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 March 31, 2023

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	☒	Smaller 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 May 1, 2023, the registrant had 60,716,873 shares of common stock $0.0001 par value per share, outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains 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 success of the implementation of our corporate restructuring and strategic decision to pause the internal clinical development of SRF617 and focus resources on the advancement of SRF388 and SRF114;
- 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 Novartis Institutes for Biomedical Research, Inc. ("Novartis") or other 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 collaborations with Novartis and GSK, 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 ability to raise capital to fund operations;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- our ability to regain compliance with the closing bid price requirement for listing on the Nasdaq Stock Market LLC; 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-Q will be deemed to modify or supersede such statements in this Quarterly Report on Form 10-Q.

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(in thousands, except share and per share data)

	March 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 28,982	$ 50,910
Marketable securities	73,073	73,913
Prepaid expenses and other current assets	5,154	4,317
Total current assets	107,209	129,140
Property and equipment, net	4,511	4,866
Operating lease right-of-use asset	23,693	24,307
Restricted cash	1,595	1,595
Other assets	—	2
Total assets	$ 137,008	$ 159,910
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,108	$ 256
Accrued expenses and other current liabilities	4,612	10,214
Operating lease liability	5,811	5,790
Convertible note payable	3,219	—
Total current liabilities	14,750	16,260
Operating lease liability, non-current	23,939	24,662
Convertible note payable, non-current	22,488	25,585
Total liabilities	61,177	66,507
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.0001 par value per share; 5,000,000 shares authorized at March 31, 2023 and December 31, 2022; no shares issued and outstanding at March 31, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value; 150,000,000 shares authorized at March 31, 2023 and December 31, 2022, respectively; 60,716,873 and 60,578,956 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	6	6
Additional paid-in capital	300,464	298,741
Accumulated other comprehensive loss	(569)	(1,015)
Accumulated deficit	(224,070)	(204,329)
Total stockholders' equity	75,831	93,403
Total liabilities and stockholders' equity	$ 137,008	$ 159,910

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

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

(in thousands, except share and per share data)

	Three months ended March 31,	
	2023	**2022**
License-related revenue	$ —	$ 30,000
Operating expenses:		
Research and development	13,777	16,624
General and administrative	5,886	6,540
Total operating expenses	19,663	23,164
Income (loss) from operations	(19,663)	6,836
Interest expense	(932)	(682)
Other income, net	854	45
Net income (loss)	(19,741)	6,199
Net income (loss) per share — basic	$ (0.33)	$ 0.13
Weighted average common shares outstanding — basic	60,627,993	48,606,055
Net income (loss) per share — diluted	$ (0.33)	$ 0.13
Weighted average common shares outstanding — diluted	60,627,993	49,816,784
Comprehensive income (loss):		
Net income (loss)	$ (19,741)	$ 6,199
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities, net of tax of $0	446	(690)
Comprehensive income (loss)	$ (19,295)	$ 5,509

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

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

(in thousands, except share amounts)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balances at December 31, 2022	60,578,956	$ 6	$ 298,741	$ (1,015)	$ (204,329)	$ 93,403
Issuance of common stock under stock purchase plan	137,917	—	77	—	—	77
Stock-based compensation expense	—	—	1,646	—	—	1,646
Unrealized gain on marketable securities	—	—	—	446	—	446
Net loss	—	—	—	—	(19,741)	(19,741)
Balances at March 31, 2023	60,716,873	$ 6	$ 300,464	$ (569)	$ (224,070)	$ 75,831

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balances at December 31, 2021	46,958,776	$ 5	$ 259,859	$ (221)	$ (140,743)	$ 118,900
Issuance of common stock upon exercise of stock options	208	—	—	—	—	—
Issuance of common stock under stock purchase plan	51,329	—	157	—	—	157
Issuance of common stock upon public offering, net of issuance costs	7,337,251	1	20,555	—	—	20,556
Stock-based compensation expense	—	—	1,865	—	—	1,865
Unrealized loss on marketable securities	—	—	—	(690)	—	(690)
Net income	—	—	—	—	6,199	6,199
Balances at March 31, 2022	54,347,564	$ 6	$ 282,436	$ (911)	$ (134,544)	$ 146,987

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)

	Three months ended March 31,	
	2023	**2022**
Cash flows from operating activities:		
Net income (loss)	$ (19,741)	$ 6,199
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	318	345
Stock-based compensation expense	1,646	1,865
Non-cash interest expense related to note payable	122	146
Net amortization of premiums and discounts on marketable securities	(134)	178
Loss on disposal of property and equipment	3	—
Non-cash operating lease cost	614	614
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(837)	(695)
Unbilled receivable	—	(30,000)
Other assets	2	(20)
Accounts payable	852	1,074
Accrued expenses and other current liabilities	(5,582)	(2,601)
Operating lease liability	(702)	(671)
Net cash used in operating activities	(23,439)	(23,566)
Cash flows from investing activities:		
Purchases of property and equipment	(17)	(35)
Proceeds from sales of property and equipment	31	—
Purchases of marketable securities	(16,930)	—
Proceeds from sales or maturities of marketable securities	18,350	12,500
Net cash provided by investing activities	1,434	12,465
Cash flows from financing activities:		
Proceeds from issuance of common stock upon public offering, net	—	20,556
Proceeds from employee stock purchases	77	157
Net cash provided by financing activities	77	20,713
Net increase (decrease) in cash and cash equivalents and restricted cash	(21,928)	9,612
Cash and cash equivalents and restricted cash at beginning of period	52,505	57,640
Cash and cash equivalents and restricted cash at end of period	$ 30,577	$ 67,252
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,746	$ 531
Supplemental disclosure of non-cash investing and financing activities:		
Additional right-of-use asset and related lease liability	$ —	$ 755
Purchases of property and equipment included in accounts payable and accrued expenses	$ 66	$ 43

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

SURFACE ONCOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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 August 5, 2021, the Company entered into an amendment to its existing Capital on Demand™ Sales Agreement (the "Amended Sales Agreement") with JonesTrading Institutional Services LLC ("JonesTrading"), to allow the issuance and sale of up to $80,000 in gross proceeds, from time to time during the term of the Amended Sales Agreement, through an "at-the-market" equity offering program under which JonesTrading will act as the Company's sales agent (the "2021 ATM Facility"). The 2021 ATM Facility provides that JonesTrading will continue to 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 2021 ATM Facility. The Company has no obligation to sell any shares under the Amended Sales Agreement and may, at any time, suspend solicitation and offers under the 2021 ATM Facility. In the three months ended March 31, 2023, the Company did not sell shares of common stock, at-the-market under the Amended Sales Agreement. In the three months ended March 31, 2022, the Company sold 7,337,251 shares of common stock at-the-market under the Amended Sales Agreement for net proceeds of $20,556. Since August 5, 2021, the Company has sold 14,611,756 shares of common stock at-the-market under the Amended Sales Agreement for net proceeds of $41,421.

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 private and public sales of its securities, proceeds from a collaboration agreement with Novartis, proceeds from a license agreement with GlaxoSmithKline Intellectual Property (No. 4) Limited ("GSK") and issuance of a debt facility with K2 Health Ventures LLC ("K2HV"). The Company has a history of incurring losses and negative cash flows from operations. As of March 31, 2023, the Company had an accumulated deficit of $224,070.

The Company expects that its operating losses and negative cash flows will continue for the foreseeable future. As of May 4, 2023, the issuance date of this Quarterly Report on Form 10-Q, the Company expects that its cash, cash equivalents and marketable securities will be sufficient to fund its operating expenses, debt service obligations 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 9, 2023.

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 and the accrual of research and development expenses. 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.

Unaudited Interim Financial Information

The accompanying condensed consolidated financial statements 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 March 31, 2023 and the results of its operations and its cash flows for the three months ended March 31, 2023 and 2022. The financial data and other information disclosed in these notes related to the three months ended March 31, 2023 and 2022 are also unaudited. The condensed balance sheet at December 31, 2022, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. The results for the three months ended March 31, 2023 are not necessarily indicative of results to be expected for the year ending December 31, 2023, any other interim periods, or any future year period.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes may result in earlier recognition of credit losses. In November 2018, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which narrowed the scope and changed the effective date for non-public entities for ASU 2016-13. The FASB subsequently issued supplemental guidance within ASU No. 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief ("ASU 2019-05"). ASU 2019-05 provides an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. This standard became effective for the Company on January 1, 2023. The adoption of ASU 2016-13 did not have a material impact on the Company's financial position or results of operations.

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.

SURFACE ONCOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

3. Marketable Securities

As of March 31, 2023, the fair value of available-for-sale marketable debt securities by type of security was as follows:

	March 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities:				
U.S. Treasury notes	$ 35,011	$ —	(367)	$ 34,644
U.S. government agency bonds	16,169	—	(109)	16,060
Corporate bonds	$ 22,462	$ 3	$ (96)	$ 22,369
	$ 73,642	$ 3	$ (572)	$ 73,073

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

	March 31, 2023	
	Amortized Cost	Fair Value
Maturing in one year or less	$ 71,287	$ 70,721
Maturing after one year	2,355	2,352
	$ 73,642	$ 73,073

SURFACE ONCOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

As of December 31, 2022, the fair value of available-for-sale marketable debt securities by type of security was as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities:				
U.S. Treasury notes	$ 50,080	$ 1	(714)	$ 49,367
U.S. government agency bonds	10,957	—	(184)	10,773
Corporate bonds	$ 13,891	$ —	$ (118)	$ 13,773
	$ 74,928	$ 1	$ (1,016)	$ 73,913

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

	December 31, 2022	
	Amortized Cost	Fair Value
Maturing in one year or less	$ 73,446	$ 72,453
Maturing after one year	1,482	1,460
	$ 74,928	$ 73,913

The cost of securities sold is determined based on the specific identification method for purposes of recording realized gains and losses. During the three months ended March 31, 2023 and 2022, there were no realized losses on sales of marketable securities. There were no marketable securities that required adjustment for other-than-temporary declines in fair value during the three months ended March 31, 2023 and 2022.

There were 22 securities held by the Company in an unrealized loss position for less than twelve months as of March 31, 2023. The aggregate fair value of securities held by the Company in an unrealized loss position for less than twelve months as of March 31, 2023 was $38,342. There were 20 securities held by the Company in an unrealized loss position for less than twelve months as of December 31, 2022. The aggregate fair value of securities held by the Company in an unrealized loss position for less than twelve months as of December 31, 2022 was $34,079. There were 13 securities held in an unrealized loss position for more than twelve months as of March 31, 2023. The aggregate fair value of securities held by the Company in an unrealized loss position for more than twelve months as of March 31, 2023 was $29,659. There were 18 securities held in an unrealized loss position for more than twelve months as of December 31, 2022. The aggregate fair value of securities held by the Company in an unrealized loss position for more than twelve months as of December 31, 2022 was $36,857. As of March 31, 2023 and December 31, 2022, the Company assessed the unrealized losses on its available for sale investments in debt securities and determined it does not intend to sell the securities and it is not likely that it will be required to sell the securities prior to recovery. The Company also determined no portion of the unrealized losses relate to a credit loss.

SURFACE ONCOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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 March 31, 2023 using:			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 14,255	$ —	$ —	$ 14,255
Marketable securities:				
U.S. Treasury notes	—	34,644	—	34,644
U.S. government agency bonds	—	16,060	—	16,060
Corporate bonds	—	22,369	—	22,369
	$ 14,255	$ 73,073	$ —	$ 87,328

	Fair Value Measurements as of December 31, 2022 using:			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 31,189	$ —	$ —	$ 31,189
Marketable securities:				
U.S. Treasury notes	—	49,367	—	49,367
U.S. Government agency bonds	—	10,773	—	10,773
Corporate bonds	—	13,773	—	13,773
	$ 31,189	$ 73,913	$ —	$ 105,102

As of March 31, 2023 and December 31, 2022, the Company's cash equivalents were invested in money market funds and were valued based on Level 1 inputs. The Company's investments in U.S. Treasury notes, U.S. government agency bonds and corporate bonds were valued based on Level 2 inputs. Money market funds were valued by the Company based on quoted market prices, which represent a Level 1 measurement within the fair value hierarchy. U.S. treasury notes, U.S. government agency bonds and corporate bonds were valued by obtaining third-party pricing sources, which use quoted prices in active markets for similar securities or other inputs that are observable or can be corroborated by observable market data. These represent a Level 2 measurement within the fair value hierarchy. During the three months ended March 31, 2023 and 2022, there were no transfers between Level 1, Level 2 and Level 3.

5. Collaboration and License Agreements

Novartis Agreement

In January 2016, the Company entered into a collaboration agreement with Novartis, which was subsequently amended in May 2016, July 2017, September 2017, and October 2018 (as amended, the "Novartis Agreement"). Pursuant to the Novartis Agreement, the Company granted Novartis a worldwide exclusive license to research, develop, manufacture and commercialize antibodies that target cluster of differentiation 73 ("CD73"). In addition, the Company initially 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, pursuant to which, Novartis initially had the right to exercise up to three purchased Options. Accordingly, Novartis had the ability to exclusively license the development, manufacturing and commercial rights for up to four targets (inclusive of CD73). As of March 31, 2023, the Company had received an aggregate of $150,000 from Novartis in upfront payments, milestone payments, and option purchase payments. As of January 2020, there were no Options remaining for purchase and exercise, and accordingly the Company's performance obligations under the Novartis Agreement ended. Under the Novartis Agreement, the Company is currently entitled to potential development milestones of $325,000 and sales milestones of $200,000, 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 (formerly SRF373). Due to the uncertainty of pharmaceutical development and the historical failure rates generally associated with drug development, the Company may not receive any milestone payments or any royalty payments under the Novartis Agreement.

Termination

Unless terminated earlier, the Novartis Agreement will continue in effect until neither the Company nor Novartis is researching, developing, manufacturing or commercializing NZV930. Novartis may terminate the Novartis Agreement for any or no reason upon prior notice to the Company within a specified time period. Either party may terminate the Novartis Agreement in full 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' uncured 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 NZV930.

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 accounted 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 Novartis Agreement. Novartis' right to purchase exclusive options to obtain certain development, manufacturing and commercialization rights would have been accounted for separately as they did 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 have used a separate cost-to-cost model for purposes of revenue recognition under ASC 606.

The Company did not recognize any revenue relating to the Novartis Agreement during the three months ended March 31, 2023 and 2022 as it does not have any remaining performance obligations under the agreement.

GSK Agreement

In December 2020, the Company entered into a license agreement with GSK, which was subsequently amended in August 2021 (as amended, the "GSK Agreement"). Pursuant to the GSK Agreement, the Company granted GSK a worldwide exclusive, sublicensable license to develop, manufacture and commercialize antibodies that target the antibody GSK4381562 (formerly SRF813), targeting CD112R, also known as PVRIG (the "Licensed Antibodies"). GSK is responsible for the development, manufacturing and commercialization of the Licensed Antibodies and a joint development committee was formed to facilitate information sharing between the Company and GSK. GSK is responsible for all costs and expenses of such development, manufacturing and commercialization and is obligated to provide the Company with updates on its development, manufacturing and commercialization activities through the joint development committee. Under the terms of the GSK Agreement, GSK made a one-time upfront payment of $85,000 and was required to make additional payments to the Company for supply services and transition services initially estimated to be $4,314 and $950, respectively. In November 2021, GSK notified the Company it received clearance from the FDA for GSK4381562 to proceed into a first-in-human clinical trial, and as a result, the Company's performance obligations under the GSK Agreement ended. In March 2022, the Company earned a $30,000 milestone payment from GSK upon the dosing of the first patient in the Phase 1 trial of GSK4381562. The Company is eligible to receive up to $60,000 in additional clinical milestones and $155,000 in regulatory milestones. In addition, the Company may receive up to $485,000 in sales milestone payments. The Company is also eligible to receive royalties on global net sales of any approved products based on the licensed antibodies, ranging in percentages from high single digits to mid-teens. Due to the uncertainty of pharmaceutical development and the historical failure rates generally associated with drug development, the Company may not receive any milestone payments or any royalty payments under the GSK Agreement.

Termination

Unless terminated earlier, the GSK Agreement expires on a licensed product-by-licensed product and country-by-country basis on the later of ten years from the date of first commercial sale or when there is no longer a valid patent claim or regulatory exclusivity covering such licensed product in such country. Either party may terminate the GSK Agreement for an uncured material breach by the other party or upon the bankruptcy or insolvency of the other party. GSK may terminate the GSK Agreement for its convenience. The Company may terminate the GSK Agreement if GSK institutes certain actions related to the licensed patents or if GSK ceases development activities, other than for certain specified technical or safety reasons. In the event of termination, the Company would regain worldwide rights to the terminated program.

Revenue Recognition – License-Related Revenue

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.

The Company assessed the GSK Agreement in accordance with ASC 606 and concluded that GSK is a customer. The Company identified the following promises under the contract: (i) a worldwide exclusive, sublicensable license to develop, manufacture and commercialize the Licensed Antibodies; (ii) supplying Licensed Antibodies until an investigational new drug ("IND") application is accepted by a regulatory authority (iii) transition services until an IND application is accepted by a regulatory authority; and (iv) participation on the joint development and joint patent committees. The Company assessed the above promises and determined that the worldwide exclusive, sublicensable license to develop, manufacture and commercialize the Licensed Antibodies is considered functional intellectual property and distinct from other promises under the contract. This functional license is distinct in the context of the GSK Agreement as GSK can benefit from the license on its own or together with other readily available resources. In addition, the supply and transition services are not complex or specialized, could be performed by another qualified third party, are not expected to significantly modify or customize the license to GSK4381562 and are expected to be performed only for a short period of time. The Company determined that the impact of participation on the joint development and joint patent committees was insignificant and had an immaterial impact on the accounting model. Based on these assessments, the Company identified three distinct performance obligations at the outset of the GSK Agreement.

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

The Company determined the transaction price of the GSK Agreement, under ASC 606, to be $90,286, consisting of the upfront payment of $85,000 plus $4,524 for supply of the Licensed Antibodies and $762 for the transition services. The Company evaluated how much variable consideration related to clinical and regulatory milestones to include in the transaction price using the most likely amount approach and concluded that no amount should be included in the transaction price due to the high degree of uncertainty and risk associated with these potential payments. The Company also determined that royalties and sales milestones relate solely to the licenses of intellectual property and are therefore excluded from the transaction price under the sales- or usage-based royalty exception of ASC 606. Revenue related to these royalties and sales milestones will only be recognized when the associated sales occur, and relevant thresholds are met.

As noted above, the Company identified three performance obligations in the GSK Agreement: (i) the delivery of the worldwide exclusive, sublicensable license to develop, manufacture and commercialize the Licensed Antibodies; (ii) supply of Licensed Antibodies until an IND application is accepted by a regulatory authority; and (iii) transition services until an IND application is accepted by a regulatory authority. The selling price of each performance obligation in the GSK Agreement was determined based on the Company's standalone selling price with the objective of determining the price at which it would sell such an item if it were to be sold regularly on a standalone basis. The Company recognized revenue for the license performance obligation upon transfer of the license to GSK. As control of the license was transferred on the effective date of December 16, 2020, and GSK could begin to use and benefit from the license, the Company recognized $85,000 of license-related revenue during the year ended December 31, 2020. The Company recognized the costs allocated to supply services and transition services over time as the Company transferred control of these services and GSK received and consumed the benefit as the Company performed the services. The Company re-evaluated the transaction price at the end of each reporting period and as uncertain events were resolved, or other changes in circumstances occurred; adjusted its estimate of the transaction price as necessary.

In November 2021, GSK notified the Company it received clearance from the FDA for GSK4381562 to proceed into a first-in-human clinical trial and as a result the Company's performance obligations under the GSK Agreement ended. The transition and supply services were completed in November 2021.

In March 2022, GSK notified the Company it had dosed the first patient in its Phase 1 study of GSK4381562 in patients with solid tumors. As a result of this Phase 1 study initiation, the first clinical milestone under the GSK Agreement was achieved. The Company concluded the variable consideration associated with this milestone was no longer constrained and recognized $30,000 in license-related revenue for the three months ended March 31, 2022, as it had no further performance obligations associated with the milestone. The Company did not recognize license-related revenue under the GSK Agreement during the three months ended March 31, 2023.

For the three months ended March 31, 2023 and 2022, the Company recognized the following totals of license-related revenue:

	Three months ended March 31,	
	2023	2022
License-related revenue	$ —	$ 30,000

6. Stockholders' Equity

Common Stock

As of March 31, 2023 and December 31, 2022, 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 March 31, 2023.

As of March 31, 2023 and December 31, 2022, the Company had reserved 26,827,193 and 23,936,163 shares, respectively, of common stock for the exercise of outstanding stock options, shares to be issued under the 2021 ATM Facility, shares to be issued upon the conversion of the Loan Agreement (as defined in Note 8 below), as amended, shares to be issued upon the vesting of restricted stock units and the number of shares remaining available for future grant under the Company's 2018 Plan, Inducement Plan and ESPP (each defined in Note 7 below).

In August 2021, the Company entered into the Amended Sales Agreement with JonesTrading to allow the issuance and sale of up to $80,000 in shares of the Company's common stock, from time to time. During the three months ended March 31, 2023, the Company did not sell shares of common stock, at-the-market under the Amended Sales Agreement. During the three months ended March 31, 2022, the Company sold 7,337,251 shares of common stock, at-the-market under the Amended Sales Agreement for net proceeds of $20,556. Since August 5, 2021, the Company has sold 14,611,756 shares of common stock at-the-market under the Amended Sales Agreement for net proceeds of $41,421.

7. Stock-Based Awards

2014 Stock Incentive Plan

The Company's 2014 Stock Incentive Plan (the "2014 Plan") provided 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 were 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 could 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 could not be greater than ten years.

As of 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

In April 2018, the Company's 2018 Plan was approved by its stockholders and became 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, the reserved shares 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 March 31, 2023, 271,786 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 three years and expire after ten years.

SURFACE ONCOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Stock Options

The following table summarizes the Company's stock option activity since December 31, 2022:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2022	8,233,330	$ 5.74	6.68	$ 159
Granted	3,058,400	0.69		
Exercised	—	—		
Forfeited	(100,599)	4.76		
Outstanding as of March 31, 2023	11,191,131	$ 4.37	7.40	$ 145
Options exercisable at March 31, 2023	5,926,959	$ 5.90	5.74	$ 118
Vested and expected to vest at March 31, 2023	11,191,131	$ 4.37	7.40	$ 145

The weighted average grant-date fair value per share of stock options granted during the three months ended March 31, 2023 and year ended December 31, 2022 was $0.50 and $2.28, respectively.

As of March 31, 2023 and December 31, 2022, there were outstanding stock options held by non-employees for the purchase of 260,570 shares of common stock with service-based vesting conditions.

2018 Employee Stock Purchase Plan

In April 2018, the Company's 2018 Employee Stock Purchase Plan (the "ESPP") was approved by its stockholders and became 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 March 31, 2023, a total of 1,873,627 shares of common stock were reserved for issuance under this plan.

For the three months ended March 31, 2023, the Company issued 137,917 shares of common stock under the ESPP. For the three months ended March 31, 2022, the Company issued 51,329 shares of common stock under the ESPP.

2021 Inducement Plan

In December 2021, the Company adopted the Company's 2021 Inducement Plan (the "Inducement Plan") pursuant to which the Company reserved 600,000 shares of common stock to be used exclusively for grants of equity-based awards to individuals who were not previously employees or directors of the Company, as an inducement material to the individual's entry into employment with the Company within the meaning of Rule 5635(c)(4) of the Marketplace Rules of the Nasdaq Stock Market, Inc. The Inducement Plan provides for the grant of equity-based awards in the form of nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, unrestricted stock awards, and dividend equivalent rights. The Inducement Plan was adopted by the Company without stockholder approval pursuant to Rule 5635(c)(4) of the Marketplace Rules of the Nasdaq Stock Market, Inc.

SURFACE ONCOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The following table summarizes the Company's stock option under the Inducement Plan activity since December 31, 2022:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2022	210,400	$ 2.61	9.36	$ —
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding as of March 31, 2023	210,400	$ 2.61	9.11	$ —
Options exercisable at March 31, 2023	26,541	$ 3.64	8.92	$ —
Vested and expected to vest at March 31, 2023	210,400	$ 2.61	9.11	$ —

The Company did not grant stock options under the Inducement Plan during the three months ended March 31, 2023. The weighted average grant-date fair value per share of stock options granted during the three months ended March 31, 2022 was $2.41. As of March 31, 2023, 389,600 shares were available for future issuance under the Inducement Plan.

Restricted Stock Units

The Company has granted restricted stock units ("RSUs") with service-based vesting conditions. RSUs represent the right to receive shares of common stock upon meeting specified vesting requirements. Unvested shares of restricted common stock units may not be sold or transferred by the holder. These restrictions lapse according to the service-based vesting conditions of each award. In 2022, the Company granted 732,000 RSUs, of which 40% vested in August 2022 and 60% will vest in August 2023, as long as the applicable individual remains an employee of the Company at such time.

The table below summarizes the Company's RSU activity since December 31, 2022:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested restricted stock units as of December 31, 2022	385,980	$ 3.64
Granted	—	—
Vested	—	—
Forfeited	—	—
Unvested restricted stock units as of March 31, 2023	385,980	$ 3.64

The expense related to RSUs granted to employees was $346 and $209 for the three months ended March 31, 2023 and 2022, respectively.

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

Stock-Based Compensation

The Company recorded stock-based compensation expense related to stock options, ESPP and restricted stock unit awards in the following expense categories of its condensed consolidated statements of operations and comprehensive income (loss):

	Three months ended March 31,	
	2023	2022
Research and development expenses	$ 646	$ 584
General and administrative expenses	1,000	1,281
	$ 1,646	$ 1,865

As of March 31, 2023, the Company had an aggregate of $10,059 of unrecognized stock-based compensation cost, which is expected to be recognized over a weighted average period of 1.35 years.

8. Debt

On November 22, 2019, the Company entered into a loan and security agreement (the "Loan Agreement") with K2HV (the "Lender"). The Lender agreed to make available to the Company term loans in an aggregate principal amount of up to $25,000 under the Loan Agreement. On October 1, 2021, the Company entered into a first amendment to the Loan Agreement with the Lender (as amended, the "First Loan Amendment"). On September 21, 2022, the Company entered into a second amendment to the Loan Agreement with the Lender (as further amended, the "Second Loan Amendment"). The Company plans to use the proceeds of the term loans to support clinical development as well as for working capital and general corporate purposes.

The Loan Agreement provided for a term loan commitment of $25,000 in three potential tranches: (i) a $7,500 term loan facility funded on November 22, 2019 (the "First Tranche Term Loan"), (ii) a $10,000 term loan facility funded on June 5, 2020 (the "Second Tranche Term Loan"), and (iii) a $7,500 term loan facility (the "Third Tranche Term Loan"). All three of these term loans had a maturity date of December 1, 2023.

The Company was obligated to pay a final fee equal to 4.45% of the aggregate amount of the term loans funded, such payment to occur upon the earliest of (i) the maturity date, (ii) the acceleration of the term loans, and (iii) the prepayment of the term loans.

The Lender was able to, at its option, elect to convert any portion of no more than $4,000 of the then outstanding term loan amount and all accrued and unpaid interest thereon into shares of the Company's common stock at a conversion price of $1.56 per share. The Company determined that the embedded conversion option was not required to be separated from the term loan. The embedded conversion option meets the derivative accounting scope exception since the embedded conversion option is indexed to the Company's own common stock and qualifies for classification within stockholders' equity. The Company recognized a beneficial conversion feature of $2,101, which represented the difference between the commitment date stock price of $2.33 per share and the conversion price of $1.56 per share. The beneficial conversion feature was recorded as a discount on the term loan and is accreted to interest expense using the effective interest method over the term of the loan.

In August 2020, the Lender elected to convert $2,000 of the outstanding term loan amount into 1,282,050 shares of the Company's common stock, in accordance with the Loan Agreement. In February 2021, the Lender elected to convert $1,500 of the outstanding term loan amount into 961,538 shares of the Company's common stock, in accordance with the Loan Agreement. After the conversions, the outstanding principal balance was $14,000.

In October 2021, the Loan Agreement was amended. Under the First Loan Amendment, the Lender made available to the Company term loans in an aggregate principal amount of up to $50,000, in three potential tranches: (i) a $25,000 term loan facility (including refinancing of the Company's outstanding amounts under the Loan Agreement) funded on October 1, 2021 (the "First Tranche Refinancing Term Loan"), (ii) up to a $15,000 term loan facility (the "Second Tranche Refinancing Term Loan"), and (iii) an up to $10,000 term loan facility (the "Third Tranche Refinancing Term Loan") (together the "Refinancing Term Loans"). All three of these tranches have a maturity date of October 1, 2025.

Borrowings under all three tranches of the term loan facility bear interest at a floating per annum rate equal to the greater of (i) 8.50% and (ii) the sum of (A) the greater of (x) the prime rate last quoted in The Wall Street Journal (or a comparable replacement rate if The Wall Street Journal ceases to quote such rate) or (y) 3.25%, plus (B) 5.25%. As of March 31, 2023, the interest rate was increased to 13.25%. Under the First Loan Amendment, the Company is permitted to make interest-only payments on the outstanding principal balance of the term loan for approximately eighteen months following the funding date. The interest-only period could have been extended by an additional nine months, subject to the Company raising net cash proceeds from financing activities (including without limitation sales of the Company's securities and up-front or milestone payments pursuant to existing or new strategic partnerships), in an aggregate amount of at least $100,000. The term of the loan facility is 48 months, with repayment in monthly installments commencing at the end of the resulting interest-only period as outlined above through the end of the 48-month term.

The Company is obligated to pay a final fee equal to (i) 4.25% of the aggregate amount of the term loans funded, such payment to occur upon the earliest of (i) the maturity date, (ii) the acceleration of the term loans, and (iii) the prepayment of the term loans and (ii) $779 on the earlier of December 1, 2023 or the prepayment of the term loans. The Company has the option to prepay all, but not less than all, of the outstanding principal balance of the term loans under the First Loan Amendment. If the Company prepays all of the term loans prior to the maturity date, it will pay the Lender a prepayment penalty fee based on a percentage of the outstanding principal balance, equal to 5% if the payment occurs on or before 24 months after the initial funding date, 3% if the prepayment occurs more than 24 months after, but on or before 36 months after the initial funding date, or 1% if the prepayment occurs more than 36 months after the initial funding date.

The Lender was able to, at its option, elect to convert any portion of no more than $4,500 of the then outstanding term loan amount and all accrued and unpaid interest thereon into shares of the Company's common stock at a conversion price of (i) with respect to the first $500 converted, $1.56 per share and (ii) with respect to any additional amounts converted in excess of $500, $7.81 per share.

The Company's obligations under the First Loan Amendment are secured by a first priority security interest in substantially all of its assets. The First Loan Amendment contains customary representations, warranties and also includes customary events of default, including payment defaults, breaches of covenants, change of control and a material adverse effect clause.

Upon the occurrence of an event of default, a default interest rate of an additional 5.00% per annum may be applied to the outstanding loan balances, and the Lender may declare all outstanding obligations immediately due and payable and exercise all of its rights and remedies as set forth in the First Loan Amendment and under applicable law.

The First Loan Amendment was accounted for as a debt modification; as such, the financing costs of $313 were reflected as additional debt discount and is amortized as an adjustment to interest expense over the term of the First Loan Amendment.

In September 2022, the Company entered into the Second Loan Amendment. Under the Second Loan Amendment, the loan facility continues to carry a 48-month term with interest only payments extended for ten months, ending on February 1, 2024. In addition, the Lender may, at its option, elect to convert any portion of no more than $4,500 of the then outstanding term loan amount and all accrued and unpaid interest thereon into shares of the Company's common stock at a conversion price of (i) with respect to the first $500 converted, $1.56 per share and (ii) with respect to any additional amounts converted in excess of $500, $1.83 per share. The effective interest rate of the term loan as of March 31, 2023 is 15.99%.

The Second Loan Amendment was accounted for as a debt modification. The financing costs were immaterial. The Company recorded interest expense related to the loan facility of $932 and $682 for the three months ended March 31, 2023 and 2022, respectively. The fair value of the loan at March 31, 2023 approximates its face amount.

SURFACE ONCOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Future principal debt payments on the loan payable are as follows:

	March 31, 2023
2023	—
2024	12,339
2025	12,661
Total principal payments	25,000
Fee due in 2023	1,063
Final fee due at maturity in 2025	779
Total principal payments and final fee	26,842
Unamortized debt discount and final fee	(1,135)
Note payable	$ 25,707

9. Net Income (Loss) per Share

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

	Three months ended March 31,	
	2023	2022
Basic net income (loss) per share:		
Numerator:		
Net income (loss)	$ (19,741)	$ 6,199
Denominator:		
Weighted average commons shares outstanding — basic	60,627,993	48,606,055
Net income (loss) per share — basic	$ (0.33)	$ 0.13
Diluted net income (loss) per share:		
Numerator:		
Net income (loss) - basic	$ (19,741)	$ 6,199
Interest expense on convertible note payable	—	122
Net income (loss) - diluted	$ (19,741)	$ 6,321
Denominator:		
Weighted average commons shares outstanding — basic	60,627,993	48,606,055
Shares issuable upon conversion of convertible notes, as if converted	—	832,677
Dilutive effect of restricted stock units	—	230
Dilutive effect of common stock equivalents	—	377,822
Weighted average common shares outstanding - diluted	60,627,993	49,816,784
Net income (loss) per share — diluted	$ (0.33)	$ 0.13

SURFACE ONCOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The Company's potential dilutive securities have been excluded from the computation of diluted net loss per share for the three months ended March 31, 2023, 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:

	March 31, 2023
Stock options to purchase common stock	11,401,531
Shares to be issued under the 2018 ESPP	1,873,627
RSU's issued and expected to vest	385,980
Shares available from conversion of note payable	2,506,306
	16,167,444

10. Income Taxes

The Company did not provide for any income taxes for the three months ended March 31, 2023 or 2022.

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 March 31, 2023 and December 31, 2022. Management reevaluates the positive and negative evidence at each reporting period.

As of March 31, 2023 and December 31, 2022, 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's tax years are still open under statute from 2019 to present. All years may be examined to the extent the tax credit or net operating loss carryforwards are used in future periods. There are currently no federal or state audits.

11. Leases

Sublease Agreement with EQRx, Inc.

In May 2022, the Company entered into the second amendment to the Sublease Agreement (as amended, the "Sublease Amendment"). The Sublease Amendment extended the term of the sublease for a period of 18 months, with an option to extend the sublease for a further six months upon the expiration of the Sublease Amendment. The Sublease Amendment has been accounted for as a single-modified contract. The Company determined the Sublease Amendment would continue to be accounted for as an operating lease. Consistent with the Company's policy election for lessor operating leases, each lease component and its associated non-lease components is accounted for as a single lease component.

In the three months ended March 31, 2023 and 2022, the Company recognized sublease income of $643 and $656, respectively.

As of March 31, 2023, future undiscounted cash inflows under the sublease are as follows:

Year Ending December 31,	
2023	$ 1,907
2024	1,494
	$ 3,401

12. Commitments and Contingencies

Legal Proceedings

The Company is not currently party to any material legal proceedings. At each reporting date, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. The Company expenses as incurred the costs related to its legal proceedings.

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 Novartis 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 months ended March 31, 2023 and 2022, the Company made no cash payments to Novartis related to the Novartis Agreement. As of March 31, 2023 and 2022, no amounts were due from Novartis. The Company did not recognize any collaboration revenue - related party under the Novartis Agreement in the three months ended March 31, 2023 or 2022.

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, 2022 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission, or the 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, represented 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.

Our lead program, SRF388, is an antibody targeting interleukin 27, or IL-27, an immunosuppressive cytokine, or protein that is overexpressed in certain cancers, including hepatocellular, lung and renal cell carcinoma. IL-27 is a cytokine secreted by macrophages and antigen presenting cells that plays an important physiologic role in suppressing the immune system, as evidenced by its ability to resolve tissue inflammation. In addition, one of the subunits of IL-27, EBI3, is highly expressed during pregnancy and its expression is correlated with maternal-fetal tolerance. 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. SRF388 received orphan drug designation and fast track designation from the United States Food and Drug Administration, or FDA, for the treatment of hepatocellular carcinoma, or HCC, in November 2020. We initiated Phase 2 clinical trials evaluating SRF388 in patients with HCC and non-small-cell lung cancer, or NSCLC, in April 2022. In June 2022, at the 2022 American Society of Clinical Oncology, or ASCO, Annual Meeting, we presented initial Phase 1/1b data demonstrating clinical activity in multiple solid tumor types. We observed confirmed partial responses in two patients who received SRF388 monotherapy, one in NSCLC and one in clear cell renal cell carcinoma, or RCC. In addition, we observed a partial response in a patient who was treated with SRF388 in combination with pembrolizumab for HCC. In November, we announced that a second patient with NSCLC experienced a confirmed partial response to SRF388 monotherapy treatment, and another patient with highly pretreated NSCLC experienced durable disease stabilization which, at the time, had continued for more than 56 weeks. We anticipate sharing additional data from those trials in the first half of 2023. We are no longer enrolling RCC patients in our Phase 1 SRF388 monotherapy and combination trial in order to focus efforts on NSCLC and HCC based on encouraging data seen in those indications.

Our second clinical-stage program, SRF114, is a highly specific afucosylated immunoglobulin isotype G1, or IgG1, antibody targeting CCR8, a chemokine receptor highly expressed on regulatory T cells, or Treg cells, in the TME. SRF114 is designed to cause depletion of intra-tumoral Treg cells, important regulators of immune suppression and tolerance, through antibody-dependent cellular cytotoxicity, or ADCC, and/or antibody-dependent cellular phagocytosis, or ADCP, leading to anti-tumor activity in preclinical models. In January 2023, we initiated a Phase 1/2 clinical trial investigating SRF114 in patients with advanced solid tumors. Part A, the monotherapy dose-escalation portion of the study, will evaluate the safety, tolerability, pharmacokinetics, pharmacodynamics, and preliminary efficacy of SRF114 in patients with advanced solid tumors. Once Part A is completed, Part B will evaluate SRF114 in up to 40 patients with head and neck squamous cell carcinoma, or HNSCC, as a monotherapy. We expect to provide initial clinical data in 2024.

Our third clinical-stage program, SRF617 is an antibody designed to inhibit cluster of differentiation-39, or CD39. CD39 is a critical enzyme involved in the production of extracellular adenosine, a key metabolite with strong immunosuppressive properties within the TME. SRF617 aims to reduce the production of immunosuppressive adenosine, and we believe SRF617 has the potential to stimulate anti-tumor immunity because of its ability to maintain levels of extracellular adenosine triphosphate, or ATP. In November 2022, we announced the strategic decision to pause further development of the SRF617 program due to business considerations, and we are actively pursuing potential business development opportunities for the program.

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.

In addition to our internal programs, we have two programs, NZV930 and GSK4381562, which are exclusively licensed to Novartis Institutes for Biomedical Research, Inc., or Novartis, and GlaxoSmithKline, or GSK, respectively.

In January 2016, we granted Novartis a worldwide exclusive license to research, develop, manufacture, and commercialize NZV930. NZV930 is an antibody designed to inhibit cluster of differentiation 73, or CD73, which is a critical enzyme involved in the production of extracellular adenosine, a key metabolite with strong immunosuppressive properties within the TME. NZV930 aims to reduce the production of immunosuppressive adenosine within the TME.

In December 2020, we granted GSK an exclusive license to the worldwide development and commercialization rights for GSK4381562. GSK4381562 is an antibody targeting CD112R, also known as PVRIG, an inhibitory protein expressed on natural killer, or NK, and T cells. GSK4381562 blocks the interaction of CD112R with CD112, its binding partner that is expressed on tumor cells. GSK4381562 can promote the activation of both NK and T cells, with potential to elicit a strong anti-tumor response and promote immunological memory.

Effective November 1, 2022, our Board of Directors approved a strategic decision to pause the internal clinical development of SRF617, a novel antibody targeting CD39, and focus resources on the advancement of our SRF388 and SRF114 programs, which we believe hold the greatest near-term potential to provide benefit to patients. We also implemented a corporate restructuring which reduced our workforce by approximately 20%. The majority of the personnel and program restructuring were completed during the fourth quarter of 2022. We recorded a charge in the fourth quarter of 2022 of $4.0 million, consisting of severance, benefits, outplacement services and costs associated with terminating contracts. As a result of the restructuring, we are actively pursuing partnership opportunities to advance our SRF617 program with third-party collaborators or partners.

We were incorporated and commenced principal operations in 2014. We have devoted substantially all of our resources to developing our programs, including SRF388, SRF114, SRF617, NZV930 and GSK4381562, 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 public and private sales of our securities, payments received under our collaboration agreement with Novartis and license agreement with GSK and a debt financing. As of March 31, 2023, we had cash, cash equivalents and marketable securities of $102.1 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 $19.7 million for the three months ended March 31, 2023. Our net income was $6.2 million for the three months ended March 31, 2022. As of March 31, 2023, we had an accumulated deficit of $224.1 million. We expect to continue to incur significant expenses and operating losses for at least the next several years, 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 or 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 March 31, 2023 will enable us to fund our operating expenses, debt service obligations and capital expenditure requirements into the third quarter of 2024, excluding any future milestone payments from Novartis or GSK. 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 our collaboration agreement with Novartis and our license agreement with GSK. 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 our collaboration agreement with Novartis and our license agreement with GSK, as well as any additional collaborations or licenses that we may enter into in the future.

Collaboration Agreement with Novartis

In January 2016, we entered into a collaboration agreement with Novartis, which was subsequently amended in May 2016, July 2017, September 2017 and October 2018, or as amended, the Novartis Agreement, to develop next-generation cancer therapies. Under the Novartis 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.

Upon entering into the Novartis Agreement, we received an upfront payment of $70.0 million from Novartis and granted Novartis a worldwide exclusive license to research, develop, manufacture and commercialize antibodies that target CD73. In addition, we initially granted Novartis the right to purchase exclusive option rights, each an Option, to up to four specified targets, including certain research, development, manufacturing and commercialization rights. Pursuant to the Novartis Agreement, Novartis initially had the right to exercise up to three purchased Options. In January 2020, Novartis did not purchase and exercise its single remaining Option under the Novartis Agreement and, as a result, the option purchase period expired. Accordingly, there are no Options remaining eligible for purchase and exercise by Novartis, and our performance obligations under the Novartis Agreement have ended. We are currently entitled to potential development milestones of $325.0 million; and potential sales milestones of $200.0 million, as well as tiered royalties on annual net sales of NZV930 by Novartis ranging from high single-digit to mid-teens percentages. Such amounts of potential milestone payments assume the successful clinical development and achievement of all sales milestones for NZV930.

Under ASC 606 we accounted 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 Novartis 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.

Through March 31, 2023, we had received an aggregate of $150.0 million from Novartis in upfront payments, milestone payments, and option purchase payments. As of January 2020, we no longer had any performance obligations under the Novartis Agreement. We did not recognize any collaboration revenue - related party in the three months ended March 31, 2023 or 2022.

License Agreement with GSK

In December 2020, we entered into a license agreement with GSK, which was subsequently amended in August 2021 or, as amended, the GSK Agreement, under which we granted GSK a worldwide exclusive, sublicensable license to develop, manufacture and commercialize antibodies that target the antibody GSK4381562, targeting CD112R, also known as PVRIG, or the Licensed Antibodies. GSK is responsible for the development, manufacturing and commercialization of the Licensed Antibodies and a joint development committee was formed to facilitate information sharing between us and GSK. Under the terms of the GSK Agreement, GSK is obligated to use commercially reasonable efforts to develop and commercialize the Licensed Antibodies. Pursuant to the August 2021 amendment to the GSK Agreement, we provided additional transition and supply services related to the development and manufacturing of the Licensed Antibodies.

Under the terms of the GSK Agreement, GSK made a one-time upfront payment of $85.0 million and was required to make additional payments to us for supply services and transition services initially estimated to be $4.3 million and $1.0 million, respectively. In March 2022, GSK initiated a Phase 1 clinical trial of GSK4381562 in patients with solid tumors, triggering a $30.0 million milestone payment. We are eligible to receive up to $60.0 million in additional clinical milestones and $155.0 million in regulatory milestones. In addition, we may receive up to $485.0 million in sales milestone payments. We are also eligible to receive royalties on global net sales of any approved products based on the licensed antibodies, ranging in percentages from high single digits to mid-teens. Such amounts of potential milestone payments assumes the successful clinical development and achievement of all sales milestones for GSK4381652.

Under ASC 606 we account for (i) the delivery of the worldwide, exclusive, sublicensable license to develop, manufacture and commercialize the Licensed Antibodies; (ii) supply of Licensed Antibodies until an investigational new drug, or IND, application is accepted by a regulatory authority; and (iii) transition services until an IND application is accepted by a regulatory authority as separate and distinct performance obligations. We determined the transaction price under ASC 606 at the inception of the GSK Agreement to be $90.3 million, consisting of the upfront payment of $85.0 million plus $4.5 million for supply of the Licensed Antibodies and $0.8 million for the transition services. We recognized revenue for the license performance obligation at a point in time, that is upon transfer of the license to GSK. As control of the license was transferred on the effective date of December 16, 2020 and GSK could begin to use and benefit from the license, we recognized $85.0 million of license-related revenue during the year ended December 31, 2020 under the GSK Agreement. We recognized the portion of the transaction price allocated to supply services and transition services over time. We transfer control of these services over time and GSK receives and consumes the benefit over time as we perform the services.

In November 2021, GSK received clearance from the FDA for GSK4381562 to proceed into a first-in-human clinical trial and as a result our performance obligations under the GSK Agreement ended. No amount of the transaction price allocated to the performance obligations was unsatisfied as of November 2021.

In March 2022, GSK notified us it had dosed the first patient in their Phase 1 study of GSK4381562 in patients with solid tumors. As a result of this Phase 1 study initiation, the first clinical milestone under the GSK Agreement was achieved. We concluded the variable consideration associated with this milestone was no longer constrained and recognized $30.0 million in license-related revenue for the three months ended March 31, 2022, as we had no further performance obligations associated with the milestone. We did not recognize license-related revenue under the GSK Agreement in the three months ended March 31, 2023.

Through March 31, 2023, we have received $85.0 million from GSK in upfront payments, $30.0 million in clinical milestones and $5.3 million in reimbursement for the transition and supply services performed.

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 March 31,	
	2023	2022
	(in thousands)	
SRF388	4,204	4,884
SRF114	1,332	1,335
SRF617	1,582	3,758
GSK4381562	—	4
Other early-stage programs	178	86
Unallocated research and discovery expenses	6,481	6,557
Total research and development expenses	$ 13,777	$ 16,624

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. We anticipate that our research and development expenses will decrease in the future as a result of the strategic decision to pause the SRF617 program as well as the reduction in headcount relating to the corporate restructuring announced in November 2022. This will be partially offset by increased clinical development costs as we advance our SRF388 Phase 2 clinical trials and SRF114 Phase 1/2 clinical trial.

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 decrease in the future as a result of a reduction in headcount relating to the corporate restructuring announced in November 2022. This will be partially offset by increases in 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 as well as interest paid on our loan and security agreement, or the Loan Agreement, with K2HV.

Results of Operations

Comparison of Three Months Ended March 31, 2023 and 2022

The following table summarizes our results of operations for the three months ended March 31, 2023 and 2022, along with the changes in those items:

	Three months ended March 31,		
	2023	2022	2023 v 2022
	(in thousands)		
License related revenue	$ —	$ 30,000	$ (3
Operating expenses:			
Research and development	13,777	16,624	
General and administrative	5,886	6,540	
Total operating expenses	19,663	23,164	
Loss from operations	(19,663)	6,836	(2
Interest and other income (expense), net	(78)	(637)	
Net loss	$ (19,741)	$ 6,199	$ (2

License-Related Revenue

We did not recognize license-related revenue during the three months ended March 31, 2023. During the three months ended March 31, 2022, we recognized $30.0 million related to the achievement of the first clinical milestone under the GSK Agreement as a result of the first patient dosed in GSK's Phase 1 study of GSK4381562 in patients with solid tumors in March 2022.

Research and Development Expenses

The following table summarizes our research and development expenses for the three months ended March 31, 2023 and 2022, along with the changes in those items:

	Three months ended March 31,		
	2023	2022	2023 v 2022
	(in thousands)		
Direct research and development expenses by program:			
SRF388	$ 4,204	$ 4,884	$ (680)
SRF114	1,332	1,335	(3)
SRF617	1,582	3,758	(2,176)
GSK4381562	—	4	(4)
Other early-stage programs	178	86	92
Research and discovery and unallocated expenses:			
Personnel related (including stock-based compensation)	4,392	4,268	124
Facility related and other	2,089	2,289	(200)
Total research and development expenses	$ 13,777	$ 16,624	$ (2,847)

Research and development expenses were $13.8 million for the three months ended March 31, 2023, compared to $16.6 million for the three months ended March 31, 2022. The decrease of $2.8 million was primarily due to decreases of $0.7 million in external costs for our SRF388 program, $2.2 million in external costs for our SRF617 program and $0.1 million for research and discovery and unallocated costs, which were partially offset by an increase of $0.1 million in external costs for our other early-stage programs.

The decrease in research and development expenses for our SRF388 program was primarily due to a reduction in manufacturing costs.

The decrease in research and development expenses for our SRF617 program was primarily due to the strategic decision to pause the program as a part of our corporate restructuring in November 2022.

The decrease in research and discovery and unallocated expenses was primarily due to a reduction in consulting costs.

The increase in other early-stage programs was primarily due to preclinical costs for the development of new targets.

General and Administrative Expenses

General and administrative expenses were $5.9 million for the three months ended March 31, 2023, compared to $6.5 million for the three months ended March 31, 2022. The decrease primarily relates to personnel-related costs from reduced headcount and a reduction in professional fees.

Interest and Other Income (Expense), Net

Interest and other income (expense), net was approximately $(0.1) million and $(0.6) million during the three months ended March 31, 2023 and 2022, respectively, due primarily to interest expense related to the Loan Agreement, as amended, partially offset by 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 Novartis Agreement and the GSK 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 public and private sales of our securities, payments received under the Novartis Agreement, the GSK Agreement and a debt financing. Through March 31, 2023, we had received gross proceeds of $247.3 million from public and private sales of our securities, $25.0 million from the Loan Agreement with K2HV, $120.3 million from the GSK Agreement and $150.0 million from the Novartis Agreement.

In November 2019, we entered into the Loan Agreement with K2HV, which was subsequently amended in October 2021 and September 2022, pursuant to which K2HV agreed to make available to us term loans in an aggregate principal amount of up to $50.0 million, in three tranches. To date, we have drawn down $25.0 million in principal balance from the loan. Pursuant to the terms of the Loan Agreement, we are required to maintain a minimum cash balance of $30.0 million, excluding cash held by our wholly owned subsidiary, Surface Securities Corporation, a Massachusetts corporation, in order to maintain any cash with Surface Securities Corporation.

In August 2021, we entered into an amendment to our existing Capital on Demand™ Sales Agreement (the “Amended Sales Agreement”) with JonesTrading Institutional Services LLC (“JonesTrading”), to allow the issuance and sale of up to $80 million in shares of our common stock, from time to time. As of March 31, 2023, we have sold 14,611,756 shares of common stock at-the-market under the Amended Sales Agreement for net proceeds of $41.4 million.

Effective November 1, 2022, our Board of Directors approved a corporate restructuring to pause the internal clinical development of SRF617 and focus resources on the advancement of our SRF388 and SRF114 programs. We recorded a charge of $4.0 million in the fourth quarter of 2022, consisting of severance, benefits, outplacement services and costs associated with terminating contracts.

As of March 31, 2023, we had cash, cash equivalents and marketable securities of $102.1 million.

Effects of Inflation

We do not believe that inflation has had a material impact on our business or operating results during the periods presented. However, inflation, has had, and may continue to have, an impact on the labor costs we incur to attract and retain qualified personnel, costs to conduct clinical trials and other operational costs. Inflationary costs could adversely affect our business, financial condition and results of operations. In addition, increased inflation has had, and may continue to have, an effect on interest rates. Increased interest rates may adversely affect our borrowing rate and our ability to obtain, or the terms under which we can obtain, any potential additional funding.

Future Funding Requirements

We expect our expenses will decrease in the future as a result of the corporate restructuring and strategic decision to pause the SRF617 program announced in November 2022. This will be partially offset by increased clinical development costs as we advance our SRF388 Phase 2 clinical trials and SRF114 Phase 1/2 clinical trial. Additionally, 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 May 4, 2023, will enable us to fund our operating expenses, debt service obligations and capital expenditure requirements into the third quarter of 2024, excluding any future milestone payments from Novartis or GSK. 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 and license arrangements, including the Novartis Agreement and GSK Agreement. 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:

	Three months ended March 31,	
	2023	2022
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ (23,439)	$ (23,566)
Investing activities	1,434	12,465
Financing activities	77	20,713
Net increase (decrease) in cash and cash equivalents and restricted cash	$ (21,928)	$ 9,612

Operating Activities

During the three months ended March 31, 2023, net cash used in operating activities was $23.4 million, primarily due to our net loss of $19.7 million and changes in our operating assets and liabilities of $6.3 million, partially offset by non-cash charges of $2.6 million. Net cash used in changes in our operating assets and liabilities for the three months ended March 31, 2023 consisted primarily of an increase of $0.8 million in prepaid expenses and other current assets, a $5.6 million decrease in accrued expenses and other current liabilities, a decrease of $0.7 million in our operating lease liability, and $0.9 million increase in accounts payable. The decrease in accrued expenses and other current liabilities is primarily due to a reduction in manufacturing fees and professional fees. The increase in prepaid expenses and other current assets is a result of increased clinical expenses. The decrease in our operating lease liability is a result of rental payments made on our operating leases, and the increase in accounts payable is a result of timing of payments.

During the three months ended March 31, 2022, net cash used in operating activities was $23.6 million, primarily due to changes in our operating assets and liabilities of $32.9 million, partially offset by net income of $6.2 million and non-cash charges of $3.2 million. Net cash used in changes in our operating assets and liabilities for the three months ended March 31, 2022 consisted primarily of an increase of $30.0 million in unbilled receivables, a $2.6 million decrease in accrued expenses and other current liabilities and a decrease of $0.7 million in our operating lease liability. This was partially offset by a $1.1 million increase in accounts payable. The increase in unbilled receivables relates to the $30.0 million due from GSK upon the first patient dosed in the Phase 1 trial of GSK4381562. The decrease in accrued expenses and other current liabilities is primarily due to the decrease in accrued bonus and accrued professional fees. The decrease in our operating lease liability is a result of rental payment made on our operating leases, and the increase in accounts payable is a result of timing of payments.

Investing Activities

During the three months ended March 31, 2023, net cash provided by investing activities was $1.4 million, consisting of proceeds from sales or maturities of marketable securities of $18.4 million, which was partially offset by purchases of marketable securities of $16.9 million and purchases of property and equipment of $0.0 million.

During the three months ended March 31, 2022, net cash provided by investing activities was $12.5 million related to the proceeds from sales or maturities of marketable securities.

Financing Activities

During the three months ended March 31, 2023, net cash provided by financing activities was $0.1 million, consisting of proceeds of $0.1 million received from the issuance of shares under our 2018 Employee Stock Purchase Plan.

During the three months ended March 31, 2022, net cash provided by financing activities was $20.7 million, consisting of proceeds of $20.6 million received from issuance of our shares of common stock at-the-market under the Amended Sales Agreement and proceeds of $0.2 million received from the issuance of shares under our 2018 Employee Stock Purchase Plan.

Contractual Obligations

We have entered into agreements in the normal course of business with contract research organizations 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 generally cancellable by us upon prior written notice to the vendor.

During the three months ended March 31, 2023, 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 9, 2023.

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 9, 2023.

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.

Smaller Reporting Company and Emerging Growth Company Status

We are a “smaller reporting company,” meaning that the market value of our stock held by non-affiliates is less than $700 million and our annual revenue was less than $100 million during our most recently completed fiscal year. We may continue to be a smaller reporting company if either (i) the market value of our stock held by non-affiliates is less than $250 million or (ii) our annual revenue was less than $100 million during the most recently completed fiscal year and the market value of our stock held by non-affiliates is less than $700 million. If we are a smaller reporting company at the time we cease to be an emerging growth company, we may continue to rely on exemptions from certain disclosure requirements that are available to smaller reporting companies. For so long as we remain a smaller reporting company, we are permitted and intend to rely on exemptions from certain disclosure and other requirements that are applicable to other public companies that are not smaller reporting companies.

We are also an “emerging growth company.” As such, 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 March 31, 2023 consisted of cash and investments in money market funds, U.S. Treasury notes, U.S. government agency bonds and corporate bonds. Interest income is sensitive to changes in the general level of interest rates, which have risen in the past few months and may continue to rise; 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. Controls and Procedures

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 March 31, 2023.

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 three months ended March 31, 2023 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 October 2020, we filed an opposition in the European Patent Office, or EPO, opposing the grant of European Patent No. EP 3258951B1 to Compugen, Ltd., or the Compugen Patent. We are one of two parties opposing the grant of the Compugen Patent, which relates generally to PVRIG (an alternate name for CD112R) antibodies for use in treating cancer. In connection with the license agreement with GSK, GSK has assumed responsibility for this opposition. The oral proceedings are scheduled for July of 2023. Accordingly, final resolution of the opposition may be several years in the future.

In June 2021, we filed an opposition in the EPO, opposing the grant of European Patent No. EP 3153526B1 to INSERM (Institut National de la Santé et de la Recherche Médicale), or the INSERM Patent. We are one of four parties opposing the grant of the INSERM Patent, which relates generally to pharmaceutical compositions comprising anti-CD39 antibodies which inhibit activity of Treg cells for use in the treatment or prevention of cancers. We are currently awaiting a summons to oral proceedings. Accordingly, final resolution of the opposition may be several years in the future.

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, 2022.

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: May 4, 2023 By: /s/ Robert W. Ross, M.D.

Robert W. Ross, M.D.
Chief Executive Officer (Principal Executive Officer)

Date: May 4, 2023 By: /s/ Jessica Fees

Jessica Fees
Chief Financial Officer
(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, Robert W. Ross, M.D., 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any 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: May 4, 2023

/s/ Robert W. Ross, M.D.

Robert W. Ross, M.D.
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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any 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.

Date: May 4, 2023

/s/ Jessica Fees

Jessica Fees
Chief Financial Officer
(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 March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert W. Ross, M.D., 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.

Date: May 4, 2023

/s/ Robert W. Ross, M.D.

Robert W. Ross, M.D.
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 March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jessica Fees, Chief Financial 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.

Date: May 4, 2023

/s/ Jessica Fees

Jessica Fees
Chief Financial Officer
(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.