	31,212	31,212
Balances at March 31, 2018	37,100,000	48,528	2,767,025	—	8,314	(296)	(28,997)	(20,979)
Issuance of common stock upon exercise of stock options	—	—	3,636	—	2	—	—	2
Stock-based compensation expense	—	—	—	—	1,490	—	—	1,490
Conversion of redeemable convertible preferred stock to common stock	(37,100,000)	(48,528)	16,863,624	2	48,526	—	—	48,528
Issuance of common stock upon completion of initial public offering, net of commissions, underwriting discounts and offering costs	—	—	7,200,000	1	97,208	—	—	97,209
Issuance of common stock to a related party	—	—	766,666	—	11,500	—	—	11,500
Unrealized gain on marketable securities	—	—	—	—	—	63	—	63
Net loss	—	—	—	—	—	—	(15,852)	(15,852)
Balances at June 30, 2018	—	—	27,600,951	3	167,040	(233)	(44,849)	121,961
Issuance of common stock upon exercise of stock options	—	—	23,197	—	24	—	—	24
Repurchases of unvested restricted stock	—	—	(16,935)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	1,214	—	—	1,214
Unrealized gain on marketable securities	—	—	—	—	—	43	—	43
Net loss	—	—	—	—	—	—	(17,222)	(17,222)
Balances at September 30, 2018	—	—	27,607,213	3	168,278	(190)	(62,071)	106,020

The accompanying notes are an integral part of these condensed consolidated financial statements.

SURFACE ONCOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine months ended September 30,	
	2019	**2018**
Cash flows from operating activities:		
Net loss	$ (38,835)	$ (1,862)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	1,324	982
Stock-based compensation expense	4,446	3,995
Net amortization of premiums and discounts on marketable securities	(666)	(207)
Loss on disposal of property and equipment	1	13
Non-cash operating lease cost	865	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	3,262	3,398
Other assets	5	(54)
Accounts payable	(1,154)	1,144
Accrued expenses and other current liabilities	(301)	(1,964)
Deferred rent	—	(73)
Operating lease liability	(828)	—
Deferred revenue - related party	(14,921)	(4,652)
Net cash (used in) provided by operating activities	(46,802)	720
Cash flows from investing activities:		
Purchases of property and equipment	(1,407)	(896)
Purchases of marketable investments	(107,784)	(107,258)
Proceeds from sales or maturities of marketable securities	111,349	16,592
Net cash provided by (used in) investing activities	2,158	(91,562)
Cash flows from financing activities:		
Payments of offering costs	—	(2,031)
Proceeds from initial public offering of common stock, net of commissions and underwriting discounts	—	100,440
Proceeds from issuance of common stock to a related party	—	11,500
Proceeds from exercise of stock options	255	183
Net cash provided by financing activities	255	110,092
Net increase (decrease) in cash and cash equivalents and restricted cash	(44,389)	19,250
Cash and cash equivalents and restricted cash at beginning of period	84,110	23,540
Cash and cash equivalents and restricted cash at end of period	$ 39,721	$ 42,790
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ —	$ 41
Supplemental disclosure of non-cash investing and financing activities:		
Accretion of redeemable convertible preferred stock to redemption value	$ —	$ 11
Purchases of property and equipment included in accounts payable and accrued expenses	$ 12	$ 322

The accompanying notes are an integral part of these financial statements.

1. Nature of the Business

Surface Oncology, Inc. (the "Company" or "Surface") is a clinical-stage immuno-oncology company focused on using its specialized knowledge of the biological pathways critical to the immunosuppressive tumor microenvironment ("TME") for the development of next-generation cancer therapies. Surface was incorporated in April 2014 under the laws of the State of Delaware.

The Company is subject to risks common to early-stage companies in the biotechnology industry including, but not limited to, development by competitors of new technological innovations, protection of proprietary technology, dependence on key personnel, compliance with government regulations and the ability to obtain additional financing to fund operations. Product candidates currently under development will require significant additional research and development efforts, including extensive preclinical and clinical testing and regulatory approval, prior to commercialization. These efforts require significant amounts of additional capital, adequate personnel infrastructure, and extensive compliance-reporting capabilities. Even if the Company's development efforts are successful, it is uncertain when, if ever, the Company will realize significant revenue from product sales.

On April 6, 2018, the Company effected a one-for-2.2 reverse stock split of its issued and outstanding shares of common stock and a proportional adjustment to the existing conversion ratios for each series of the Company's Redeemable Convertible Preferred Stock. Accordingly, all share and per share amounts for all periods presented in the accompanying condensed consolidated financial statements, and notes thereto, have been adjusted retroactively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratios.

On April 23, 2018, the Company completed its initial public offering of its common stock by issuing 7,200,000 shares of common stock, at $15.00 per share for gross proceeds of $108,000, or net proceeds of $97,209 after deducting underwriting discounts, commissions and offering expenses. Concurrent with the initial public offering, the Company issued Novartis Institutes for Biomedical Research, Inc. ("Novartis") 766,666 shares of its common stock at $15.00 per share for proceeds of $11,500, in a private placement.

Upon the closing of the Company's initial public offering on April 23, 2018, all shares of Series A and A-1 redeemable convertible preferred stock (the "Series A Preferred Stock" and "Series A-1 Preferred Stock", respectively) automatically converted into 16,863,624 shares of common stock.

On May 1, 2019, the Company entered into a Capital on Demand™ Sales Agreement (the "Sales Agreement") with JonesTrading Institutional Services LLC ("JonesTrading") to issue and sell shares of the Company's common stock of up to $30,000 in gross proceeds, from time to time during the term of the a Sales Agreement, through an "at-the-market" equity offering program under which JonesTrading will act as the Company's agent and/or principal (the "ATM Facility"). The ATM Facility provides that JonesTrading will be entitled to compensation for its services in an amount of up to 3.0% of the gross proceeds of any shares sold under the ATM Facility. The Company has no obligation to sell any shares under the ATM Facility and may, at any time, suspend solicitation and offers under the Sales Agreement. As of September 30, 2019, the Company had not sold any shares under the ATM Facility.

The Company's financial statements have been prepared on the basis of continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the ordinary course of business. The Company has primarily funded its operations with proceeds from the sales of redeemable convertible preferred stock, proceeds from a collaboration agreement with Novartis, and proceeds from the Company's initial public offering of common stock. The Company has incurred losses and negative cash flows from operations since its inception. As of September 30, 2019, the Company had an accumulated deficit of $105,641.

The Company expects that its operating losses and negative cash flows will continue for the foreseeable future. As of November 12, 2019, the issuance date of this Quarterly Report on Form 10-Q, the Company expects that its cash, cash equivalents and marketable securities of $111,804, will be sufficient to fund its operating expenses and capital expenditure requirements for at least the next 12 months. The future viability of the Company beyond that date is dependent on its ability to raise additional capital to finance its operations.

The Company will seek additional funding through public financings, debt financings, collaboration agreements, strategic alliances, and licensing arrangements. The Company may not be able to obtain financing on acceptable terms, or at all, and the Company may not be able to enter into collaborations or other arrangements. The terms of any financing may adversely affect the holdings or the rights of the Company's stockholders. If the Company is unable to obtain funding, the Company could be required to delay, reduce or eliminate research and development programs, product portfolio expansion, or future commercialization efforts, which could adversely affect its business prospects.

Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient funding on terms acceptable to the Company to fund continuing operations, if at all.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its wholly owned subsidiary, Surface Securities Corporation, a Massachusetts corporation, after elimination of all intercompany accounts and transactions.

The accounting policies followed in the preparation of the interim condensed consolidated financial statements are consistent in all material respects with those presented in Note 2 to the financial statements included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC") on March 7, 2019, except for the Company's adoption of the new leasing standard as discussed below.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Significant estimates and assumptions reflected in these consolidated financial statements include, but are not limited to, revenue recognition, the accrual of research and development expenses, and the valuation of stock-based awards. Estimates are periodically reviewed in light of changes in circumstances, facts, and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from the Company's estimates.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease liability, and operating lease liability, non-current in the Company's condensed consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Many lease agreements include the option to renew or extend the lease term. The exercise of lease renewal options or extensions is at the Company's sole discretion, and are only included in the calculation of the operating lease ROU asset and operating lease liability when it is reasonably certain that the Company would exercise such options. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate, which it calculates based on the credit quality of the Company, and by comparing interest rates available in the market for similar borrowings, and adjusting this amount based on the impact of collateral over the term of each lease.

The components of a lease are split into three categories: lease components (e.g., land, building, etc.), non-lease components (e.g., common area maintenance, maintenance, consumables, etc.), and non-components (e.g., property taxes, insurance, etc.). Then the fixed and in-substance fixed contract consideration (including any related to non-components) must be allocated based on fair values to the lease components and non-lease components. Although separation of lease and non-lease components is required, certain practical expedients are available to entities. Entities electing the practical expedient would not separate lease and non-lease components. Rather, they would account for each lease component and the related non-lease component together as a single component. The Company's facilities operating leases have lease and non-lease components to which the Company has elected to apply the practical expedient and account for each lease component and related non-lease component as one single component. The Company also elected the package of practical expedients, which, among other things, allows the Company to carry forward prior conclusions related to whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases and initial direct costs for existing leases. The Company also made an accounting policy election not to recognize leases with an initial term of 12 months or less within its condensed consolidated balance sheets and to recognize those lease payments on a straight-line basis in its condensed consolidated statements of operations and comprehensive loss over the lease term.

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of September 30, 2019, the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2019 and 2018, the condensed consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018, and the condensed consolidated statement of redeemable convertible preferred stock and stockholders' equity (deficit) for the three and nine months ended September 30, 2019 and 2018 are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of September 30, 2019 and the results of its operations and its cash flows for the nine months ended September 30, 2019 and 2018. The financial data and other information disclosed in these notes related to the three and nine months ended September 30, 2019 and 2018 are also unaudited. The results for the three and nine months ended September 30, 2019 are not necessarily indicative of results to be expected for the year ending December 31, 2019, any other interim periods, or any future year period.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2016-02,*Leases* ("ASU 2016-02"). ASU 2016-02 will require lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. Leases will be classified as either operating or finance, and classification will be based on criteria similar to current lease accounting, but without explicit bright lines. In July 2018, the FASB issued ASU No. 2018-10, *"Codification Improvements to Topic 842, Leases"* ("ASU 2018-10"), which provides narrow amendments to clarify how to apply certain aspects of the new lease standard, and ASU No. 2018-11, "Leases (Topic 842) – Targeted Improvements" (ASU 2018-11), which addresses implementation issues related to the new lease standard. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years.

The Company adopted ASC 842 using the modified retrospective approach with an effective date of January 1, 2019 for leases that existed on that date. Prior period results continue to be presented under ASC 840 based on the accounting standards originally in effect for such periods. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allows the Company to carry forward the historical lease classification. In connection with the adoption of ASC 842, the Company recorded an impact of $16,672 on its assets and $21,708 on its liabilities for the recognition of operating lease right-of-use-assets and operating lease liabilities, respectively, which are primarily related to the lease of the Company's corporate headquarters in Cambridge, Massachusetts. The adoption of ASC 842 did not have a material impact on the Company's results of operations or cash flows.

In July 2017, the FASB issued*ASU 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives and Hedging (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception* ("ASU 2017-11"). This guidance is intended to reduce the complexity associated with accounting for certain financial instruments with characteristics of liabilities and equity. Specifically, a down round feature would no longer cause a freestanding equity-linked financial instrument (or an embedded conversion option) to be considered "not indexed to an entity's own stock" and therefore accounted for as a derivative liability at fair value with changes in fair value recognized in current earnings. Down round features are most often found in warrants and conversion options embedded in debt or preferred equity instruments. In addition, the guidance re-characterized the indefinite deferral of certain provisions on distinguishing liabilities from equity to a scope exception with no accounting effect. The Company adopted ASU 2017-11 on January 1, 2019. The adoption of this guidance did not have a material impact on the Company's financial position or its results of operations.

In June 2018, the FASB issued ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"). The new standard 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 Company adopted ASU 2018-07 on January 1, 2019. As a result of adopting this standard, the fair value of outstanding nonemployee awards as of December 31, 2018 will no longer be remeasured each reporting period. All future expense related to these awards will be recorded based on the fair value measured as of January 1, 2019. The adoption of this guidance did not have a material impact of the Company's consolidated financial statements.

(Amounts in thousands, except share and per share data)

Recently Issued Accounting Pronouncements

In November 2018, the FASB issued*ASU No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*, or ASU 2018-18. ASU 2018-18 makes targeted improvements to generally accepted accounting principles for collaborative arrangements, including: (i) clarification that certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606 when the collaborative arrangement participant is a customer in the context of a unit of account, (ii) adding unit-of-account guidance in Topic 808 to align with the guidance in ASC 606, and (iii) a requirement that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under ASC 606 is precluded if the collaborative arrangement participant is not a customer. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. The Company is currently evaluating the impact of adoption, if any, that this standard may have on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13,*Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, ("ASU 2018-13").* The new standard provides for changes to the disclosure requirements for recurring and nonrecurring fair value measurements under Topic 820. Provisions of ASU 2018-13 including changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty are required to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments in ASU 2018-13 should be applied retrospectively to all periods presented upon their effective date. ASU 2018-13 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently in the process of evaluating the new standard but does not anticipate ASU 2018-13 will have a material impact on its condensed consolidated financial statements and related disclosures.

Other accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

3. Marketable Securities

As of September 30, 2019, the fair value of available-for-sale marketable debt securities by type of security was as follows:

	September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities:				
U.S. Treasury notes	$ 57,211	$ 92	$ (2)	$ 57,301
U.S. Government agency bonds	15,932	48	—	15,980
	$ 73,143	$ 140	$ (2)	$ 73,281

The amortized cost and fair value of the Company's available-for-sale debt securities by contractual maturity are summarized as follows:

	September 30, 2019	
	Amortized Cost	Fair Value
Maturing in one year or less	$ 73,143	$ 73,281
	$ 73,143	$ 73,281

(Amounts in thousands, except share and per share data)

As of December 31, 2018, the fair value of available-for-sale marketable debt securities by type of security was as follows:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities:				
U.S. Treasury notes	$ 62,866	$ —	$ (24)	$ 62,842
U.S. Government agency bonds	2,900	—	(15)	2,885
Corporate bonds	10,276	—	(80)	10,196
	$ 76,042	$ —	$ (119)	$ 75,923

The amortized cost and fair value of the Company's available-for-sale securities by contractual maturity are summarized as follows:

	December 31, 2018	
	Amortized Cost	Fair Value
Maturing in one year or less	$ 76,042	$ 75,923
	$ 76,042	$ 75,923

The Company determined that there was no material change in the credit risk of these investments. As a result, the Company determined it did not hold any investments with an other-than-temporary decline in fair value as of September 30, 2019 and December 31, 2018.

4. Fair Value of Financial Assets

The following tables present information about the Company's financial assets that are measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values:

	Fair Value Measurements as of September 30, 2019 using:			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 27,739	$ —	$ —	$ 27,739
Marketable securities:				
U.S. Treasury notes	—	57,301	—	57,301
U.S. Government agency bonds	—	15,980	—	15,980
	$ 27,739	$ 73,281	$ —	$ 101,020

	Fair Value Measurements as of December 31, 2018 using:			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 77,737	$ —	$ —	$ 77,737
Marketable securities:				
U.S. Treasury notes	—	62,842	—	$ 62,842
U.S. Government agency bonds	—	2,885	—	2,885
Corporate bonds	—	10,196	—	10,196
	$ 77,737	$ 75,923	$ —	$ 153,660

As of September 30, 2019 and December 31, 2018, the Company's cash equivalents were invested in money market funds and were valued based on Level 1 inputs. During the nine months ended September 30, 2019 and 2018, there were no transfers between Level 1, Level 2 and Level 3.

5. Collaboration Agreement with Novartis

Overview

In January 2016, the Company entered into a collaboration agreement with Novartis (the "Collaboration Agreement"), which was subsequently amended in May 2016, July 2017, September 2017, and October 2018 (the "October 2018 Amendment"). Pursuant to the Collaboration Agreement, the Company granted Novartis a worldwide exclusive license to research, develop, manufacture and commercialize antibodies that target cluster of differentiation, or CD, 73 ("CD73"). In addition, the Company granted Novartis the right to purchase exclusive option rights (each an "Option") for up to four specified targets (each an "Option Target") including certain development, manufacturing, and commercialization rights. Novartis initially had the right to exercise up to three purchased Options. Under the Collaboration Agreement, therefore, Novartis had the ability to exclusively license the development and manufacturing rights for up to four targets (inclusive of CD73). Of these, the Company had the right to retain commercialization rights in the United States to two of such targets. As of September 30, 2019, Novartis has one Option remaining eligible for purchase, and potential exercise. The Collaboration Agreement is governed by a joint steering committee that is co-chaired by a chairperson designated by each of the Company and Novartis. The October 2018 Amendment, among other things, modified certain definitions and provisions of the Collaboration Agreement to make them consistent with the amended and restated development and option agreement the Company entered into with Adimab LLC in October and clarified the parties' rights and responsibilities relating to the amended agreement with Adimab LLC and diagnostic products.

Novartis is a related party because it is a greater than 5% stockholder of the Company. In January 2016, the Company entered into the Collaboration Agreement and sold 2,000,000 shares of its Series A-1 preferred stock to Novartis. In addition, concurrent with the Company's initial public offering of common stock, the Company issued Novartis 766,666 shares of its common stock at $15.00 per share for proceeds of $11,500 in a private placement.

During the nine months ended September 30, 2019, the Company made no cash payments to Novartis related to the Collaboration Agreement. During the nine months ended September 30, 2018, the Company made a payment of $3,543 to Novartis for the reimbursement of manufacturing costs incurred by Novartis prior to December 31, 2017.

Research on Targets

Under the Collaboration Agreement, the Company is responsible for performing preclinical research through the first investigational new drug application ("IND") acceptance on antibodies that bind to CD73 and each Option Target, pursuant to a research plan directed toward each target. The Company is responsible for all costs and expenses incurred by or on its behalf, in connection with such research.

Development and Commercialization of CD73 Products

Novartis has the sole right to develop and commercialize CD73 antibody candidates and corresponding licensed products worldwide pursuant to a development plan and a commercialization plan, respectively. Novartis is obligated to use commercially reasonable efforts to develop the CD73 antibody candidates and corresponding licensed products, to obtain regulatory approval of such products, including within certain defined markets, and to commercialize such products following regulatory approval. Novartis is responsible for all costs and expenses of such development and commercialization and is obligated to provide the Company with updates on its development and commercialization activities through the joint steering committee, joint development committee, and joint commercialization committee.

Option Targets

Prior to the filing of an IND for an Option Target, Novartis may purchase the Option to obtain certain development, manufacturing and commercialization rights for antibodies that bind to the Option Target. To the extent Novartis does not elect to purchase an Option to an Option Target, the Option for such Option Target will expire and all rights to such Option Target under the Collaboration Agreement will terminate. Novartis had the right to exercise up to a total of three purchased Options. Each exercised Option is to be designated as either a regional or global option, with each such designation determining the development, manufacturing, and commercialization rights between the parties with respect to such Option Target, corresponding antibody candidates, and licensed products, as summarized below. Novartis has the ability to designate the remaining Option as either regional or global. Following Novartis' exercise of an Option with respect to an Option Target, the Company will grant to Novartis licenses that are necessary to effectuate the development, manufacturing or commercialization rights associated with a regional or global option, as described below.

In December 2016, Novartis purchased the Option for antibodies that bind to CD47 for $5,000. In March 2018, Novartis notified the Company of its decision not to exercise its purchased Option related to CD47. In March 2018, the Company and Novartis also mutually agreed to cease development of one of the undisclosed programs subject to the Collaboration Agreement. In February 2019, Novartis notified the Company of its decision not to purchase the Option related to IL-27.

Development and Commercialization of Regional Licensed Products

To the extent an exercised Option is designated as regional, the Company is primarily responsible for the early clinical development of each corresponding regional antibody candidate and regional licensed product at its own cost. Unless the Company chooses to opt out of its development rights, it will collaborate with Novartis on the further clinical development of regional antibody candidates and regional licensed products. Pursuant to a regional development plan for each regional licensed product, the Company will be responsible for development activities related to obtaining regulatory approval in the United States, with Novartis responsible for development activities related to obtaining regulatory approval elsewhere in the world. The development costs of such later clinical development activities will be split evenly among the parties. Thereafter, the Company is responsible for the commercialization of regional licensed products in the United States, and Novartis is responsible for the commercialization of regional licensed products outside of the United States, each pursuant to a commercialization plan. Each party must use commercially reasonable efforts to commercialize such products within their respective territories. The Company is obligated to work with Novartis to agree to a global commercialization strategy with respect to the regional licensed products prior to commercialization.

Development and Commercialization of Global Licensed Products

To the extent an exercised Option is designated as global, the Company is primarily responsible for the early clinical development of each global antibody candidate and global licensed product at the Company's own cost, and Novartis is solely responsible for the later worldwide clinical development of global antibody candidates and global licensed products, pursuant to a development plan for such global licensed product, at its own cost. Novartis is solely responsible for the worldwide commercialization of global licensed products and must use commercially reasonable efforts to commercialize such products, pursuant to a commercialization plan, at its own cost. Novartis agrees to provide the Company with development and commercialization updates regarding global licensed products through the joint steering committee, joint development committee, and joint commercialization committee.

Exclusivity

Neither the Company nor Novartis may, alone or with any affiliate or third party, (i) research or develop any antibody that specifically binds to an Option Target for a specified period of time outside of the Collaboration Agreement or (ii) develop or commercialize any antibody that specifically binds to CD73 or any Option Target that subsequently becomes a licensed target for a specified period of time outside the Collaboration Agreement. The October 2018 Amendment clarified that Novartis is permitted to research, develop, manufacture or commercialize any diagnostic product that specifically binds to a licensed target, subject to Novartis' compliance with its rights and obligations under the Collaboration Agreement, and provided that where such diagnostic product is an Adimab diagnostic product, Novartis may research, develop, manufacture or commercialize such Adimab diagnostic product solely for the purpose of research, development or commercialization of a therapeutic or prophylactic licensed product that specifically binds to the same licensed target.

Financial Terms

Upon entering into the Collaboration Agreement in January 2016, Novartis made an upfront payment to the Company of $70,000. In addition, Novartis is obligated to pay the Company a fee to the extent it desires to purchase an Option for any Option Target and another fee to exercise such purchased Option, which entitles the Company to an aggregate of up to $20,000 in option purchase and option exercise payments for the remaining Option. The Company is also eligible to receive payments on a target-by-target basis upon the achievement of specified development and sales milestones as well as tiered royalties on annual net sales by Novartis of licensed products ranging from high single-digit to mid-teens percentages upon successful commercialization of any products. Under the Collaboration Agreement, the Company is currently entitled to potential milestones in excess of $500,000, as well as tiered royalties on annual net sales by Novartis ranging from high single-digit to mid-teens percentages upon the successful commercialization of NZV930 (formally SRF373). The maximum aggregate amount of potential option purchase, option exercise, and milestone payments associated with Novartis' single remaining Option is $220,000, as well as tiered royalties on annual net sales by Novartis ranging from high-single-digit to low double-digit percentages upon the successful commercialization of the remaining Option Target. The Company is required to pay Novartis tiered royalties ranging from high single-digit to mid-teens percentages on annual net sales by the Company of regional licensed products in the United States. The royalty payments are subject to reduction under specified conditions set forth in the Collaboration Agreement.

Termination

Unless terminated earlier, the Collaboration Agreement will continue in effect until neither the Company nor Novartis is researching, developing, manufacturing, or commercializing any antibody candidates or licensed products under the Collaboration Agreement. Novartis may terminate the Collaboration Agreement on a target-by-target basis for any reason upon prior notice to the Company within a specified time period. Either party may terminate the Collaboration Agreement in full, or on a target-by-target basis, if an undisputed material breach is not cured within a certain period of time or upon notice of insolvency of the other party. To the extent Novartis terminates for convenience, or the Company terminates for Novartis' material breach, Novartis will grant the Company, on mutually agreeable financial terms, an exclusive, worldwide, irrevocable, perpetual and royalty-bearing license with respect to intellectual property controlled by Novartis that is reasonably necessary to research, develop, manufacture or commercialize certain products.

Revenue Recognition – Collaboration Revenue – Related Party

In determining the appropriate amount of revenue to be recognized under ASC 606, the Company performed the following steps: (i) identified the promised goods or services in the contract; (ii) determined whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Under ASC 606, the Company recognized revenue using the cost-to-cost method, which it believes best depicts the transfer of control to the customer. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of actual costs incurred to the total estimated costs expected upon satisfying the identified performance obligation. Under this method, revenue will be recorded as a percentage of the estimated transaction price based on the extent of progress towards completion. Under ASC 606, the estimated transaction price will include variable consideration. The Company does not include variable consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will occur when any uncertainty associated with the variable consideration is resolved. The estimate of the Company's measure of progress and estimate of variable consideration to be included in the transaction price will be updated at each reporting date as a change in estimate. The amount related to the unsatisfied portion will be recognized as that portion is satisfied over time.

Under ASC 606 the Company accounts for (i) the license it conveyed with respect to CD73; and (ii) its obligations to perform research on CD73 and other specified targets as a single performance obligation under the collaboration agreement with Novartis. Novartis' right to purchase exclusive options to obtain certain development, manufacturing and commercialization rights are accounted for separately as they do not represent material rights, based on the criteria of ASC 606. Upon the exercise of any purchased option by Novartis, the contract promises associated with an option target would use a separate cost-to-cost model for purposes of revenue recognition under ASC 606.

(Amounts in thousands, except share and per share data)

In February 2018, the Company received an additional milestone payment of $45,000 from Novartis upon Novartis' receipt and acceptance of the first final audited Good Laboratory Practices ("GLP") toxicology study report for NZV930. Upon achieving the milestone, the Company concluded this variable consideration associated with this milestone was no longer constrained and included the $45,000 in the transaction price.

In March 2018, Novartis notified the Company of its decision not to exercise its Option related to CD47. The Company recognized the $5,000 exclusive option right payment as collaboration revenue – related party in the first quarter of 2018 because the Company no longer has any remaining performance obligations related to CD47.

In March 2018, the Company and Novartis elected to terminate a specified target under the Collaboration Agreement. Future costs associated with this target were removed from the estimated total costs in the cost-to-cost model.

In February 2019, Novartis notified the Company of its decision not to purchase the Option related to IL-27. Future costs associated with this target were removed from the estimated total costs in the cost-to-cost model.

For the three and nine months ended September 30, 2019 and 2018, the Company recognized the following totals of collaboration revenue – related party:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Collaboration revenue - related party	$ 344	$ 1,730	$ 14,921	$ 49,653

The following table presents changes in the Company's contract liabilities during the nine months ended September 30, 2019:

	December 31, 2018	Additions	Deductions	September 30, 2019
Contract liabilities (1)				
Total deferred revenue - related party	$ 53,952	$ —	$ (14,921)	$ 39,031

(1) Additions to contract liabilities relate to consideration from Novartis during the reporting period. Deductions to contract liabilities relate to deferred revenue recognized as revenue during the reporting period.

During the three and nine months ended September 30, 2019,the Company recognized $344 and $14,921 of revenue, respectively, related to the amounts included in contract liability balance at the beginning of the period. The aggregate amount of the transaction price allocated to the single performance obligation that is partially unsatisfied was $39,031.

The Company considers the total consideration expected to be earned in the next twelve months for services to be performed as current deferred revenue-related party, and consideration that is expected to be earned subsequent to twelve months from the balance sheet date as noncurrent deferred revenue-related party.

6. Redeemable Convertible Preferred Stock

The Company has issued Series A and Series A-1 preferred stock (together, the "Redeemable Convertible Preferred Stock"). The Redeemable Convertible Preferred Stock is classified outside of stockholders' deficit because the shares contain redemption features that are not solely within the control of the Company.

Upon the closing of the Company's initial public offering on April 23, 2018, all shares of the Redeemable Convertible Preferred Stock automatically converted into 16,863,624 shares of common stock.

7. Stockholders' Equity (Deficit)

Common Stock

As of September 30, 2019 and December 31, 2018, the Company's certificate of incorporation, as amended and restated, authorized the Company to issue 150,000,000 shares, of $0.0001 par value common stock.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, as may be declared by the board of directors, if any, subject to the preferential dividend rights of any outstanding preferred stock. No dividends have been declared or paid by the Company through September 30, 2019.

As of September 30, 2019 and December 31, 2018, the Company had reserved 17,361,676 and 6,083,202 shares, respectively, of common stock for the exercise of outstanding stock options, shares to be issued under the ATM Facility, and the number of shares remaining available for future grant under the Company's 2018 Stock Option and Incentive Plan, and 2018 Employee Stock Purchase Plan.

In May 2019, the Company entered into the Sales Agreement with JonesTrading to issue and sell shares up to $30,000 in shares of the Company's common stock from time to time. The Company has not yet issued or sold any securities under the Sales Agreement.

On April 23, 2018, the Company completed its initial public offering of its common stock by issuing 7,200,000 shares of common stock, at $15.00 per share for gross proceeds of $108,000, or net proceeds of $97,209. Concurrent with the initial public offering, the Company issued Novartis 766,666 shares of its common stock at $15.00 per share for proceeds of $11,500, in a private placement.

8. Stock-Based Awards

2014 Stock Incentive Plan

The Company's 2014 Stock Incentive Plan (the "2014 Plan") provides for the Company to grant incentive stock options or nonqualified stock options, restricted stock awards, unrestricted stock awards or restricted stock units to employees, directors and consultants of the Company. The 2014 Plan is administered by the board of directors, or at the discretion of the board of directors, by a committee of the board of directors. The exercise prices, vesting and other restrictions are determined at the discretion of the board of directors, or their committee if so delegated, except that the exercise price per share of the stock options may not be less than 100% of the fair market value of a share of the Company's common stock on the date of grant and the term of the stock options may not be greater than ten years.

As of September 30, 2019 and December 31, 2018, all remaining shares available under the 2014 Plan were transferred to the Company's 2018 Stock Option and Incentive Plan (the "2018 Plan").

2018 Stock Option and Incentive Plan

On April 3, 2018, the Company's stockholders approved the 2018 Plan, which became effective on April 18, 2018, the date on which the registration statement for the Company's initial public offering was declared effective. The 2018 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock units, restricted stock awards, unrestricted stock awards, cash-based awards and dividend equivalent rights to the Company's officers, employees, non-employee directors and other key persons (including consultants). The number of shares initially reserved for issuance under the 2018 Plan was 1,545,454, plus the shares of common stock remaining available for issuance under the 2014 Plan, which shall be cumulatively increased each January 1 by 4% of the number of shares of the Company's common stock outstanding on the immediately preceding December 31 or such lesser number of shares determined by the Company's board of directors or compensation committee of the board of directors. The shares of common stock underlying any awards that are forfeited, cancelled, held back upon exercise or settlement of an award to satisfy the exercise price or tax withholding, reacquired by the Company prior to vesting, satisfied without the issuance of stock, expire or are otherwise terminated (other than by exercise) under the 2018 Plan and the 2014 Plan will be added back to the shares of common stock available for issuance under the 2018 Plan.

As of September 30, 2019, 1,314,753 shares were available for future issuance under the 2018 Plan.

Stock options granted under the 2014 Plan and 2018 Plan to employees generally vest over four years and expire after ten years.

(Amounts in thousands, except share and per share data)

Stock Options

The following table summarizes the Company's stock option activity since January 1, 2019:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	4,414,225	$ 6.79	8.29	$ 2,031
Granted	1,411,597	4.27		
Exercised	(110,156)	2.31		
Forfeited	(203,287)	6.94		
Outstanding as of September 30, 2019	5,512,379	$ 6.22	8.05	$ 437
Options exercisable at September 30, 2019	2,591,780	$ 5.49	7.37	$ 427
Vested and expected to vest at September 30, 2019	5,512,379	$ 6.22	8.05	$ 437

The weighted average grant-date fair value per share of stock options granted during the nine months ended September 30, 2019 and year ended December 31, 2018 was $2.85 and $7.47, respectively.

As of September 30, 2019 and December 31, 2018, there were outstanding stock options held by non-employees for the purchase of 278,735 and 317,957 shares of common stock, respectively, with service-based vesting conditions.

2018 Employee Stock Purchase Plan

On April 3, 2018, the Company's stockholders approved the 2018 Employee Stock Purchase Plan (the "ESPP"), which became effective on April 18, 2018, the date on which the registration statement for the Company's initial public offering was declared effective. A total of 256,818 shares of common stock were initially reserved for issuance under this plan. In addition, the number of shares of common stock that may be issued under the ESPP automatically increased on January 1, 2019, and shall increase each January 1 thereafter through January 1, 2028, by the lesser of (i) 1% of the number of shares of the Company's common stock outstanding on the immediately preceding December 31 and (ii) such lesser number of shares as determined by the administrator of the Company's ESPP. As of September 30, 2019, a total of 534,544 shares of common stock were reserved for issuance under this plan.

For the nine months ended September 30, 2019 and 2018, the Company did not issue any shares of common stock under the 2018 ESPP.

Stock-Based Compensation

The Company recorded stock-based compensation expense related to stock options and restricted stock awards in the following expense categories of its statements of operations and comprehensive loss:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Research and development expenses	$ 596	$ 470	$ 1,767	$ 2,111
General and administrative expenses	970	744	2,679	1,884
	$ 1,566	$ 1,214	$ 4,446	$ 3,995

As of September 30, 2019, the Company had an aggregate of $12,890 of unrecognized stock-based compensation cost, which is expected to be recognized over a weighted average period of 2.04 years.

(Amounts in thousands, except share and per share data)

9. Net Loss per Share

Basic and diluted net loss per share attributable to common stockholders was calculated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Basic and diluted net loss per share attributable to common stockholders:				
Numerator:				
Net loss	$ (16,878)	$ (17,222)	$ (38,835)	$ (1,862)
Accretion of redeemable convertible preferred stock to redemption value	—	—	—	(11)
Net loss attributable to common stockholders	$ (16,878)	$ (17,222)	$ (38,835)	$ (1,873)
Denominator:				
Weighted average commons shares outstanding — basic and diluted	27,862,544	27,598,251	27,844,591	17,398,249
Net loss per share attributable to common stockholders — basic and diluted	$ (0.61)	$ (0.62)	$ (1.39)	$ (0.11)

The Company's potential dilutive securities have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The Company excluded the following potential common shares, presented based on amounts outstanding at each period end, from the computation of diluted net loss per share attributable to common stockholders for the periods indicated above because including them would have had an anti-dilutive effect:

	September 30,	
	2019	2018
Stock options to purchase common stock	5,512,379	4,509,041
Shares to be issued under the 2018 ESPP	78,714	—
	5,591,093	4,509,041

10. Income Taxes

The Company did not provide for any income taxes for the three and nine months ended September 30, 2019 or 2018.

The Company has evaluated the positive and negative evidence bearing upon its ability to realize the deferred tax assets. Management has considered the Company's history of cumulative net losses incurred since inception and its lack of commercialization of any products or generation of any revenue from product sales since inception and has concluded that it is more likely than not that the Company will not realize the benefits of the deferred tax assets. Accordingly, a full valuation allowance has been established against the deferred tax assets as of September 30, 2019 and December 31, 2018. Management reevaluates the positive and negative evidence at each reporting period.

As of September 30, 2019 and December 31, 2018, the Company had no accrued interest or tax penalties recorded. The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal and state jurisdictions, where applicable. The Company is currently under examination by the Internal Revenue Service ("IRS") for the period ended December 31, 2016. The Company's tax years are still open under statute from 2015 to present. All years may be examined to the extent the tax credit or net operating loss carryforwards are used in future periods.

(Amounts in thousands, except share and per share data)

11. Leases

The Company leases real estate, primarily its corporate headquarters in Cambridge, Massachusetts. The Company's leases have remaining terms ranging from less than 1 year to 10 years. Certain leases include options to renew, exercised at the Company's sole discretion, with renewal terms that can extend the lease five years. The Company evaluated the renewal options in its leases to determine if it was reasonably certain that the renewal option would be exercised, and therefore should be included in the calculation of the operating lease assets and operating lease liabilities. Given the Company's current business structure, uncertainty of future growth, and the associated impact to real estate, the Company concluded that it is not reasonably certain that the renewal option related to its corporate headquarters would be exercised, however, for leases it determined the renewal option was probable to be exercised, the Company included the renewal period in the calculation of the operating lease right-of-use assets and operating lease liabilities. All of the Company's leases qualify as operating leases. With the adoption of the new leasing standard, the Company has recorded a right-of-use asset and corresponding lease liability, by calculating the present value of future lease payments, discounted at either 9.5% or 10.5%, the Company's incremental borrowing rates, over the expected term. The right-of-use asset is reduced by any lease incentives received and the legacy deferred rent balance.

The components of the Company's lease expense are as follows:

Lease Costs	Classification	Three months ended September 30, 2019	Nine months ended September 30, 2019
Operating lease cost	R&D Expense	575	1,733
	G&A Expense	234	695
Variable lease costs (1)	R&D Expense	191	532
	G&A Expense	78	214
Total lease cost		1,078	3,174
Weighted-average remaining lease term (in months)			120.0
Weighted-average discount rate			10.5%

(1) Variable lease costs include certain additional charges for operating costs, including insurance, maintenance, taxes, utilities, and other costs incurred, which are billed based on both usage and as a percentage of the Company's share of total square footage. Short term lease costs are immaterial.

Cash paid for amounts included in the measurement of the Company's operating lease liabilities was $1,068 and $3,137 for the three and nine months ended September 30, 2019, respectively.

As of September 30, 2019, the maturities of the Company's operating lease liabilities were as follows:

Year Ending December 31,	
2019	800
2020	4,922
2021	5,861
2022	5,468
2023	5,410
Thereafter	37,573
Total future lease payments	60,034
Less: Interest	(39,154)
Present value of future lease payments (lease liability)	$ 20,880

(Amounts in thousands, except share and per share data)

Future minimum lease payments for the Company's operating leases as of December 31, 2018 were as follows:

Year Ending December 31,	
2019	2,546
2020	4,258
2021	5,176
2022	5,292
2023	5,376
Thereafter	37,573
	$ 60,221

Prior to the adoption of ASU 2016-02 and for the three and nine months ended September 30, 2018, the Company recognized rent expense on a straight-line basis over the lease period and recorded deferred rent expense for rent expense incurred but not yet paid. The Company also recorded deferred rent attributable to cash incentives received under its lease agreements which were amortized to rent expense over the lease term. During the three and nine months ended September 30, 2018, the Company recognized total rent expense of $711 and $2,048, respectively. Sublease payments received from a third-party tenant under a sublease that expired in March 2018 were $3 and $231 for the three and nine months ended September 30, 2018, respectively, and were recorded as reduction of rent expense.

12. Commitments and Contingencies

Legal Proceedings

On September 13, 2019, a purported stockholder of the Company filed a putative class action against the Company, certain of the Company's directors and officers, or the Individual Defendants, and the underwriters in the Company's initial public offering, collectively, the Defendants, in the Supreme Court of the State of New York, captioned Ang v. Surface Oncology, Inc., et al., No. 655304/2019 (N.Y. Sup. Ct. Sept. 13, 2019). The complaint was filed on behalf of a putative class of purchasers of the Company's common stock in and/or traceable to the Company's April 19, 2018 initial public offering (the first day of trading of our common stock on the Nasdaq Stock Market) and alleges violations of Section 11 (against all Defendants) and 15 (against the Company and the Individual Defendants) of the Securities Act of 1933, as amended. The complaint alleges that the Defendants made false or misleading statements in the Company's Registration Statement on Form S-1 for the Company's initial public offering regarding SRF231 and hematologic toxicities allegedly caused by SRF231. The lawsuit seeks, among other things, compensatory damages and interest thereon, and reasonable costs and expenses, including attorneys' fees.

While the Company is defending against all claims asserted, this litigation could result in substantial costs to the Company and a diversion of the Company's management's attention and resources, which could harm its business. In addition, the uncertainty of the pending lawsuit or potential filing of additional lawsuits could lead to more volatility and a reduction in the Company's stock price. Given the early stage of the litigation, at this time the Company is unable to reasonably estimate possible losses or form a judgment that an unfavorable outcome is either probable or remote. It is not currently possible to assess whether or not the outcome of these proceedings may have a material adverse effect on the Company.

13. Related Party Transactions

Novartis Institutes for BioMedical Research, Inc.

Novartis is a related party because it is a greater than 5% stockholder of the Company. In January 2016, the Company entered into the Collaboration Agreement and sold 2,000,000 shares of its Series A-1 preferred stock to Novartis for gross proceeds of $13,500. In addition, concurrent with the Company's initial public offering of common stock, the Company issued Novartis 766,666 shares of its common stock at $15.00 per share, for proceeds of $11,500 in a private placement. During the three and nine months ended September 30, 2019, the Company recognized $344 and $14,921 of collaboration revenue under the Collaboration Agreement, respectively. As of September 30, 2019 and 2018, no amounts were due from Novartis.

During the nine months ended September 30, 2019, the Company made no cash payments to Novartis related to the Collaboration Agreement. During the nine months ended September 30, 2018, the Company made a payment of $3,543 to Novartis for the reimbursement of manufacturing costs incurred by Novartis prior to December 31, 2017, as well as rent and utilities.

Research Agreement with Vaccinex, Inc.

On November 30, 2017, the Company entered into an agreement with Vaccinex, Inc. ("Vaccinex") whereby Vaccinex will use its technology to assist the Company with identifying and selecting experimental human monoclonal antibodies against targets selected by the Company. The Company's Chief Executive Officer is a member of the board of directors of Vaccinex. During the three and nine months ended September 30, 2019, the Company paid Vaccinex an aggregate of $425 and $602, respectively, relating to the agreement. During the three and nine months ended September 30, 2018, the Company paid Vaccinex an aggregate of $64 and $133, respectively, relating to the agreement. The payments were recognized as research and development expense. There was no amount due by the Company to Vaccinex as of September 30, 2019. The amount due by the Company to Vaccinex as of September 30, 2018 was $66.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited financial statements and related notes for the year ended December 31, 2018 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission or SEC.

Overview

We are a clinical-stage immuno-oncology company focused on using our specialized knowledge of the biological pathways critical to the immunosuppressive tumor microenvironment, or the TME, for the development of next-generation cancer therapies. While first-generation immuno-oncology therapies, such as checkpoint inhibitors, are a remarkable therapeutic advancement, we believe most patients do not achieve durable clinical benefit primarily because these therapies focus on only one element of the complex and interconnected immunosuppressive TME. We believe there is a significant opportunity to more broadly engage both the innate and adaptive arms of the immune system in a multi-faceted, coordinated and patient-specific approach, to meaningfully improve cure rates for patients with a variety of cancers.

We aim to identify key components within the TME to gain a deep understanding of its biology, leverage this understanding to define the optimal therapeutic targets and the patients most likely to benefit, and develop novel antibody therapeutics with differentiated biologic activity. By utilizing our expertise in immunology, oncology, assay development, antibody selection and characterization, and translational research, we are developing and advancing a broad pipeline of TME-focused programs that we believe are the next generation of immuno-oncology therapies. Our programs demonstrate our multi-faceted approach by targeting several critical components of the immunosuppressive TME, including metabolites, cytokines, and macrophages.

NZV930 (formerly SRF373) and SRF617 are antibodies inhibiting CD73 and CD39, respectively, and illustrate how our specialized knowledge of TME biology can be leveraged across programs. CD73 and CD39 are both critical enzymes involved in the production of extracellular adenosine, a key metabolite with strong immunosuppressive properties within the TME. In addition, inhibition of CD39 results in an increase in the pro-inflammatory metabolite adenosine triphosphate, or ATP, within the TME. In June 2018, a Phase 1 trial of NZV930 was initiated by our partner, Novartis Institutes for Biomedical Research, Inc., or Novartis, and we expect to file an investigational new drug application, or IND, for SRF617 in the fourth quarter of 2019.

SRF388 is an antibody targeting interleukin 27, or IL-27, an immunosuppressive cytokine in the TME that is overexpressed in certain cancers. IL-27 is a cytokine secreted by macrophages and antigen presenting cells that plays an important physiologic role in suppressing the immune system. Due to its immunosuppressive nature, there is a rationale for inhibiting IL-27 to treat cancer as this approach will influence the activity of multiple types of immune cells that are necessary to recognize and attack a tumor. We expect to file an IND for SRF388 in the fourth quarter of 2019.

SRF813 is an antibody targeting CD112R, an inhibitory protein expressed on natural killer, or NK, and T cells. By blocking the interaction of CD112R with CD112, its binding partner that is expressed on tumor cells, SRF813 can promote the activation of both NK and T-cells, with potential to elicit a strong anti-tumor response. In October, we formally declared SRF813 as a development candidate resulting in the initiation of IND enabling activities.

SRF231 is an antibody targeting CD47, which is a protein expressed on many cells, but often overexpressed on tumor cells. By targeting CD47, we believe we can promote macrophage activation to attack such tumors. We initiated a Phase 1 clinical trial of SRF231 in February 2018. In December 2018, we announced the deprioritization of SRF231 as a result of toxicities seen during the dose escalation portion of the ongoing Phase 1 trial and the evolving competitive landscape. We are continuing dose exploration in the Phase 1 trial and provided additional data regarding SRF231 at the Society for Immunotherapy of Cancer conference in November 2019.

We also have several earlier stage programs that target other critical components of the TME, including regulatory T cells. We expect that the unique insights generated in any one of our product programs will accelerate the development of the other programs in a synergistic fashion due to the interconnections between these TME pathways.

On April 23, 2018, we completed an initial public offering of our common stock by issuing 7,200,000 shares of our common stock, at $15.00 per share for net proceeds of $97.2 million. Concurrent with the initial public offering, we issued to Novartis, 766,666 shares of our common stock at $15.00 per share for proceeds of $11.5 million, in a private placement.

We were incorporated and commenced principal operations in 2014. We have devoted substantially all of our resources to developing our programs, including NZV930, SRF617, SRF388, SRF813, and SRF231, building our intellectual property portfolio, business planning, raising capital and providing general and administrative support for these operations. To date, we have financed our operations with proceeds from the sales of preferred stock, payments received under the Collaboration Agreement with Novartis, and proceeds from our initial public offering of common stock and concurrent private placement As of September 30, 2019, we had cash, cash equivalents and marketable securities of $111.8 million. Since our inception, we have incurred significant losses. Our ability to generate product revenue sufficient to achieve profitability will depend on the successful development and eventual commercialization of one or more of the product candidates we develop. Our net loss was $16.9 million, and $38.8 million for the three and nine months ended September 30, 2019, respectively, and $17.2 million and $1.9 million for three and nine months ended September 30, 2018, respectively. As of September 30, 2019, we had an accumulated deficit of $105.6 million. We expect to continue to incur significant expenses and increasing operating losses for at least the next several years. We anticipate that our expenses will increase substantially, particularly as we:

- pursue the clinical development of product candidates;
- leverage our programs to advance product candidates into preclinical and clinical development;
- seek regulatory approvals for any product candidates that successfully complete clinical trials;
- hire additional clinical, quality control, and scientific personnel;
- expand our operational, financial, and management systems and increase personnel, including personnel to support our clinical development, manufacturing, and commercialization efforts, and our operations as a public company;
- maintain, expand and protect our intellectual property portfolio;
- establish a sales, marketing, medical affairs, and distribution infrastructure to commercialize any products for which we may obtain marketing approval and intend to commercialize on our own or jointly with a commercial partner; and
- acquire or in-license other product candidates and technologies.

As a result, we will need additional financing to support our continuing operations. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of public or private equity, debt financings or other sources, which may include collaborations with third parties. We may be unable to raise additional funds or enter into other agreements or arrangements, when needed, on favorable terms, or at all. If we fail to raise capital or enter into such agreements as and when needed, we may have to significantly delay, scale back or discontinue the development or commercialization of one or more of our product candidates.

Because of the numerous risks and uncertainties associated with product development, we are unable to predict the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. Even if we are able to generate revenue from product sales, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate our operations.

We believe that our existing cash, cash equivalents and marketable securities, as of September 30, 2019 will enable us to fund our operating expenses and capital expenditure requirements into 2021, excluding any future milestone payments from Novartis. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our available capital resources sooner than we expect.

Components of Our Results of Operations

Revenue

To date, we have not generated any revenue from product sales and do not expect to do so in the near future. All of our revenue to date has been derived from the Collaboration Agreement. If our development efforts for our programs are successful and result in regulatory approval or additional license or collaboration agreements with third parties, we may generate revenue in the future from a combination of product sales or payments from additional collaboration or license agreements that we may enter into with third parties. We expect that our revenue for the next several years will be derived primarily from the Collaboration Agreement as well as any additional collaborations that we may enter into in the future.

Collaboration Agreement with Novartis

In January 2016, we entered into the Collaboration Agreement to develop next-generation cancer therapies. Under the Collaboration Agreement, as amended, we were responsible for performing research on antibodies that bind to CD73 and four other specified targets. We were responsible for all costs and expenses incurred by, or on behalf of, us in connection with the research.

Pursuant to the Collaboration Agreement, we granted Novartis a worldwide exclusive license to research, develop, manufacture and commercialize antibodies that target CD73, along with the right to purchase exclusive option rights, each an Option, for up to four specified targets, each an Option Target, including obtaining certain development, manufacturing and commercialization rights. If Novartis purchases an Option, following receipt of the IND acceptance for a candidate with respect to the applicable Option Target, Novartis will be entitled to exercise the Option for such Option Target. Pursuant to the Collaboration Agreement, Novartis initially had the right to exercise up to three purchased Options. In March 2018, Novartis notified us of its decision to not exercise its previously purchased Option for SRF231, our CD47 product candidate. In March 2018, we and Novartis also mutually agreed to cease development of one of the undisclosed programs subject to the Collaboration Agreement. In February 2019, Novartis notified us of its decision not to purchase its Option related to IL-27. As a result, as of September 30, 2019, Novartis has one Option remaining eligible for purchase, and potential exercise.

At the time we entered into the Collaboration Agreement in January 2016, Novartis made an upfront payment to us of $70.0 million. Under the Collaboration Agreement, Novartis is also obligated to pay us a fee to the extent it desires to purchase an Option for any Option Target and another fee to exercise such purchased Option, which entitles us to an aggregate of up to $20.0 million of potential option purchase and option exercise payments for the remaining Option. We are also eligible to receive payments on a target-by-target basis upon the achievement of specified development and sales milestones, as well as tiered royalties on annual net sales by Novartis of licensed products ranging from high single-digit to mid-teens percentages upon successful commercialization of any products. Under the Collaboration Agreement, as of September 30, 2019, we are entitled to potential milestones in excess of $500.0 million, as well as tiered royalties on annual net sales by Novartis ranging from high single-digit to mid-teens percentages upon the successful commercialization of NZV930. The maximum aggregate amount of potential option purchase, option exercise, and milestone payments associated with Novartis' single remaining Option is $220.0 million, as well as tiered royalties on annual net sales by Novartis ranging from high-single-digit to low double-digit percentages upon the successful commercialization of the remaining Option Target.

In addition, we are required to pay Novartis tiered royalties on annual net sales by us of regional licensed products in the United States ranging from high single-digit to mid-teens percentages. The royalty payments are subject to reduction under specified conditions set forth in the Collaboration Agreement.

Under ASC 606 we account for (i) the license conveyed with respect to CD73 and (ii) our obligations to perform research on CD73 and other specified targets as a single performance obligation under the Collaboration Agreement. We recognize revenue using the cost-to-cost method, which we believe best depicts the transfer of control to the customer. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of actual costs incurred to the total estimated costs expected upon satisfying the identified performance obligation. Under this method, revenue is recorded as a percentage of the estimated transaction price based on the extent of progress towards completion.

In February 2018, we received an additional milestone payment of $45.0 million from Novartis upon Novartis' receipt and acceptance of the first final audited GLP toxicology study report for NZV930. Upon achieving the milestone, we concluded this variable consideration was no longer constrained and included this amount in the transaction price. We have recognized $32.6 million as collaboration revenue – related party as of September 30, 2019, based on the ratio of our actual costs incurred as of the milestone achievement date to our total estimated costs with respect to performing research on antibodies that bind to CD73 and other specified targets under the Collaboration Agreement. The remaining unrecognized amount was initially recorded as deferred revenue and will subsequently be recognized as revenue over the performance period in proportion to the costs incurred by us under the Collaboration Agreement.

In March 2018, Novartis notified us of its decision not to exercise its option related to CD47. We recognized the $5.0 million exclusive option right payment as collaboration revenue – related party in the first quarter of 2018 because we no longer had any remaining performance obligations related to CD47.

In February 2019, Novartis notified us of its decision not to purchase its Option related to IL-27. The decision by Novartis to terminate the IL-27 target under the Collaboration Agreement resulted in our removing all future costs associated with IL-27 from the estimated total costs in the cost-to-cost model in the first quarter of 2019. This change in the total estimated costs in the cost-to-cost modelresulted in our recognizing revenue of $9.8 million in the first quarter of 2019.

Through September 30, 2019, we had received an aggregate of $150.0 million from Novartis in upfront payments, milestone payments, and option purchase payments. During the three and nine months ended September 30, 2019 and 2018 we recognized revenue of $0.3 million, $14.9 million, $1.7 million, and $49.7 million, respectively, related to the Collaboration Agreement.

Operating Expenses

Research and Development Expenses

Research and development expenses are expensed as incurred and consist of costs incurred for our research activities, including our discovery efforts, and the development of our programs. These expenses include:

- salaries, benefits and other related costs, including stock-based compensation, for personnel engaged in research and development functions;
- expenses incurred in connection with the preclinical development of our programs and clinical trials of our product candidates, including under agreements with third parties, such as consultants, contractors, and contract research organizations, or CROs;
- the cost of manufacturing drug products for use in our preclinical studies and clinical trials, including under agreements with third parties, such as consultants, contractors, and contract manufacturing organizations, or CMOs;
- laboratory supplies;
- facilities, depreciation and other expenses, which include direct and allocated expenses for depreciation and amortization, rent and maintenance of facilities, insurance and supplies; and
- third-party license fees.

We do not track our internal research and development expenses on a program-by-program basis as they primarily relate to personnel, early research and consumable costs, which are deployed across multiple projects under development. These costs are included in unallocated research and development expenses in the table below. A portion of our research and development costs are external costs, which we do track on a program-by-program basis.

The following table summarizes our research and development expenses by program:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
SRF231	$ 792	$ 7,583	$ 5,119	$ 18,500
NZV930 (Formally SRF373)	—	944	—	956
SRF388	2,222	582	6,101	2,365
SRF617	3,790	1,038	10,681	3,203
SRF813	481	308	829	895
Other early-stage programs	195	816	953	1,864
Unallocated research and discovery expenses	5,436	4,512	16,778	14,188
Total research and development expenses	$ 12,916	$ 15,783	$ 40,461	$ 41,971

Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. As a result, we expect our research and development expenses to increase over the next several years as we initiate clinical trials and pursue later stages of development of SRF617, SRF388, and SRF813, initiate clinical trials for the product candidates we develop and continue to discover and develop additional product candidates.

At this time, we cannot reasonably estimate or know the nature, timing, and estimated costs of the efforts that will be necessary to complete the development of any of our product candidates that we develop from our programs. We are also unable to predict when, if ever, net cash inflows will commence from sales of product candidates we develop. This is due to the numerous risks and uncertainties associated with developing product candidates, including the uncertainty of:

- successful completion of clinical trials and preclinical studies;
- sufficiency of our financial and other resources to complete the necessary clinical trials and preclinical studies;
- acceptance of INDs for our planned clinical trials or future clinical trials;
- successful enrollment and completion of clinical trials;
- successful data from our clinical program that supports an acceptable risk-benefit profile of our product candidates in the intended populations;
- receipt of regulatory and marketing approvals from applicable regulatory authorities;
- receipt and maintenance of marketing approvals from applicable regulatory authorities;
- establishing agreements with third-party manufacturers for clinical supply for our clinical trials and commercial manufacturing, if any of our product candidates are approved;
- entry into collaborations to further the development of our product candidates;
- obtaining and maintaining patent and trade secret protection or regulatory exclusivity for our product candidates;
- successfully launching commercial sales of our product candidates, if and when approved;
- acceptance of our product candidates' benefits and uses, if and when approved, by patients, the medical community and third-party payors;
- maintaining a continued acceptable safety profile of the product candidates following approval;
- effectively competing with other therapies; and
- obtaining and maintaining healthcare coverage and adequate reimbursement from third-party payors.

A change in the outcome of any of these variables with respect to the development of any of our programs or any product candidate we develop would significantly change the costs, timing, and viability associated with the development of such program or product candidate.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and personnel-related costs, including stock-based compensation, for our personnel in executive, legal, finance and accounting, human resources, and other administrative functions. General and administrative expenses also include legal fees relating to patent and corporate matters; professional fees paid for accounting, auditing, consulting and tax services; insurance costs; travel expenses; and facility costs not otherwise included in research and development expenses.

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support research activities and development of our programs. We also anticipate that we will incur increased accounting, audit, legal, regulatory, compliance, and director and officer insurance costs as well as investor and public relations expenses associated with operating as a public company.

Interest and Other Income (Expense), Net

Interest and other income consist primarily of interest earned on our cash, cash equivalents, and marketable securities.

Results of Operations

Comparison of Three Months Ended September 30, 2019 and 2018

The following table summarizes our results of operations for the three months ended September 30, 2019 and 2018, along with the changes in those items:

	Three months ended September 30,		
	2019	2018	2019 v 2018
	(in thousands)		
Collaboration revenue - related party	$ 344	$ 1,730	$ (1,386)
Operating expenses:			
Research and development	12,916	15,783	(2,867)
General and administrative	4,984	3,977	1,007
Total operating expenses	17,900	19,760	(1,860)
Loss from operations	(17,556)	(18,030)	474
Interest and other income (expense), net	678	808	(130)
Net Loss	$ (16,878)	$ (17,222)	$ 344

Collaboration Revenue

Collaboration revenue was $0.3 million and $1.7 million for the three months ended September 30, 2019 and 2018, respectively, all of which was derived from the Collaboration Agreement. The decrease in collaboration revenue-related party was primarily due to a reduction in costs incurred in the current year resulting from Novartis' decision not to purchase its Option related to IL-27 in February 2019. This decision reduced the number of remaining specified targets in our Collaboration Agreement from two in the three months ended September 30, 2018 to one in the three months ended September 30, 2019.

Research and Development Expenses

	Three months ended September 30,		
	2019	2018	2019 v 2018
	(in thousands)		
Direct research and development expenses by program:			
SRF231	$ 792	$ 7,583	$ (6,791)
NZV930 (Formally SRF373)	—	944	(944)
SRF388	2,222	582	1,640
SRF617	3,790	1,038	2,752
SRF813	481	308	173
Other early-stage programs	195	816	(621)
Research and discovery and unallocated expenses:			
Personnel related (including stock-based compensation)	3,887	3,136	751
Facility related and other	1,549	1,376	173
Total research and development expenses	$ 12,916	$ 15,783	$ (2,867)

Research and development expenses were $12.9 million for the three months ended September 30, 2019, compared to $15.8 million for the three months ended September 30, 2018. The decrease of $2.9 million was primarily due to decreases of $6.8 million in external costs for our SRF231 program, $0.9 million in external costs for our SRF373 program and $0.6 million in our early-stage programs partially offset by increases of $1.6 million in external costs for our SRF388 program, $2.8 million in external costs for our SRF617 program, $0.2 million in external costs for our SRF813 program, and $0.9 million for research and discovery and unallocated costs.

The decrease in research and development expenses for our SRF231 program was primarily due to a reduction in contract manufacturing work completed in 2019 compared to 2018, as well as the deprioritization of SRF231, which we announced in December 2018.

The decrease in research and development expenses for our NZV930 program was primarily due to initiation of the Phase 1 clinical trial by Novartis in 2018. Novartis has worldwide exclusive rights to this program, and as a result of the initiation of the Phase 1 clinical by Novartis, we are no longer incurring expenses for this program.

The increase in research and development expenses for our SRF617 program was primarilydue to increased contract manufacturing work and additional costs incurred in advancing the program in anticipation offiling an IND in the fourth quarter of 2019.

The increase in research and development expenses for our SRF388 program was primarilydue to increased contract manufacturing work and additional costs incurred in advancing the program in anticipation offiling an IND in the fourth quarter of 2019.

The increase in research and development expenses for our SRF813 program was primarilydue to increased contract manufacturing work.

The increase in research and discovery and unallocated expenses was primarily due to a $0.8 million increase in personnel-related costs due to increased headcount, as well as an increase in facility and other costs.

General and Administrative Expenses

General and administrative expenses were $5.0 million for the three months ended September 30, 2019, compared to $4.0 million for the three months ended September 30, 2018. The increase of $1.0 million was primarily due to an increase of $0.6 million in personnel-related costs as a result of an increase in headcount, an increase of $0.3 million in facility and other costs, and an increase of $0.1 million for professional fees related to legal and accounting services.

Interest and Other Income (Expense), Net

Interest and other income were approximately $0.7 million and $0.8 million during the three months ended September 30, 2019 and 2018, respectively, due primarily to interest income on invested balances of our cash, cash equivalents and marketable securities.

Comparison of Nine Months Ended September 30, 2019 and 2018

The following table summarizes our results of operations for the nine months ended September 30, 2019 and 2018, along with the changes in those items:

	Nine months ended September 30,		
	2019	2018	2019 v 2018
	(in thousands)		
Collaboration revenue - related party	$ 14,921	$ 49,653	$ (34,732)
Operating expenses:			
Research and development	40,461	41,971	(1,510)
General and administrative	15,494	11,252	4,242
Total operating expenses	55,955	53,223	2,732
Loss from operations	(41,034)	(3,570)	(37,464)
Interest and other income (expense), net	2,199	1,708	491
Net Loss	$ (38,835)	$ (1,862)	$ (36,973)

Collaboration Revenue

Collaboration revenue was $14.9 million and $49.7 million for the nine months ended September 30, 2019 and 2018, respectively, all of which was derived from the Collaboration Agreement. The decrease in collaboration revenue-related party was primarily due to the recognition of $24.7 million in revenue in the nine months ended September 30, 2018 related to a milestone payment of $45.0 million that we received in February 2018 from Novartis upon Novartis' receipt and acceptance of the first final audited GLP toxicology study report for NZV930, and $5.0 million related to Novartis' decision not to exercise its option related to CD47 in February 2018.

Research and Development Expenses

	Nine months ended September 30,		
	2019	2018	2019 v 2018
	(in thousands)		
Direct research and development expenses by program:			
SRF231	$ 5,119	$ 18,500	$ (13,381)
NZV930 (Formally SRF373)	—	956	(956)
SRF388	6,101	2,365	3,736
SRF617	10,681	3,203	7,478
SRF813	829	895	(66)
Other early-stage programs	953	1,864	(911)
Research and discovery and unallocated expenses:			
Personnel related (including stock-based compensation)	11,930	10,106	1,824
Facility related and other	4,848	4,082	766
Total research and development expenses	$ 40,461	$ 41,971	$ (1,510)

Research and development expenses were $40.5 million for the nine months ended September 30, 2019, compared to $42.0 million for the nine months ended September 30, 2018. The decrease of $1.5 million was primarily due to decreases of $13.4 million in external costs for our SRF231 program, $1.0 million in external costs for our SRF373 program, and $0.9 million in our early-stage programs, which was partially offset by increases of $3.7 million in external costs for our SRF388 program, $7.5 million in external costs for our SRF617 program, and $2.6 million for research and discovery and unallocated costs.

The decrease in research and development expenses for our SRF231 program was primarily due to a reduction in contract manufacturing work completed in 2019 compared to 2018, as well as the deprioritization of SRF231, which we announced in December 2018.

The decrease in research and development expenses for our NZV930 program was primarily due to initiation of the Phase 1 clinical trial by Novartis in 2018. Novartis has worldwide exclusive rights to this program, and as a result of the initiation of the Phase 1 clinical by Novartis, we are no longer incurring expenses for this program.

The increase in research and development expenses for our SRF617 program was primarily due to increased contract manufacturing work and additional costs incurred in advancing the program in anticipation offiling an IND in the fourth quarter of 2019.

The increase in research and development expenses for our SRF388 program was primarily due to increased contract manufacturing work and additional costs incurred in advancing the program in anticipation offiling an IND in the fourth quarter of 2019.

The increase in research and discovery and unallocated expenses was primarily due to increases of $1.8 million in personnel-related costs due to increased headcount, and an increase of $0.8 million in facility related costs.

General and Administrative Expenses

General and administrative expenses were $15.5 million for the nine months ended September 30, 2019, compared to $11.3 million for the nine months ended September 30, 2018. The increase of $4.2 million was primarily due to increases of $2.7 million in personnel related costs due to increases in headcount, and an increase of $1.2 million in facility and other costs.

Interest and Other Income (Expense), Net

Interest and other income were approximately $2.2 million and $1.7 million during the nine months ended September 30, 2019 and 2018, respectively, due primarily to interest income on invested balances of our cash, cash equivalents and marketable securities.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating losses. We have generated limited revenue to date from the Collaboration Agreement. We have not yet commercialized any product and we do not expect to generate revenue from sales of any products for several years, if at all. To date, we have financed our operations with proceeds from the sales of preferred stock, payments received under the Collaboration Agreement, and proceeds from our initial public offering of common stock and concurrent private placement. Through September 30, 2019, we had received gross proceeds of $48.6 million from our sales of preferred stock and $150.0 million from the Collaboration Agreement.

On April 23, 2018, we completed an initial public offering of our common stock by issuing 7,200,000 shares of common stock, at $15.00 per share for gross proceeds of $108.0 million, or net proceeds of $97.2 million. Concurrent with the initial public offering, we issued Novartis 766,666 shares of our common stock at $15.00 per share, for proceeds of $11.5 million, in a private placement.

In May 2019, we entered into a Capital on Demand™ Sales Agreement, or the Sales Agreement, with JonesTrading Institutional Services to issue and sell up to $30.0 million in shares of our common stock, from time to time. We have not yet issued or sold any securities under the Sales Agreement.

As of September 30, 2019, we had cash, cash equivalents and marketable securities of $111.8 million.

Future Funding Requirements

We expect our expenses to increase substantially in connection with our ongoing activities, in particular as we continue to advance our product candidates and our discovery programs and conduct research under the Collaboration Agreement. In addition, we expect to continue to incur additional costs associated with operating as a public company.

We believe that our existing cash, cash equivalents, and marketable securities, as of November 12, 2019, will enable us to fund our operating expenses and capital expenditure requirements into 2021, excluding any future milestone payments from Novartis. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our capital resources sooner than we expect.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical product candidates, we are unable to estimate the exact amount of our working capital requirements. Our future funding requirements will depend on and could increase significantly as a result of many factors, including:

- completing clinical development of existing product candidates and programs, identifying new product candidates, and completing pre-clinical and clinical development of such product candidates;
- seeking and obtaining marketing approvals for any of product candidates that we develop;
- launching and commercializing product candidates for which we obtain marketing approval by establishing a sales force, marketing, medical affairs and distribution infrastructure or, alternatively, collaborating with a commercialization partner;
- achieving adequate coverage and reimbursement by hospitals, government and third-party payors for product candidates that we develop;
- establishing and maintaining supply and manufacturing relationships with third parties that can provide adequate, in both amount and quality, products and services to support clinical development and the market demand for product candidates that we develop, if approved;
- obtaining market acceptance of product candidates that we develop as viable treatment options;
- addressing any competing technological and market developments;
- negotiating favorable terms in any collaboration, licensing or other arrangements into which we may enter and performing our obligations in such collaborations;
- maintaining, protecting and expanding our portfolio of intellectual property rights, including patents, trade secrets and know-how;
- defending against third-party interference or infringement claims, if any; and
- attracting, hiring and retaining qualified personnel.

A change in the outcome of any of these or other variables with respect to the development of any of our product candidates could significantly change the costs and timing associated with the development of that product candidate. Further, our operating plans may change in the future, and we may need additional funds to meet operational needs and capital requirements associated with such operating plans.

In addition to the variables described above, if and when any product candidate we develop successfully completes development, we will incur substantial additional costs associated with regulatory filings, marketing approval, post-marketing requirements, maintaining our intellectual property rights, and regulatory protection, in addition to other costs. We cannot reasonably estimate these costs at this time.

Until such time, if ever, that we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity or debt financings and collaboration arrangements, including the Collaboration Agreement. We currently have no credit facility or committed sources of capital. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interests of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. If we raise additional funds through the issuance of debt securities, these securities could contain covenants that would restrict our operations. We may require additional capital beyond our currently anticipated amounts. Additional capital may not be available on reasonable terms, or at all. If we raise additional funds through collaboration arrangements in the future, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates, or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate development or future commercialization efforts.

Cash Flows

The following table summarizes information regarding our cash flows for each of the periods presented:

	Nine months ended September 30,	
	2019	2018
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ (46,802)	$ 720
Investing activities	2,158	(91,562)
Financing activities	255	110,092
Net increase (decrease) in cash and cash equivalents and restricted cash	$ (44,389)	$ 19,250

Operating Activities

During the nine months ended September 30, 2019, net cash used in operating activities was $46.8 million, primarily due to a net loss of $38.8 million and changes in our operating assets and liabilities of $14.0 million, partially offset by non-cash charges of $6.0 million. Net cash used in changes in our operating assets and liabilities for the nine months ended September 30, 2019 consisted primarily of a $14.9 million decrease in deferred revenue-related party, a $0.3 million decrease in accrued expenses and other current liabilities, a $1.2 million increase in accounts payable, a $0.8 million decrease in operating lease liabilities, and a decrease of $3.3 million in prepaid expenses and other current assets. The decrease in deferred revenue-related party was primarily due to the removal of all future costs associated with IL-27 from the estimated total costs in the cost-to-cost model as a result of Novartis' decision not to purchase the Option related to IL-27. The decrease in prepaid expenses and other current assets was primarily due to the collection of $2.2 million related to an insurance receivable in 2019. The decrease in operating lease liabilities relates to lease payments made in the current year.

During the nine months ended September 30, 2018, net cash provided by operating activities was $0.7 million, primarily due to non-cash charges of $4.8 million partially offset by cash net loss of $1.9 million and changes in our operating assets and liabilities of $2.2 million. Net cash used in changes in our operating assets and liabilities for the nine months ended September 30, 2018 consisted primarily of a $2.0 million decrease in accrued expenses other current liabilities, a $4.7 million decrease in deferred revenue-related party, offset by a $3.4 million decrease in prepaid expenses and other current assets. The decrease in accrued expenses and other current liabilities is primarily due to payments of manufacturing costs incurred to support ongoing clinical trial activities, including a payment to Novartis and the decrease in accounts payable was due to timing of invoices for manufacturing expenses.

Investing Activities

During the nine months ended September 30, 2019, net cash provided by investing activities was $2.2 million, primarily due to purchases of marketable securities of $107.8 million and $1.4 million of purchases of property and equipment, partially offset by $111.3 million of proceeds from sales or maturities of marketable securities.

During the nine months ended September 30, 2018, net cash used in investing activities was $91.6 million, primarily due to purchases of marketable securities of $107.3 million and $0.9 million of purchases of property and equipment, partially offset by $16.6 million of proceeds from sales or maturities of marketable securities.

Financing Activities

During the nine months ended September 30, 2019, net cash provided by financing activities was $0.3 million, consisting of proceeds received from the exercise of stock options.

During the nine months ended September 30, 2018,net cash provided by financing activities was $110.1 million, consisting primarily of $100.4 million net proceeds received upon the completion of the initial public offering in April 2018, $11.5 million from a private placement of common stock with Novartis, a related party, and $0.2 million of proceeds received from the exercise of stock options, partially offset by $2.0 million paid for initial public offering costs.

Contractual Obligations

We have entered into agreements in the normal course of business with CROs for clinical trials and clinical supply manufacturing and with vendors for preclinical research studies and other services and products for operating purposes. These contractual obligations are cancelable at any time by us, generally upon prior written notice to the vendor.

During the nine months ended September 30, 2019, there were no material changes, to our contractual obligations and commitments from those described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations and Commitments” in our Annual Report on Form 10-K filed with the SEC on March 7, 2019.

Critical Accounting Policies and Significant Judgments and Estimates

Our management’s discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which we have prepared in accordance with the rules and regulations of the SEC, and generally accepted accounting principles in the United States, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenue and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies and the methodologies and assumptions we apply under them have not materially changed since our Annual Report on Form 10-K filed with the SEC on March 7, 2019, except for our adoption of the new leasing standard which is discussed above.

Off-Balance Sheet Arrangements

We did not have, during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under applicable SEC rules.

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 2 to our condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

Emerging Growth Company Status

As an "emerging growth company," the Jumpstart Our Business Startups Act of 2012 allows us to delay adoption of new or revised accounting standards applicable to public companies until such standards are made applicable to private companies. However, we have irrevocably elected not to avail ourselves of this extended transition period for complying with new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our cash, cash equivalents and marketable securities as of September 30, 2019 consisted of cash, a money market fund invested primarily in short-term U.S. Treasury obligations, U.S. government agency bonds and corporate bonds. Interest income is sensitive to changes in the general level of interest rates; however, due to the nature of these investments, we do not believe that we have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates.

Item 4. Limitations on Effectiveness of Controls and Procedures

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934). Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2019.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has occurred during the nine months ended September 30, 2019 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

In January 2017, we filed an opposition in the European Patent Office, or EPO, opposing the grant of European Patent No. EP 2242512 to Stanford University, or the Stanford Patent. We were one of seven parties opposing the grant of the Stanford Patent, which relates generally to CD47 antibodies for use in treating cancer. Stanford filed a response to the seven oppositions and oral arguments were held in August 2018. The Opposition Division of the EPO maintained an amended version of the patent. As of November 12, 2019, we and three additional opponents, and Stanford, had submitted notices of appeal to the Opposition Division's interlocutory decision to the Technical Board of Appeal of the EPO. Accordingly, final resolution of the oppositions may be several years in the future.

We are also aware of various pending divisional applications relating to EP 2242512 that are being pursued by Stanford University. Two divisional applications, EP 3056514 and EP 3056515, proceeded to grant on April 17, 2019. According to Article 99 of the European Patent Convention, any person may give notice to the EPO of opposition to these patents within nine months of grant, i.e., by January 17, 2020. Notices of opposition have been filed by a third party in EP 3056514 and EP 3056515.

On September 13, 2019, a purported stockholder of the Company filed a putative class action against us, certain of our directors and officers, or the Individual Defendants, and the underwriters in our initial public offering, collectively, the Defendants, in the Supreme Court of the State of New York, captioned Ang v. Surface Oncology, Inc., et al., No. 655304/2019 (N.Y. Sup. Ct. Sept. 13, 2019). The complaint was filed on behalf of a putative class of purchasers of our common stock in and/or traceable to our April 19, 2018 initial public offering (the first day of trading of our common stock on the Nasdaq Stock Market) and alleges violations of Section 11 (against all Defendants) and 15 (against the Company and the Individual Defendants) of the Securities Act of 1933, as amended. The complaint alleges that the Defendants made false or misleading statements in our Registration Statement on Form S-1 for our initial public offering regarding SRF231 and hematologic toxicities allegedly caused by SRF231. The lawsuit seeks, among other things, compensatory damages and interest thereon, and reasonable costs and expenses, including attorneys' fees. Although litigation outcomes are inherently unpredictable, we believe this action is without merit and intend to defend it vigorously. We are unable to make a reasonable estimate of the amount or range of possible loss, if any, that could result from an unfavorable outcome.

From time to time, we may become involved in other litigation or legal proceedings relating to claims arising from the ordinary course of business.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A (Risk Factors) of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits listed on the Exhibit Index immediately preceding such exhibits, which is incorporated herein by reference, are filed or furnished as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial and Accounting Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* The certification furnished in Exhibit 32.1 and Exhibit 32.2 hereto is deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference. Such certification will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

SIGNATURES

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

Surface Oncology, Inc.

Date: November 12, 2019

By: /s/ J. Jeffrey Goater
J. Jeffrey Goater
Chief Executive Officer (Principal Executive Officer)

Date: November 12, 2019

By: /s/ Jessica Fees
Jessica Fees
Treasurer and Senior Vice President, Finance and Business Operations (Principal Financial and Accounting Officer)

Exhibit 31.1

Certification of Principal Executive Officer and Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, J. Jeffrey Goater, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Surface Oncology, 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)) 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) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);

   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 changes 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.

Dated: November 12, 2019

/s/ J. Jeffrey Goater

J. Jeffrey Goater
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Principal Executive Officer and Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Jessica Fees, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Surface Oncology, 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)) 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) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);

   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 changes 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.

Dated: November 12, 2019

/s/ Jessica Fees

Jessica Fees
Senior Vice President, Finance and Business Operations
(Principal Financial and Accounting Officer)

Exhibit 32.1

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 on Form 10-Q of Surface Oncology, Inc. (the "Company") for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, J. Jeffrey Goater Chief Executive Officer of the Company, hereby certifies, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2019

/s/ J. Jeffrey Goater

J. Jeffrey Goater
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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 on Form 10-Q of Surface Oncology, Inc. (the "Company") for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jessica Fees, Senior Vice President, Finance and Business Operations of the Company, hereby certifies, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2019

/s/ Jessica Fees

Jessica Fees
Senior Vice President, Finance and Business Operations
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.