

**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 **June 30, 2018**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: **001-38459**

**SURFACE ONCOLOGY, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**50 Hampshire Street, 8th Floor**

**Cambridge, MA**

(Address of principal executive offices)

**46-5543980**

(I.R.S. Employer  
Identification No.)

**02139**

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Non-accelerated filer

(Do not check if a small reporting company)

Accelerated filer

Small reporting company

Emerging growth Company

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

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

As of August 9, 2018, the registrant had 27,614,463 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 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., or Novartis, and 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 collaboration with Novartis, and establish or maintain future collaborations or strategic relationships or obtain additional funding;
- our ability to retain the continued service of our key professionals and to identify, hire and retain additional qualified professionals;
- our intellectual property position, including the scope of protection we are able to establish and maintain for intellectual property rights covering our current product candidates and other product candidates we may develop, the validity of intellectual property rights held by third parties, and our ability not to infringe, misappropriate or otherwise violate any third-party intellectual property rights;
- our competitive position, and developments and projections relating to our competitors and our industry;
- our expectations related to the use of our existing cash, cash equivalents and marketable securities and the proceeds from this offering and the concurrent private placement;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing; and
- the impact of laws and regulations.

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

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## Item 1. Financial Statements.

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

(In thousands, except share and per share data)

	June 30, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 50,765	\$ 22,455
Marketable securities	134,789	40,854
Restricted cash	—	85
Prepaid expenses and other current assets	8,434	7,936
Total current assets	193,988	71,330
Property and equipment, net	6,932	7,326
Restricted cash	1,198	1,000
Deferred offering costs	—	1,784
Other assets	15	14
Total assets	<u>\$ 202,133</u>	<u>\$ 81,454</u>
<b>Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 2,791	\$ 3,215
Accrued expenses and other current liabilities	6,968	9,843
Deferred revenue - related party	14,367	9,837
Deferred rent	485	489
Total current liabilities	24,611	23,384
Deferred revenue - related party, non-current	51,081	72,268
Deferred rent, non-current	4,480	4,599
Total liabilities	80,172	100,251
Commitments and contingencies (Note 11)		
Redeemable convertible preferred stock (Series A and A-1), \$0.0001 par value; no shares authorized at June 30, 2018 and 37,100,000 shares authorized at December 31, 2017; no shares issued and outstanding at June 30, 2018 and 37,100,000 shares issued and outstanding at December 31, 2017	—	48,517
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value per share; 5,000,000 shares authorized at June 30, 2018 and no shares authorized at December 31, 2017; no shares issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock, \$0.0001 par value; 150,000,000 and 53,000,000 shares authorized at June 30, 2018 and December 31, 2017, respectively; 27,600,951 and 2,686,350 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	3	—
Additional paid-in capital	167,040	6,877
Accumulated other comprehensive loss	(233)	(246)
Accumulated deficit	(44,849)	(73,945)
Total stockholders' equity (deficit)	121,961	(67,314)
Total liabilities, redeemable convertible preferred stock and stockholders' equity	<u>\$ 202,133</u>	<u>\$ 81,454</u>

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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Collaboration revenue - related party	\$ 2,428	\$ 6,195	\$ 47,923	\$ 7,867
Operating expenses:				
Research and development	15,098	10,720	26,188	19,400
General and administrative	3,913	2,004	7,275	3,550
Total operating expenses	19,011	12,724	33,463	22,950
Income (loss) from operations	(16,583)	(6,529)	14,460	(15,083)
Interest and other income (expense), net	731	120	900	262
Net (loss) income before income taxes	(15,852)	(6,409)	15,360	(14,821)
Provision for income taxes	—	(164)	—	(378)
Net (loss) income	(15,852)	(6,573)	15,360	(15,199)
Accretion of redeemable convertible preferred stock to redemption value	—	(10)	(11)	(20)
Net income attributable to redeemable convertible preferred stockholders	—	—	(7,077)	—
Net (loss) income attributable to common stockholders	\$ (15,852)	\$ (6,583)	\$ 8,272	\$ (15,219)
Net (loss) income per share attributable to common stockholders—basic	\$ (0.73)	\$ (2.73)	\$ 0.68	\$ (6.30)
Weighted average common shares outstanding—basic	21,595,586	2,413,879	12,213,717	2,415,662
Net (loss) income per share attributable to common stockholders—diluted	\$ (0.73)	\$ (2.73)	\$ 0.60	\$ (6.30)
Weighted average common shares outstanding—diluted	21,595,586	2,413,879	13,805,380	2,415,662
Comprehensive income (loss):				
Net income (loss)	\$ (15,852)	\$ (6,573)	\$ 15,360	\$ (15,199)
Other comprehensive income:				
Unrealized gain on marketable securities, net of tax of \$0	63	40	13	133
Comprehensive income (loss)	\$ (15,789)	\$ (6,533)	\$ 15,373	\$ (15,066)

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

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

(In thousands, except share amounts)

	Series A and A-1 Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
<b>Balances at December 31, 2017</b>	37,100,000	\$ 48,517	2,686,350	—	\$ 6,877	\$ (246)	\$ (73,945)	\$ (67,314)
Issuance of common stock upon exercise of stock options	—	—	84,311	—	159	—	—	159
Stock-based compensation expense	—	—	—	—	2,781	—	—	2,781
Accretion of redeemable convertible preferred stock to redemption value	—	11	—	—	(11)	—	—	(11)
Conversion of redeemable convertible preferred stock to common stock	(37,100,000)	(48,528)	16,863,624	2	48,526	—	—	48,528
Issuance of common stock upon completion of initial public offering, net of commissions, underwriting discounts and offering costs	—	—	7,200,000	1	97,208	—	—	97,209
Issuance of common stock to a related party	—	—	766,666	—	11,500	—	—	11,500
Adjustment due to the adoption of ASC 606	—	—	—	—	—	—	13,736	13,736
Unrealized gain on marketable securities	—	—	—	—	—	13	—	13
Net income	—	—	—	—	—	—	15,360	15,360
<b>Balances at June 30, 2018</b>	<u>—</u>	<u>\$ —</u>	<u>27,600,951</u>	<u>\$ 3</u>	<u>\$ 167,040</u>	<u>\$ (233)</u>	<u>\$ (44,849)</u>	<u>\$ 121,961</u>

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)

	Six months ended June 30,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 15,360	\$ (15,199)
Adjustments to reconcile net income (loss) to net cash provided by (used in) by operating activities:		
Depreciation and amortization expense	648	395
Stock-based compensation expense	2,781	1,232
Net amortization of premiums and discounts on marketable securities	(22)	295
Realized losses on marketable securities	—	2
Loss on disposal of property and equipment	13	35
Deferred income tax benefit	—	(1,665)
Changes in operating assets and liabilities:		
Amounts due from related party	—	5,000
Prepaid expenses and other current assets	(498)	(501)
Other assets	(1)	2
Accounts payable	(12)	(667)
Accrued expenses and other current liabilities	(2,359)	102
Deferred rent	(123)	344
Deferred revenue - related party	(2,921)	22,133
Net cash provided by operating activities	<u>12,866</u>	<u>11,508</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(611)	(1,338)
Purchases of marketable investments	(107,258)	—
Proceeds from sales or maturities of marketable securities	13,358	18,591
Net cash (used in) provided by investing activities	<u>(94,511)</u>	<u>17,253</u>
<b>Cash flows from financing activities:</b>		
Payments of initial public offering costs	(2,031)	(36)
Proceeds from initial public offering of common stock, net of commissions and underwriting discounts	100,440	—
Proceeds from issuance of common stock to a related party	11,500	—
Proceeds from exercise of stock options	159	37
Net cash provided by financing activities	<u>110,068</u>	<u>1</u>
<b>Net increase in cash and cash equivalents and restricted cash</b>	<b>28,423</b>	<b>28,762</b>
Cash and cash equivalents and restricted cash at beginning of period	23,540	11,080
Cash and cash equivalents and restricted cash at end of period	<u>\$ 51,963</u>	<u>\$ 39,842</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes	\$ 41	\$ 93
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Accretion of redeemable convertible preferred stock to redemption value	\$ 11	\$ 20
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 106	\$ 8
Reclassification of deposit liability for restricted stock upon vesting of shares	\$ —	\$ 7
Landlord incentives for construction of leasehold improvements recorded as deferred rent	\$ —	\$ 2,191

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

**(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 for the development of next-generation cancer therapies. Surface was incorporated in April 2014 under the laws of the State of Delaware.

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

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

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

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

The Company’s financial statements have been prepared on the basis of continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the ordinary course of business. The Company has primarily funded its operations with proceeds from the sales of redeemable convertible preferred stock, proceeds from a collaboration agreement with Novartis and proceeds from the Company’s initial public offering of common stock. The Company has incurred losses and negative cash flows from operations since its inception. As of June 30, 2018, the Company had an accumulated deficit of \$44,849.

The Company expects that its operating losses and negative cash flows will continue for the foreseeable future. As of August 14, 2018, the filing 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 and capital expenditure requirements for at least the next 12 months from the date that the condensed consolidated financial statements are issued. 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 offerings, 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 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 1 to the financial statements included in the Company's final prospectus for its initial public offering of its common stock filed with the Securities and Exchange Commission (the "SEC") pursuant to Rule 424(b)(4) of the Securities Act on April 18, 2018, which the Company refers to as the Prospectus, except for the Company's adoption of the new standards as discussed below.

### ***Use of Estimates***

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

### ***Unaudited Interim Financial Information***

The accompanying condensed consolidated balance sheet as of June 30, 2018, the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017, the condensed consolidated statements of cash flows for the six months ended June 30, 2018 and 2017, and the condensed consolidated statement of redeemable convertible preferred stock and stockholders' equity (deficit) for the six months ended June 30, 2018 are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of June 30, 2018 and the results of its operations and its cash flows for the six months ended June 30, 2018 and 2017. The financial data and other information disclosed in these notes related to the three and six months ended June 30, 2018 and 2017 are also unaudited. The results for the three and six months ended June 30, 2018 are not necessarily indicative of results to be expected for the year ending December 31, 2018, any other interim periods, or any future year period.

### ***Recently Adopted Accounting Pronouncements***

#### ***Revenue from Contracts with Customers***

In May 2014, the Financial Accounting Standards Board (or FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations*, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies how a company identifies promised goods or services and clarifies whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. In December 2016 the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which amends certain narrow aspects of the guidance issued in ASU 2014-09 including guidance related to the disclosure of remaining performance obligations and prior-period performance obligations, as well as other amendments to the guidance on loan guarantee fees, contract costs, refund liabilities, advertising costs and the clarification of certain examples. ASU 2016-08, ASU 2016-10 and ASU 2016-12 have the same effective dates and transition requirements as ASU 2014-09, all of which collectively are herein referred to as Revenue ASUs.

The Company adopted the Revenue ASUs effective January 1, 2018 using the modified retrospective method. Under the modified retrospective method, the cumulative effect of adopting the Revenue ASUs is recognized as an adjustment to deferred revenue and accumulated deficit. Under ASC 606, the Company will recognize revenue from its collaboration agreement with Novartis (see Note 5) earlier during the performance period as a result of applying the cost-to-cost method, in contrast to recognizing revenue on a straight-line basis over the estimated ten-year performance period under the previous standard. The following reflects the impact of the cumulative effect of the accounting changes upon the adoption of the Revenue ASUs (in thousands):

Condensed Consolidated Balance Sheets

	December 31, 2017	Cumulative Effect	January 1, 2018
Deferred revenue - related party, current and net of current portions	\$ 82,105	\$ (13,736)	\$ 68,369
Accumulated deficit	(73,945)	13,736	(60,209)
	<b>June 30, 2018</b>		
	<b>Under Topic 606</b>	<b>Under Topic 605</b>	<b>Effect of Change</b>
Deferred revenue - related party	\$ 14,367	\$ 14,421	\$ (54)
Deferred revenue, net of current portion - related party	51,081	91,465	(40,384)
Accumulated deficit	(44,849)	(71,553)	26,704

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	Under Topic 606	Under Topic 605	Effect of Change	Under Topic 606	Under Topic 605	Effect of Change
Collaboration revenue - related party	\$ 2,428	\$ 3,595	\$ (1,167)	\$ 47,923	\$ 21,219	\$ 26,704
Income from operations	(16,583)	(15,416)	(1,167)	14,460	(12,244)	26,704
Net income	(15,852)	(14,685)	(1,167)	15,360	(11,344)	26,704
Comprehensive income	(15,789)	(14,622)	(1,167)	15,373	(11,331)	26,704

Condensed Consolidated Statements of Cash Flows

	Six months ended June 30, 2018		
	Under Topic 606	Under Topic 605	Effect of Change
Net income	\$ 15,360	\$ (11,344)	\$ 26,704
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Deferred revenue - related party	(2,921)	23,783	(26,704)

During the six months ended June 30, 2018, the Company adopted ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this standard did not have any impact on the Company's condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* ("ASU 2016-18"). The amendments in this update require that amounts generally described as restricted cash and restricted cash equivalents be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 was effective January 1, 2018. As a result of adopting ASU 2016-18, the Company includes its restricted cash balance in the cash and cash equivalents reconciliation of operating, investing and financing activities. The following table provides a reconciliation of cash, cash equivalents, and restricted cash within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows.

	As of June 30,	
	2018	2017
Cash and cash equivalents	\$ 50,765	\$ 38,757
Restricted cash included in current assets	—	85
Restricted cash included in non-current assets	1,198	1,000
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ 51,963	\$ 39,842

### Recently Issued Accounting Pronouncements

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

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

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”). The new standard simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The new standard will be effective beginning January 1, 2019 and early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2018-07 will have on its 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 our financial statements upon adoption.

### 3. Marketable Securities

As of June 30, 2018, the fair value of available-for-sale marketable debt securities by type of security was as follows:

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities:				
U.S. Treasury notes	\$ 107,410	\$ 1	\$ (16)	\$ 107,395
U.S. Government agency bonds	2,900	—	(30)	2,870
Corporate bonds	24,712	—	(188)	24,524
	<u>\$ 135,022</u>	<u>\$ 1</u>	<u>\$ (234)</u>	<u>\$ 134,789</u>

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

	June 30, 2018	
	Amortized Cost	Fair Value
Maturing in one year or less	\$ 131,913	\$ 131,737
Maturing after one year but less than two years	3,109	3,052
	<u>\$ 135,022</u>	<u>\$ 134,789</u>

As of December 31, 2017, the fair value of available-for-sale marketable debt securities by type of security was as follows:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities:				
U.S. government agency bonds	\$ 7,300	\$ —	\$ (38)	\$ 7,262
Corporate bonds	33,800	—	(208)	33,592
	<u>\$ 41,100</u>	<u>\$ —</u>	<u>\$ (246)</u>	<u>\$ 40,854</u>

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

	December 31, 2017	
	Amortized Cost	Fair Value
Maturing in one year or less	\$ 27,769	\$ 27,672
Maturing after one year but less than two years	13,331	13,182
	<u>\$ 41,100</u>	<u>\$ 40,854</u>

The Company determined that there was no material change in the credit risk of these investments. As a result, the Company determined it did not hold any investments with an other-than-temporary decline in fair value as of June 30, 2018 and December 31, 2017.

#### 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 June 30, 2018 using:			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 46,570	\$ —	\$ —	\$ 46,570
Marketable securities:				
U.S. Treasury notes	—	107,395	—	107,395
U.S. Government agency bonds	—	2,870	—	2,870
Corporate bonds	—	24,524	—	24,524
	<u>\$ 46,570</u>	<u>\$ 134,789</u>	<u>\$ —</u>	<u>\$ 181,359</u>

	Fair Value Measurements as of December 31, 2017 using:			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 17,409	\$ —	\$ —	\$ 17,409
Marketable securities:				
U.S. government agency bonds	—	7,262	—	7,262
Corporate bonds	—	33,592	—	33,592
	<u>\$ 17,409</u>	<u>\$ 40,854</u>	<u>\$ —</u>	<u>\$ 58,263</u>

As of June 30, 2018 and December 31, 2017, the Company's cash equivalents were invested in money market funds and were valued based on Level 1 inputs. During the six months ended June 30, 2018 and 2017, there were no transfers between Level 1, Level 2 and Level 3.

#### 5. Collaboration Agreement with Novartis

##### Overview

In January 2016, the Company entered into a collaboration agreement with Novartis, which was subsequently amended in May 2016, July 2017 and September 2017 (the "Novartis Collaboration"). Pursuant to the Novartis Collaboration, the Company granted Novartis a worldwide exclusive license to research, develop, manufacture and commercialize antibodies that target CD73, along with the right to purchase exclusive option rights (each an "Option") for up to four specified targets (each an "Option Target") to obtain certain

development, manufacturing and commercialization rights. Novartis may exercise up to three purchased Options. Under the Novartis Collaboration, Novartis initially had the ability to exclusively license the development and manufacturing rights for up to four targets (inclusive of CD73), while the Company would retain the U.S. commercial rights to two of such targets. The Novartis Collaboration is governed by a joint steering committee that will be co-chaired by a chairperson designated by each of the Company and Novartis.

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

During the six months ended June 30, 2018 the Company made a payment of \$3,437 to Novartis for the reimbursement of manufacturing costs incurred by Novartis prior to December 31, 2017. During the six months ended June 30, 2017, the Company made no cash payments to Novartis related to the Novartis Collaboration.

### ***Research on Targets***

Under the Novartis Collaboration, the Company is responsible for performing preclinical research through the first investigational new drug application ("IND") acceptance on antibodies that bind to CD73 and each Option Target, pursuant to a research plan directed toward each target. The Company is responsible for all costs and expenses incurred by or on its behalf in connection with such research. Novartis also has the right, but not the obligation, to conduct research at its own cost on antibodies that bind to CD73 in accordance with the terms of the Novartis Collaboration.

### ***Development and Commercialization of CD73 Products***

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

### ***Option Targets***

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

In December 2016, Novartis purchased the Option for antibodies that bind to CD47 for \$5,000, and as of December 31, 2017, there were three remaining Options that may be purchased by Novartis. In March 2018, Novartis notified the Company of its decision not to exercise its purchased Option related to CD47. In March 2018, the Company and Novartis also mutually agreed to cease development of one of the undisclosed programs subject to the Novartis Collaboration. Accordingly, as of June 30, 2018, Novartis had two Options remaining eligible for purchase, each of which can be exercised.

### ***Development and Commercialization of Regional Licensed Products***

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

### ***Development and Commercialization of Global Licensed Products***

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

### ***Exclusivity***

Neither the Company nor Novartis may, alone or with any affiliate or third party, (i) research or develop any antibody that specifically binds to an Option Target for a specified period of time outside of the Novartis Collaboration or (ii) develop or commercialize any antibody that specifically binds to CD73 or any Option Target that subsequently becomes a licensed target for a specified period of time outside the Novartis Collaboration.

### ***Financial Terms***

Upon entering into the Novartis Collaboration in January 2016, Novartis made an upfront payment to the Company of \$70,000. In addition, Novartis is obligated to pay the Company a fee to the extent it desires to purchase each Option for each Option Target and another fee to exercise such purchased Option, which entitles the Company to an aggregate of up to \$67,500 in option purchase and option exercise payments, of which \$5,000 had been received as of June 30, 2018. The Company is also eligible to receive payments on a target-by-target basis upon the achievement of specified development and sales milestones as well as tiered royalties on annual net sales by Novartis of licensed products ranging from high single-digit to mid-teens percentages upon successful commercialization of any products. Under the Novartis Collaboration, the maximum aggregate amount of potential option purchase, option exercise and milestone payments the Company was entitled to was up to \$1,167,500, of which \$80,000 had been received as of June 30, 2018. Such amount of potential option purchase, option exercise and milestone payments assumed that Novartis purchased, and exercised, all of the Options available to it pursuant to the Novartis Collaboration as well as the successful clinical development of and achievement of all sales milestones for all targets covered by the Novartis Collaboration. In March 2018, Novartis notified the Company of its decision not to exercise its Option related to CD47. The Company is required to pay Novartis tiered royalties ranging from high single-digit to mid-teens percentages on annual net sales by the Company of regional licensed products in the United States. The royalty payments are subject to reduction under specified conditions set forth in the Novartis Collaboration.

### ***Termination***

Unless terminated earlier, the Novartis Collaboration will continue in effect until neither the Company nor Novartis is researching, developing, manufacturing or commercializing any antibody candidates or licensed products under the Novartis Collaboration. Novartis may terminate the Novartis Collaboration on a target-by-target basis for any reason upon prior notice to the Company within a specified time period. However, Novartis cannot terminate the Novartis Collaboration with respect to CD73 for a certain period of time following the effective date. Either party may terminate the Novartis Collaboration in full, or on a target-by-target basis, if an undisputed material breach is not cured within a certain period of time or upon notice of insolvency of the other party. To the extent Novartis terminates for convenience, for the Company's material breach or insolvency, Novartis will grant the Company, on mutually agreeable financial terms, an exclusive, worldwide, irrevocable, perpetual and royalty-bearing license with respect to intellectual property controlled by Novartis that is reasonably necessary to research, develop, manufacture or commercialize certain products.

## **Revenue Recognition – Collaboration Revenue**

On January 1, 2018 the Company adopted ASC 606 under the modified retrospective method. Prior to January 1, 2018 the Company accounted for the collaboration agreement with Novartis under ASC 605-25, Multiple Element Arrangements.

### **Accounting under ASC 605**

The Company determined that the deliverables under the Novartis Collaboration included (i) the worldwide exclusive license to CD73 antibody candidates, which was delivered to Novartis in January 2016 upon entering into the agreement and (ii) the Company's research and development and joint steering committee participation obligations under the agreement. The Company also determined that none of these deliverables have standalone value due to the specialized nature of the services to be provided by the Company in connection with the Novartis Collaboration. Therefore, at the inception of the arrangement, the Company concluded that the deliverables were not separable and, accordingly, the Company treated the license and undelivered services as a single unit of accounting and recognized revenue on a straight-line basis over the period that the Company expected to complete its performance obligations under the agreement, which was estimated to be ten years. Accordingly, the Company recognized the upfront payment and milestone payments received over the estimated ten-year period of performance.

In December 2016, Novartis purchased an exclusive option right to antibodies that bind to CD47 for \$5,000. At that time, the Company concluded that the license and other obligations underlying the exclusive option right held by Novartis represented separate and additional deliverables that Novartis may receive from the Company in future periods. In December 2017, the Company included \$5,000 in deferred revenue for the option purchase payment. In March 2018, Novartis decided not to exercise this option.

### **Accounting under ASC 606**

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

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

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

In February 2018, the Company received an additional milestone payment of \$45,000 from Novartis upon Novartis' receipt and acceptance of the first final audited GLP toxicology study report for SRF373. Upon achieving the milestone, the Company concluded this variable consideration associated with this milestone was no longer constrained and included the \$45,000 in the transaction price. The Company recognized \$24,196 as collaboration revenue – related party in the six months ended June 30, 2018, based on the ratio of actual costs incurred as of the milestone achievement date to the total estimated costs with respect to performing research on antibodies that bind to CD73 and other specified targets under the Novartis Collaboration. The remaining unrecognized amount of \$20,804 is recorded as deferred revenue – related party as of June 30, 2018 and will subsequently be recognized as revenue over the performance period in proportion to the costs incurred under the Novartis Collaboration.

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

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

For the three and six months ended June 30, 2018 and 2017, the Company recognized the following totals of collaboration revenue – related party:

	Three months ended June 30, 2018		Six months ended June 30, 2018	
	2018	2017	2018	2017
Collaboration revenue - related party	\$ 2,428	\$ 6,195	\$ 47,923	\$ 7,867

The following table presents changes in the Company’s contract assets and liabilities during the six months ended June 30, 2018 (in thousands):

Contract Liabilities (1)	December 31, 2017	Additions	Deductions	June 30, 2018
	Total deferred revenue - related party	\$ 82,105	\$ 45,000	\$ (61,657)

- (1) Additions to contract liabilities relate to consideration from Novartis during the reporting period. Deductions to contract liabilities relate to deferred revenue recognized as revenue during the reporting period and cumulative catch-up adjustment recognized upon adoption of ASC 606 on January 1, 2018.

During the three and six months ended June 30, 2018, the Company recognized \$1,656 and \$18,727, respectively, of revenue related to the amounts included in contract liability balance at the beginning of the period. The aggregate amount of the transaction price allocated to the single performance obligation that are partially unsatisfied was \$65,448.

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

## 6. Redeemable Convertible Preferred Stock

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

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

## 7. Stockholders’ Equity (Deficit)

### Common Stock

As of June 30, 2018 and December 31, 2017, the Company’s certificate of incorporation, as amended and restated, authorized the Company to issue 150,000,000 and 53,000,000 shares, respectively, 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 the Redeemable Convertible Preferred Stock. When dividends are declared on shares of common stock, the Company must declare at the same time a dividend payable to the holders of Redeemable Convertible Preferred Stock equivalent to the dividend amount they would receive if each preferred share were converted into common stock. The Company may not pay dividends to common stockholders until all dividends accrued or declared but unpaid on the Redeemable Convertible Preferred Stock have been paid in full. No dividends have been declared or paid by the Company through June 30, 2018.

As of June 30, 2018 and December 31, 2017, the Company had reserved 6,271,786 and 20,703,575 shares, respectively, of common stock for the conversion of the outstanding shares of Redeemable Convertible Preferred Stock, the exercise of outstanding stock options and the number of shares remaining available for future grant under the Company’s 2014 Stock Incentive Plan and 2018 Stock Option and Incentive Plan.

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



## 8. Stock-Based Awards

### 2014 Stock Incentive Plan

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

The total number of shares of common stock that may be issued under the 2014 Plan was 4,489,839 shares as of December 31, 2017. On February 12, 2018, the Company effected an increase in the total number of shares of the Company's common stock reserved for issuance under the 2014 Plan from 4,489,839 shares to 4,498,930 shares. On March 2, 2018, the Company effected an increase in the total number of shares of the Company's common stock reserved for issuance under the 2014 Plan from 4,498,930 shares to 5,089,839 shares. On March 9, 2018, the Company effected an increase in the total number of shares of the Company's common stock reserved for issuance under the 2014 Plan from 5,089,839 shares to 5,203,730 shares.

As of June 30, 2018 all remaining shares available under the 2014 Plan were transferred to the 2018 Plan. As of December 31, 2017 733,060 shares were available for future issuance under the 2014 Plan.

### 2018 Stock Option and Incentive Plan

On April 3, 2018, the Company's stockholders approved the 2018 Stock Option and Incentive Plan (the "2018 Plan"), which became effective on April 18, 2018, the date on which the registration statement for the Company's initial public offering was declared effective. The 2018 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock units, restricted stock awards, unrestricted stock awards, cash-based awards and dividend equivalent rights to the Company's officers, employees, non-employee directors and other key persons (including consultants). The number of shares initially reserved for issuance under the 2018 Plan is 1,545,454, plus the shares of common stock remaining available for issuance under the 2014 Plan, which shall be cumulatively increased on January 1, 2019 and each January 1 thereafter 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 June 30, 2018 1,555,603 shares were available for future issuance under the 2018 Plan.

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

### Stock Options

The following table summarizes the Company's stock option activity since January 1, 2018:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u> (in years)	<u>Aggregate Intrinsic Value</u>
Outstanding as of December 31, 2017	3,106,891	\$ 3.68	8.69	\$ 14,361
Granted	1,514,366	11.23		
Exercised	(84,311)	1.89		
Forfeited	(77,581)	2.23		
Outstanding as of June 30, 2018	<u>4,459,365</u>	\$ 6.29	8.62	\$ 44,655
Options exercisable at June 30, 2018	1,385,242	\$ 3.35	7.62	\$ 17,955

The weighted average grant-date fair value per share of stock options granted during the six months ended June 30, 2018 and December 31, 2017 was \$7.42 and \$3.72, respectively.

As of June 30, 2018 and December 31, 2017, there were outstanding stock options held by non-employees for the purchase of 392,371 and 369,645 shares of common stock, respectively, with service-based vesting conditions.

### 2018 Employee Stock Purchase Plan

On April 3, 2018, the Company's stockholders approved the 2018 Employee Stock Purchase Plan (the "ESPP"), which became effective on April 18, 2018, the date on which the registration statement for the Company's initial public offering was declared effective. A total of 256,818 shares of common stock were reserved for issuance under this plan. In addition, the number of shares of common stock that may be issued under the ESPP will automatically increase on January 1, 2019, and 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.

### Stock-Based Compensation

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

	Six months ended June 30,	
	2018	2017
Research and development expenses	\$ 1,641	\$ 784
General and administrative expenses	1,140	448
	<u>\$ 2,781</u>	<u>\$ 1,232</u>

As of June 30, 2018, the Company had an aggregate of \$15,828 of unrecognized stock-based compensation cost, which is expected to be recognized over a weighted average period of 3.22 years.

## 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<b>Basic net income (loss) per share attributable to common stockholders:</b>				
Numerator:				
Net income (loss)	\$ (15,852)	\$ (6,573)	\$ 15,360	\$ (15,199)
Accretion of redeemable convertible preferred stock to redemption value	—	(10)	(11)	(20)
Net income attributable to redeemable convertible preferred stockholders	—	—	(7,077)	—
Net income (loss) attributable to common stockholders	<u>\$ (15,852)</u>	<u>\$ (6,583)</u>	<u>\$ 8,272</u>	<u>\$ (15,219)</u>
Denominator:				
Weighted average commons shares outstanding—basic	21,595,586	2,413,879	12,213,717	2,415,662
Net (loss) income per share attributable to common stockholders—basic	<u>\$ (0.73)</u>	<u>\$ (2.73)</u>	<u>\$ 0.68</u>	<u>\$ (6.30)</u>
<b>Diluted net income (loss) per share attributable to common stockholders:</b>				
Numerator:				
Net income (loss)	\$ (15,852)	\$ (6,573)	\$ 15,360	\$ (15,199)
Accretion of redeemable convertible preferred stock to redemption value	—	(10)	(11)	(20)
Net income attributable to redeemable convertible preferred stockholders	—	—	(7,077)	—
Net income (loss) attributable to common stockholders	<u>\$ (15,852)</u>	<u>\$ (6,583)</u>	<u>\$ 8,272</u>	<u>\$ (15,219)</u>
Denominator:				
Weighted average commons shares outstanding—basic	21,595,586	2,413,879	12,213,717	2,415,662
Dilutive effect of common stock equivalents	—	—	1,591,663	—
Weighted average common shares outstanding - diluted	<u>21,595,586</u>	<u>2,413,879</u>	<u>13,805,380</u>	<u>2,415,662</u>
Net income (loss) per share attributable to common stockholders—diluted	<u>\$ (0.73)</u>	<u>\$ (2.73)</u>	<u>\$ 0.60</u>	<u>\$ (6.30)</u>

Stock options for the purchase of 727,552 weighted average shares were excluded from the computation of diluted net income per share attributable to common stockholders for the six months ended June 30, 2018 because those options had an anti-dilutive impact due to the assumed proceeds per share using the treasury stock method being greater than the average fair value of the Company's common shares for those periods.

There were zero outstanding common stock equivalents that had an anti-dilutive impact on net income per share attributable to common stockholders for the three months ended June 30, 2018 or for the three and six months ended June 30, 2017.

## **10. Income Taxes**

During the three and six months ended June 30, 2018, the Company recorded no provision from income taxes for the net income generated in the period because the Company is forecasting a loss for the year ended December 31, 2018.

During the three and six months ended June 30, 2017, the Company recorded an income tax provision of \$164 and \$378, respectively, which was primarily due to the federal and state income tax treatment of the payments received under the Novartis Collaboration.

Prepaid income taxes of \$5,357 and \$6,513 at June 30, 2018 and December 31, 2017, respectively, were included in prepaid expenses and other current assets on the condensed consolidated balance sheet and consist primarily of amounts receivable under a refund claim filed with the Internal Revenue Service as well as amounts paid to the Internal Revenue Service that will be applied to income taxes due in the future.

Our preliminary estimate of the Tax Cuts and Jobs Act of 2017, or TCJA, and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the TCJA, changes to certain estimates and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the TCJA may require further adjustments and changes in our estimates. The final determination of the TCJA and the remeasurement of our deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the TCJA. For the six months ended June 30, 2018, there were no changes to management's analysis originally performed as of December 31, 2017.

## **11. 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.

### ***Lease Amendment***

In May 2018, the Company executed an amendment to lease an additional 33,529 square feet for a term of 10 years at 50 Hampshire Street that is intended to support its continued growth. The original lease term was extended to co-terminate with the additional space. The Company will pay annual rent of \$71.00 per rentable square foot for the first year, with increases of \$1.00 per rentable square foot for the remainder of the term. The additional space will be available for occupancy in 2020.

## **12. Related Party Transactions**

### ***Research Agreement with Vaccinex, Inc.***

On November 30, 2017, the Company entered into an agreement with Vaccinex, Inc. ("Vaccinex") whereby Vaccinex will use its technology to assist the Company with identifying and selecting experimental human monoclonal antibodies against targets selected by the Company. The Company's Chief Executive Officer is a member of the board of directors of Vaccinex. During the three and six months ended June 30, 2018, the Company incurred an expense payable to Vaccinex for \$64 and \$133, respectively, as a technology access fee upon entering into the agreement and project initiation expenses. No amounts were due by the Company to Vaccinex as of December 31, 2017.

## 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, 2017 included in our final prospectus for our initial public offering of our common stock filed with the Securities and Exchange Commission or SEC pursuant to Rule 424(b)(4) of the Securities Act on April 19, 2018, which we refer to as the Prospectus.*

### Overview

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

We believe ours to be a more comprehensive approach, engaging both the innate and adaptive arms of the immune system. We identify key components within the TME to gain a deep understanding of its biology, leverage this understanding to define optimal therapeutic targets and the patients most likely to benefit and develop novel antibody therapeutics with differentiated biologic activity. By utilizing our specialized knowledge and expertise in immunology, oncology, antibody selection and characterization, and translational research, we have developed a broad pipeline of clinical and preclinical TME-focused programs. We believe our portfolio represents the next generation of immuno-oncology therapies. In January 2016, we entered into a strategic collaboration with Novartis to leverage our combined expertise and resources to develop novel immunotherapies targeting the TME.

Our lead product candidate, SRF231, targets a protein called cluster of differentiation, or CD, 47. We initiated a Phase 1 clinical trial of SRF231 in February 2018 and expect to report initial clinical results from this trial in the first half of 2019. In June 2018, a Phase 1 trial of SRF373/NZV930, a fully human antibody targeting CD73, was initiated by Novartis marking the second of Surface's immunotherapies to advance into the clinic this year. SRF373/NZV930 has been exclusively licensed on a worldwide basis to Novartis. Additionally, development candidates have been identified for our CD39 and interleukin 27, or IL-27, programs, SRF617 and SRF388, respectively, and IND-enabling studies have been initiated.

On April 23, 2018, we completed an initial public offering of our common stock by issuing 7.2 million shares of our common stock, at \$15.00 per share for gross proceeds of \$108.0 million, or net proceeds of \$97.2 million. Concurrent with the initial public offering, we issued Novartis 766,666 shares of our common stock at \$15.00 per share for proceeds of \$11.5 million in a private placement.

We were incorporated and commenced principal operations in 2014. We have devoted substantially all of our resources to developing our programs, including SRF231 and SRF373, building our intellectual property portfolio, business planning, raising capital and providing general and administrative support for these operations. To date, we have financed our operations with proceeds from the sales of preferred stock and payments received under a collaboration agreement, or the Collaboration Agreement, with Novartis Institutes for BioMedical Research, Inc., or Novartis. Through June 30, 2018, we had received gross proceeds of \$48.6 million from our sales of preferred stock and \$150.0 million from the Collaboration Agreement. As of June 30, 2018, we had cash, cash equivalents and marketable securities of \$185.6 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 income was \$15.4 million for the six months ended June 30, 2018 and our net loss was \$15.9 million for the three months ended June 30, 2018. Our net loss was \$6.6 million and \$15.2 million, respectively, for the three and six months ended June 30, 2017. As of June 30, 2018, we had an accumulated deficit of \$44.8 million. We expect to generate a net loss for the year ending December 31, 2018 and will continue to incur significant expenses and increasing operating losses for at least the next several years. We anticipate that our expenses will increase substantially, particularly as we:

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

- acquire or in-license other product candidates and technologies; and
- incur additional costs associated with operating as a public company.

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 August 14, 2018 will enable us to fund our operating expenses and capital expenditure requirements for at least the next 24 months. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our available capital resources sooner than we expect.

## Components of Our Results of Operations

### *Revenue*

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

### *Collaboration Agreement with Novartis*

In January 2016, we entered into the Collaboration Agreement to develop next-generation cancer therapies. Under the Collaboration Agreement, as amended, we are responsible for performing research on antibodies that bind to CD73 and four other specified targets. We are responsible for all costs and expenses incurred by or on behalf of us in connection with the research. Novartis also has the right, but not the obligation, to conduct research at its own cost on antibodies that bind to CD73 in accordance with the agreement.

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

At the time we entered into the Collaboration Agreement in January 2016, Novartis made an upfront payment to us of \$70.0 million. Under the Collaboration Agreement, Novartis will also pay us a fee to purchase each Option for each Option Target and another fee to exercise an Option. As of June 30, 2018, we had received \$5.0 million in option purchase payments and we are currently entitled to an aggregate of up to \$67.5 million of potential option purchase and option exercise payments. We are also eligible to receive payments on a target-by-target basis upon the achievement of specified development and sales milestones and tiered royalties on annual net sales by Novartis of licensed products ranging from high single-digit to mid-teens percentages upon successful commercialization of any products. Under the Collaboration Agreement, we are currently entitled to potential option purchase, option exercise and milestone payments aggregating up to \$1.17 billion, of which \$80.0 million had been received as of June 30, 2018. Such amount of potential option purchase, option exercise and milestone payments assumes that Novartis purchases, and exercises both of the remaining Options available to it pursuant to the Collaboration Agreement as well as the successful clinical development of and achievement of all sales milestones for all targets covered by the Collaboration Agreement. In addition, we are required to pay Novartis tiered royalties on annual net sales by us of regional licensed products in the United States ranging from high single-digit to mid-teens percentages. The royalty payments are subject to reduction under specified conditions set forth in the Collaboration Agreement. In January 2016, Novartis also purchased \$13.5 million of our Series A-1 preferred stock. The equity investment was made at fair value, and we determined it to be distinct from the Collaboration Agreement.

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

In February 2018, we received an additional milestone payment of \$45.0 million from Novartis upon Novartis' receipt of the first final audited GLP toxicology study report for SRF373. Upon achieving the milestone, we concluded this variable consideration was no longer constrained and included this amount in the transaction price. We recognized \$24.2 million as collaboration revenue – related party in the first quarter of 2018, based on the ratio of our actual costs incurred as of the milestone achievement date to our total estimated costs with respect to performing research on antibodies that bind to CD73 and other specified targets under the Collaboration Agreement. The remaining unrecognized amount of \$20.8 million is recorded as deferred revenue as of June 30, 2018 and will subsequently be recognized as revenue over the performance period in proportion to the costs incurred by us under the Collaboration Agreement.

In March 2018, Novartis notified us of its decision not to exercise its option related to CD47. We recognized the \$5,000 exclusive option right payment as collaboration revenue – related party in the first quarter of 2018 because we no longer have any remaining performance obligations related to CD47. Through June 30, 2018, we had received an aggregate of \$150.0 million from Novartis in upfront payments, milestone payments and option purchase payments.

During the three and six months ended June 30, 2018 we recognized revenue of \$2.4 million and \$47.9 million, respectively, related to the Collaboration Agreement. During the three and six months ended June 30, 2017 we recognized revenue of \$6.2 million and \$7.9 million, respectively, related to the Collaboration Agreement.

## Operating Expenses

### Research and Development Expenses

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

- salaries, benefits and other related costs, including stock-based compensation, for personnel engaged in research and development functions;
- expenses incurred in connection with the preclinical development of our programs and clinical trials of our product candidates, including under agreements with third parties, such as consultants and 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 and 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 June 30, 2018		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
SRF231	\$ 7,192	\$ 4,023	\$ 10,917	\$ 8,001
SRF373	—	1,709	12	1,709
SRF388	1,443	635	1,783	1,139
SRF617	707	154	2,165	556
Other early-stage programs	792	227	1,635	667
Unallocated research and discovery expenses	4,964	3,972	9,676	7,328
Total research and development expenses	<u>\$ 15,098</u>	<u>\$ 10,720</u>	<u>\$ 26,188</u>	<u>\$ 19,400</u>

Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. As a result, we expect our research and development expenses to increase over the next several years as we initiate clinical trials and pursue later stages of development of SRF231 and SRF388, initiate clinical trials for the product candidates we develop and continue to discover and develop additional product candidates.

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

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

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

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

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

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support our continued research activities and development of our programs. We also anticipate that we will incur increased accounting, audit, legal, regulatory, compliance, 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 consists primarily of interest earned on our cash, cash equivalents and marketable securities. We expect our interest income to increase slightly in the future due to investing the anticipated net cash proceeds from the initial public offering completed in April 2018.

## Results of Operations

### Comparison of Three Months Ended June 30, 2018 and 2017

The following table summarizes our results of operations for the three months ended June 30, 2018 and 2017, along with the changes in those items:

	Three months June 30, 2018		Change
	2018	2017	
	(in thousands)		
Collaboration revenue - related party	\$ 2,428	\$ 6,195	\$ (3,767)
Operating expenses:			
Research and development	15,098	10,720	4,378
General and administrative	3,913	2,004	1,909
Total operating expenses	19,011	12,724	6,287
Income (loss) from operations	(16,583)	(6,529)	(10,054)
Interest and other income (expense), net	731	120	611
Net income (loss) before income taxes	(15,852)	(6,409)	(9,443)
Provision for income taxes	—	(164)	164
Net income (loss)	\$ (15,852)	\$ (6,573)	\$ (9,279)

### Collaboration Revenue

Collaboration revenue was \$2.4 million and \$6.2 million for the three months ended June 30, 2018 and 2017, respectively, all of which was derived from the Collaboration Agreement. The decrease in collaboration revenue-related party during the quarter ended June 30, 2018 was primarily due to the changes in our revenue recognition method which we adopted on January 1, 2018.

### Research and Development Expenses

	Three months June 30, 2018		Change
	2018	2017	
	(in thousands)		
Direct research and development expenses by program:			
SRF231	\$ 7,192	\$ 4,023	\$ 3,169
SRF373	—	1,709	(1,709)
SRF388	1,443	635	808
SRF617	707	154	553
Other early-stage programs	792	227	565
Research and discovery and unallocated expenses:			
Personnel related (including stock-based compensation)	3,562	2,453	1,109
Facility related and other	1,402	1,519	(117)
Total research and development expenses	\$ 15,098	\$ 10,720	\$ 4,378

Research and development expenses were \$15.1 million for the three months ended June 30, 2018, compared to \$10.7 million for the three months ended June 30, 2017. The increase of \$4.4 million was primarily due to increases of \$3.2 million in external costs for our SRF231 program, \$0.8 million in external costs for our SRF388 program, \$0.6 million in our early-stage programs and \$0.6 million for research and discovery and unallocated costs, partially offset by reductions of \$1.7 million in external costs for our SRF373.

The increase in research and development expenses for our SRF231 program was primarily due to the commencement of clinical studies and continuing contract manufacturing work.

The increase in research and development expenses for our SRF388 program was primarily due to the exercise of an option for an exclusive license to the antibodies related to this program.

The increase in research and development expenses for our SRF617 program was primarily due to the commencement of contract manufacturing work.

The increase in research and development expenses for our other early-stage programs was primarily due to advancement and initiation of new early discovery programs.



The increase in research and discovery and unallocated expenses was primarily due to increases of \$1.1 million in personnel-related costs due to increased headcount, partially offset by \$0.1 million in decreased facility and other costs.

The decreases in research and development expenses for our SRF373 program was due to the completion of IND-enabling activities during 2017 and Novartis taking over the program development.

### **General and Administrative Expenses**

General and administrative expenses were \$3.9 million for the three months ended June 30, 2018, compared to \$2.0 million for the three months ended June 30, 2017. The increase of \$1.9 million was primarily due to increases of \$1.2 million in personnel-related costs as a result of an increase in headcount; an increase of \$0.3 million for professional fees related to legal and accounting services; and an increase of \$0.3 million in facility and other costs.

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

Interest and other income was approximately \$0.7 million and \$0.1 million during the three months ended June 30, 2018 and 2017, respectively, due primarily to interest income on invested balances of our cash, cash equivalents and marketable securities. Increases in interest income was due to investing of the initial public offering proceeds in April 2018.

### **Comparison of Six Months Ended June 30, 2018 and 2017**

The following table summarizes our results of operations for the six months ended June 30, 2018 and 2017, along with the changes in those items:

	<b>Six months ended June 30,</b>		<b>Change</b>
	<b>2018</b>	<b>2017</b>	
	<b>(in thousands)</b>		
Collaboration revenue - related party	\$ 47,923	\$ 7,867	\$ 40,056
Operating expenses:			
Research and development	26,188	19,400	6,788
General and administrative	7,275	3,550	3,725
Total operating expenses	33,463	22,950	10,513
Income (loss) from operations	14,460	(15,083)	29,543
Interest and other income (expense), net	900	262	638
Net income (loss) before income taxes	15,360	(14,821)	30,181
Provision for income taxes	—	(378)	378
Net income (loss)	<u>\$ 15,360</u>	<u>\$ (15,199)</u>	<u>\$ 30,559</u>

### **Collaboration Revenue**

Collaboration revenue was \$47.9 million and \$7.9 million for the six months ended June 30, 2018 and 2017, respectively, all of which was derived from the Collaboration Agreement. The increase in collaboration revenue-related party during the six months ended June 30, 2018 was primarily due to the partial recognition of \$24.2 million in revenue related to a milestone payment of \$45.0 million that we received in February 2018 from Novartis upon Novartis' receipt and acceptance of the first final audited GLP toxicology study report for SRF373. The remaining unrecognized amount will subsequently be recognized as revenue over the performance period in proportion to the costs incurred by us under the Collaboration Agreement.

## Research and Development Expenses

	Six months ended June 30,		Change
	2018	2017	
	(in thousands)		
Direct research and development expenses by program:			
SRF231	\$ 10,917	\$ 8,001	\$ 2,916
SRF373	12	1,709	(1,697)
SRF388	1,783	1,139	644
SRF617	2,165	556	1,609
Other early-stage programs	1,635	667	968
Research and discovery and unallocated expenses:			
Personnel related (including stock-based compensation)	6,970	4,557	2,413
Facility related and other	2,706	2,771	(65)
Total research and development expenses	<u>\$ 26,188</u>	<u>\$ 19,400</u>	<u>\$ 6,788</u>

Research and development expenses were \$26.2 million for the six months ended June 30, 2018, compared to \$19.4 million for the six months ended June 30, 2017. The increase of \$6.8 million was primarily due to increases of \$2.9 million in external costs for our SRF231 program, \$1.6 million for our SRF617 program, \$0.6 million for the SRF388 program, \$1.0 million in our early-stage programs and \$2.3 million for research and discovery and unallocated costs, partially offset by reductions of \$1.7 million in external costs for our SRF373 program.

The increase in research and development expenses for our SRF231 program was primarily due to the commencement of clinical studies and continuing contract manufacturing work.

The increase in research and development expenses for our SRF388 program was primarily due to the exercise of an option for an exclusive license to the antibodies related to this program.

The increase in research and development expenses for our SRF617 program was primarily due to the commencement of contract manufacturing work.

The increase in research and development expenses for our other early-stage programs was primarily due to advancement and initiation of new early discovery programs.

The increase in research and discovery and unallocated expenses was primarily due to increases of \$2.4 million in personnel-related costs due to increased headcount, offset partially \$0.1 million in decreased facility and laboratory costs.

The decreases in research and development expenses for our SRF373 program was due to the completion of IND-enabling activities during 2017 and Novartis taking over the program development.

## General and Administrative Expenses

General and administrative expenses were \$7.3 million for the six months ended June 30, 2018, compared to \$3.6 million for the six months ended June 30, 2017. The increase of \$3.7 million was primarily due to increases of \$2.1 million in personnel-related costs as a result of an increase in headcount; an increase of \$1.0 million for professional fees related to legal and accounting services; and an increase of \$0.6 million in facility costs and other expenses related to our new corporate headquarters.

## Interest and Other Income (Expense), Net

Interest and other income was approximately \$0.9 million and \$0.3 million during the six months ended June 30, 2018 and 2017, respectively, due primarily to interest income on invested balances of our cash, cash equivalents and marketable securities. Increases in interest income was due to investing of the initial public offering proceeds in April 2018.

## Liquidity and Capital Resources

Since our inception, we have incurred significant operating losses. We have generated limited revenue to date from the Collaboration Agreement. We have not yet commercialized any product and we do not expect to generate revenue from sales of any products for several years, if at all. To date, we have financed our operations with proceeds from the sales of preferred stock and payments received under the Collaboration Agreement. Through June 30, 2018, we had received gross proceeds of \$48.6 million from

our sales of preferred stock and \$150.0 million from the Collaboration Agreement. As of June 30, 2018, we had cash, cash equivalents and marketable securities of \$185.6 million.

On April 23, 2018, we completed an initial public offering of our common stock by issuing 7.2 million shares of common stock, at \$15.00 per share for gross proceeds of \$108.0 million, or net proceeds of \$97.2 million. Concurrent with the initial public offering, we issued Novartis 766,666 shares of our common stock at \$15.00 per share for proceeds of \$11.5 million, in a private placement.

### ***Future Funding Requirements***

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

We believe that the anticipated net proceeds from this offering and the concurrent private placement, together with our existing cash, cash equivalents and marketable securities, will enable us to fund our operating expenses and capital expenditure requirements for at least the next 24 months. 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 preclinical 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, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity or debt financings and collaboration arrangements, including the Collaboration Agreement. We currently have no credit facility or committed sources of capital. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interests of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. If we raise additional funds through the issuance of debt securities, these securities could contain covenants that would restrict our operations. We may require additional capital beyond our currently

anticipated amounts. Additional capital may not be available on reasonable terms, or at all. If we raise additional funds through collaboration arrangements in the future, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates, or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate development or future commercialization efforts.

### **Cash Flows**

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

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
	(in thousands)	
<b>Net cash provided by (used in):</b>		
Operating activities	\$ 12,866	\$ 11,508
Investing activities	(94,511)	17,253
Financing activities	110,068	1
<b>Net increase in cash and cash equivalents and restricted cash</b>	<b>\$ 28,423</b>	<b>\$ 28,762</b>

### **Operating Activities**

During the six months ended June 30, 2018, net cash provided by operating activities was \$12.9 million, primarily due to our net income of \$15.4 million and non-cash charges of \$3.4 million partially offset by net cash used by changes in our operating assets and liabilities of \$5.9 million. Net cash used by changes in our operating assets and liabilities for the six months ended June 30, 2018 consisted primarily of a \$2.4 million decrease in accrued expenses and other current liabilities, and a \$2.9 million decrease in deferred revenue-related party, and an increase in \$0.5 million increase in prepaid expenses and other current assets. The decrease in accrued expenses and other current liabilities was primarily due to payments of manufacturing costs incurred to support ongoing clinical trial activities, payment to Novartis for balances due and the decrease in accounts payable was due to timing of invoices for manufacturing expenses.

During the six months ended June 30, 2017, net cash used in operating activities was \$11.5 million, primarily resulting from our net loss of \$15.2 million partially offset by net cash provided by changes in our operating assets and liabilities of \$26.4 million and net non-cash charges of \$0.3 million. Net cash provided by changes in our operating assets and liabilities for the six months ended June 30, 2017 consisted primarily of a \$5.0 million decrease in amounts due from Novartis, a related party, increase of \$22.1 million in deferred revenue – related party, partially offset by a decrease of \$0.7 million in accounts payable. The decrease in accounts payable was due to timing of invoices for clinical manufacturing costs.

### **Investing Activities**

During the six months ended June 30, 2018, net cash used by investing activities was \$94.5 million, primarily due to purchases of marketable securities of \$107.3 million and \$0.6 million of purchases of property and equipment, partially offset by \$13.4 million of proceeds from sales or maturities of marketable securities.

During the six months ended June 30, 2017, net cash provided by investing activities was \$17.3 million, consisting primarily of \$18.6 million in proceeds from sales or maturities of marketable securities partially offset by \$1.3 million of purchases of property and equipment, primarily related to leasehold improvements in our corporate headquarters facility.

### **Financing Activities**

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

During the three months ended June 30, 2017, there was no material financing activity.

### **Contractual Obligations**

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

During the six months ended June 30, 2018, there were no material changes, other than the item mentioned below, to our contractual obligations and commitments from those described under the heading “Management’s Discussion and Analysis of Financial

#### *Lease Amendment*

In May 2018, we executed an amendment to lease an additional 33,526 square feet at 50 Hampshire Street in Cambridge, Massachusetts, with a 10-year term. The original lease term was extended to co-terminate with the additional space. We will pay annual rent of \$71.00 per rentable square foot for the first year, with annual increases of \$1.00 per rentable square foot for the remainder of the term. The additional space will be ready for occupancy in 2020.

#### **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 condensed 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 condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported expenses during the reporting periods. 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 final prospectus for our initial public offering of our common stock filed with the Securities and Exchange Commission or SEC pursuant to Rule 424(b)(4) of the Securities Act on April 19, 2018, which we refer to as the Prospectus, except for our adoption of the new revenue standard which is discussed above.

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

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

#### **Recently Issued Accounting Pronouncements**

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

#### **Emerging Growth Company Status**

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

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our cash, cash equivalents and marketable securities as of June 30, 2018 consisted of cash, a money market fund invested primarily in short-term U.S. Treasury obligations, U.S. government agency bonds and corporate bonds. Interest income is sensitive to changes in the general level of interest rates; however, due to the nature of these investments, we do not believe that we have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates.

#### **Item 4. Limitations on Effectiveness of Controls and Procedures**

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

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition,

the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934). Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2018.

#### **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 six months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 1. Legal Proceedings**

In January 2017, we filed an opposition in the European Patent Office opposing the grant of European Patent No. EP 2242512 to Stanford University. We are one of seven original parties opposing the grant of the European patent, which relates generally to CD47 antibodies for use in treating cancer. Stanford has filed a response to the seven oppositions. One party has withdrawn its opposition; oral arguments have been scheduled to commence on August 28, 2018, and the outcome of the opposition proceedings is uncertain. Furthermore, any party can appeal an opposition decision to the Technical Boards of Appeal at the European Patent Office. Accordingly, final resolution of the oppositions 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 II, Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2018.*

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

On April 23, 2018, upon the closing of our initial public offering, all 37,100,000 shares of our then-outstanding convertible preferred stock were automatically converted into 16,863,624 shares of common stock. The issuance of such shares of common stock was exempt from the registration requirements of the Securities Act, pursuant to Section 3(a)(9) and Section 4(a)(2) of the Securities Act.

On April 23, 2018, we issued and sold 766,666 shares of common stock to Novartis in a private placement, which occurred concurrent with the closing of our initial public offering. The aggregate cash purchase price of the shares sold in the private placement was \$11.5 million, representing a price per share of \$15.00, the same price at which shares were sold to the public in the initial public offering. The sale and issuance of the private placement shares were not registered under the Securities Act or any state securities laws. We have relied on the exemption from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof and the rules and regulations promulgated thereunder relating to transactions not involving any public offering.

During the period between April 1, 2018 and June 30, 2018, we granted to certain of our employees, consultants and directors options to purchase an aggregate of 106,452 shares of our common stock at an average exercise price of \$13.98 per share. We deemed these issuances to be exempt from registration under the Securities Act either in reliance on Rule 701 of the Securities Act as sales and offers under compensatory benefit plans and contracts relating to compensation in compliance with Rule 701, or in reliance on Section 4(a)(2), as transaction by an issuer not involving a public offering.

During the period between April 1, 2018 and June 30, 2018, we issued an aggregate of 3,636 shares of common stock to certain of our employees, directors and consultants for cash consideration in the aggregate amount of \$1,280 upon the exercise of stock options. We deemed these issuances to be exempt from registration under the Securities Act either in reliance on Rule 701 of the Securities Act as sales and offers under compensatory benefit plans and contracts relating to compensation in compliance with Rule 701, or in reliance on Section 4(a)(2), as transaction by an issuer not involving a public offering.

***Use of Proceeds from Initial Public Offering of Common Stock***

On April 23, 2018, we closed our initial public offering of 7,200,000 shares of our common stock at a public offering price of \$15.00 per share for an aggregate offering of \$108 million. The offer and sale of all of the shares in the offering were registered under the Securities Act pursuant to registration statement on Form S-1 (File No. 333-218474), which was declared effective by the SEC on April 18, 2018. Goldman Sachs & Co. LLC, Cowen and Company, LLC and Evercore Group L.L.C. acted as joint book-running managers for the offering. The offering commenced on April 18, 2018 and did not terminate until the sale of all of the shares offered.

We received aggregate net proceeds from the offering of \$97.2 million, after deducting underwriting discounts and commissions of \$7.6 million and estimated offering expenses of \$3.1 million payable by us. Concurrent with the initial public offering, we issued Novartis, 766,666 shares of our common stock at \$15.00 per share for proceeds of \$11.5 million, in a private placement. None of the underwriting discounts and commissions or offering expenses were incurred or paid to directors or officers of ours or their associates or to persons owning 10% or more of our common stock or to any affiliates of ours.

As of June 30, 2018, we have not used any of the net proceeds from the offering. There has been no material change in our planned use of the net proceeds from the offering as described in our Prospectus dated April 18, 2018.

### **Purchases of Equity Securities by the Issuer**

We repurchased the following shares of our common stock in the periods set forth in the table below:

<b>Period</b>	<b>Total Number of Shares (or Units) Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plan or Program</b>	<b>Maximum (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
May 1, 2018 – May 31, 2018	10,161	\$ 0.0003	—	—

(1) In May 2018, we repurchased 10,161 shares of common stock, unvested under a restricted stock agreement at the time the agreement was terminated.

### **Item 3. Defaults upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

Not applicable.



**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.

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#"><u>Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-38459) filed with the SEC on April 23, 2018)</u></a>
3.2	<a href="#"><u>Amended and Restated By-laws of Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-38459) filed with the SEC on April 23, 2018).</u></a>
31.1	<a href="#"><u>Certification of Principal Executive Officer and Principal Financial 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.</u></a>
32.1	<a href="#"><u>Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</u></a>
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 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: August 14, 2018

By: /s/ J. Jeffrey Goater

**J. Jeffrey Goater**

**Chief Executive Officer (Principal Executive, Financial and Accounting officer)**

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

I, J. Jeffrey Goater, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Surface Oncology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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: August 14, 2018

/s/ J. Jeffrey Goater

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J. Jeffrey Goater  
Chief Executive Officer  
(Principal Executive, Financial and  
Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of Surface Oncology, Inc. (the "Company") for the period ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, J. Jeffrey Goater Chief Executive Officer of the Company, hereby certifies, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that to his knowledge:

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

Dated: August 14, 2018

/s/ J. Jeffrey Goater

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