UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-38459

SURFACE ONCOLOGY, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Small reporting company	☒
Emerging growth Company	☒		

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

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

As of November 1, 2021, the registrant had 46,135,245 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 third parties;
- the impact of COVID-19 on our business operations and that of our third-party manufacturers and suppliers;
- our manufacturing, commercialization and marketing capabilities and strategy;
- the pricing and reimbursement of our current product candidates and other product candidates we may develop, if approved;
- the rate and degree of market acceptance and clinical utility of our current product candidates and other product candidates we may develop;
- the potential benefits of and our ability to maintain our collaborations with Novartis and GSK, and establish or maintain future collaborations or strategic relationships or obtain additional funding;
- our ability to retain the continued service of our key professionals and to identify, hire and retain additional qualified professionals;
- our intellectual property position, including the scope of protection we are able to establish and maintain for intellectual property rights covering our current product candidates and other product candidates we may develop, the validity of intellectual property rights held by third parties, and our ability not to infringe, misappropriate or otherwise violate any third-party intellectual property rights;
- our competitive position, and developments and projections relating to our competitors and our industry;
- our expectations related to the use of our existing cash, cash equivalents and marketable securities;
- our ability to raise capital to fund operations;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing; 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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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(in thousands, except share and per share data)

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 60,848	$ 175,141
Marketable securities	88,850	—
Prepaid expenses and other current assets	5,059	5,368
Total current assets	154,757	180,509
Property and equipment, net	5,522	6,664
Operating lease right-of-use asset	26,394	27,911
Restricted cash	1,595	1,595
Other assets	344	459
Total assets	$ 188,612	$ 217,138
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 440	$ 1,674
Accrued expenses and other current liabilities	9,923	10,448
Operating lease liability	5,440	5,529
Total current liabilities	15,803	17,651
Operating lease liability, non-current	27,426	28,981
Convertible note payable, non-current	14,186	14,759
Total liabilities	57,415	61,391
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.0001 par value per share; 5,000,000 shares authorized at September 30, 2021 and December 31, 2020; no shares issued and outstanding at September 30, 2021 and December 31, 2020	—	—
Common stock, $0.0001 par value; 150,000,000 shares authorized at September 30, 2021 and December 31, 2020, respectively; 45,503,061 and 40,707,047 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	5	4
Additional paid-in capital	247,888	218,001
Accumulated other comprehensive loss	(3)	—
Accumulated deficit	(116,693)	(62,258)
Total stockholders' equity	131,197	155,747
Total liabilities and stockholders' equity	$ 188,612	$ 217,138

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

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

(in thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Collaboration revenue - related party	$ —	$ —	$ —	$ 38,592
License related revenue	392	—	2,532	—
Total revenue	$ 392	$ —	$ 2,532	$ 38,592
Operating expenses:				
Research and development	14,037	9,454	37,250	30,290
General and administrative	5,847	4,904	17,923	14,686
Total operating expenses	19,884	14,358	55,173	44,976
Loss from operations	(19,492)	(14,358)	(52,641)	(6,384)
Interest expense	(421)	(1,469)	(1,861)	(2,237)
Other income (expense), net	20	53	67	610
Net loss	(19,893)	(15,774)	(54,435)	(8,011)
Net loss per share attributable to common stockholders— basic and diluted	$ (0.44)	$ (0.39)	$ (1.25)	$ (0.24)
Weighted average common shares outstanding— basic and diluted	45,236,775	40,004,555	43,510,078	33,822,682
Comprehensive loss:				
Net loss	$ (19,893)	$ (15,774)	$ (54,435)	$ (8,011)
Other comprehensive loss:				
Unrealized gain (loss) on marketable securities, net of tax of $0	6	(50)	(3)	(99)
Comprehensive loss	$ (19,887)	$ (15,824)	$ (54,438)	$ (8,110)

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

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

(in thousands, except share amounts)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balances at December 31, 2020	40,707,047	$ 4	$ 218,001	$ —	$ (62,258)	$ 155,747
Issuance of common stock upon exercise of stock options	55,761	—	148	—	—	148
Issuance of common stock under stock purchase plan	19,377	—	118	—	—	118
Issuance of common stock upon public offering, net of issuance costs	1,677,118	1	14,715	—	—	14,716
Issuance of common stock upon conversion of convertible note payable	961,538	—	1,500	—	—	1,500
Stock-based compensation expense	—	—	2,380	—	—	2,380
Unrealized loss on marketable securities	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	(15,561)	(15,561)
Balances at March 31, 2021	43,420,841	$ 5	$ 236,862	$ (1)	$ (77,819)	$ 159,047
Issuance of common stock upon exercise of stock options	358,126	—	1,486	—	—	1,486
Issuance of common stock upon public offering, net of issuance costs	556,642	—	4,266	—	—	4,266
Stock-based compensation expense	—	—	2,279	—	—	2,279
Unrealized loss on marketable securities	—	—	—	(8)	—	(8)
Net loss	—	—	—	—	(18,981)	(18,981)
Balances at June 30, 2021	44,335,609	$ 5	$ 244,893	$ (9)	$ (96,800)	$ 148,089
Issuance of common stock upon exercise of stock options	72,745	—	305	—	—	305
Issuance of common stock upon vesting of RSUs	997,400	—	—	—	—	—
Issuance of common stock under stock purchase plan	27,522	—	149	—	—	149
Issuance of common stock upon public offering, net of issuance costs	69,785	—	497	—	—	497
Stock-based compensation expense	—	—	2,044	—	—	2,044
Unrealized gain on marketable securities	—	—	—	6	—	6
Net loss	—	—	—	—	(19,893)	(19,893)
Balances at September 30, 2021	45,503,061	$ 5	$ 247,888	$ (3)	$ (116,693)	$ 131,197

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

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

(in thousands, except share amounts)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balances at December 31, 2019	27,893,337	$ 3	$ 178,155	$ 103	$ (121,595)	$ 56,666
Issuance of common stock upon exercise of stock options	27,832	—	10	—	—	10
Issuance of common stock under stock purchase plan	49,025	—	83	—	—	83
Issuance of common stock upon public offering, net of issuance costs	91,003	—	320	—	—	320
Stock-based compensation expense	—	—	1,850	—	—	1,850
Unrealized gain on marketable securities	—	—	—	67	—	67
Net income	—	—	—	—	22,570	22,570
Balances at March 31, 2020	28,061,197	$ 3	$ 180,418	$ 170	$ (99,025)	$ 81,566
Issuance of common stock upon exercise of stock options	68,426	—	262	—	—	262
Issuance of common stock upon public offering, net of issuance costs	11,127,590	1	28,765	—	—	28,766
Stock-based compensation expense	—	—	2,000	—	—	2,000
Unrealized loss on marketable securities	—	—	—	(116)	—	(116)
Net loss	—	—	—	—	(14,807)	(14,807)
Balances at June 30, 2020	39,257,213	4	211,445	54	(113,832)	97,671
Issuance of common stock upon exercise of stock options	37,234	—	143	—	—	143
Issuance of common stock under stock purchase plan	40,147	—	111	—	—	111
Issuance of common stock upon conversion of convertible note payable	1,282,050	—	2,000	—	—	2,000
Stock-based compensation expense	—	—	1,963	—	—	1,963
Unrealized loss on marketable securities	—	—	—	(50)	—	(50)
Net loss	—	—	—	—	(15,774)	(15,774)
Balances at September 30, 2020	40,616,644	$ 4	$ 215,662	$ 4	$ (129,606)	$ 86,064

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

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

(in thousands)

	Nine months ended September 30,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (54,435)	$ (8,011)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	1,194	1,260
Stock-based compensation expense	6,703	5,813
Non-cash interest expense related to note payable	927	1,484
Net amortization of premiums and discounts on marketable securities	586	(50)
Loss on disposal of property and equipment	—	1
Non-cash operating lease cost	1,517	1,537
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	309	(2,358)
Other assets	115	(181)
Accounts payable	(1,234)	(2,875)
Accrued expenses and other current liabilities	(525)	(1,339)
Operating lease liability	(1,644)	(101)
Other liabilities	—	1,100
Deferred revenue - related party	—	(38,592)
Net cash used in operating activities	(46,487)	(42,312)
Cash flows from investing activities:		
Purchases of property and equipment	(52)	(22)
Purchases of marketable securities	(91,439)	(650)
Proceeds from sales or maturities of marketable securities	2,000	56,000
Net cash provided by (used in) investing activities	(89,491)	55,328
Cash flows from financing activities:		
Proceeds from issuance of convertible note payable	—	10,000
Proceeds from issuance of common stock upon public offering, net	19,479	29,086
Proceeds from employee stock purchases	267	194
Proceeds from exercise of stock options	1,939	415
Net cash provided by financing activities	21,685	39,695
Net increase (decrease) in cash and cash equivalents and restricted cash	(114,293)	52,711
Cash and cash equivalents and restricted cash at beginning of period	176,736	48,350
Cash and cash equivalents and restricted cash at end of period	$ 62,443	$ 101,061
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 945	$ 753
Supplemental disclosure of non-cash investing and financing activities:		
Additional right-of-use asset and related lease liability	$ —	$ 15,003
Purchases of property and equipment included in accounts payable and accrued expenses	$ —	$ 869
Conversion of note payable into shares of common stock	$ 1,500	$ 2,000

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

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

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

1. Nature of the Business

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

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

On May 22, 2020, the Company entered into a Capital on Demand™ Sales Agreement (the “2020 Sales Agreement”) with JonesTrading Institutional Services LLC (“JonesTrading") to issue and sell shares of the Company’s common stock of up to $50,000 in gross proceeds, from time to time during the term of the 2020 Sales Agreement, through an “at-the-market” equity offering program under which JonesTrading will act as the Company’s agent and/or principal (the “2020 ATM Facility”). The 2020 ATM Facility provides that JonesTrading will be entitled to compensation for its services in an amount of up to 3.0% of the gross proceeds of any shares sold under the 2020 ATM Facility. The Company has no obligation to sell any shares under the 2020 ATM Facility and may, at any time, suspend solicitation and offers under the 2020 Sales Agreement. In the three and nine months ended September 30, 2021, the Company sold 69,785 and 2,303,545 shares of common stock, respectively, at-the-market under the 2020 Sales Agreement, resulting in net proceeds of approximately $497 and $19,479, respectively. The Company did not sell any shares of common stock at-the-market under the 2020 Sales Agreement in 2020.

On August 5, 2021, the Company entered into Amendment No. 1 to Capital on DemandTM Sales Agreement (the “Amended Sales Agreement”) with JonesTrading, which amends the 2020 Sales Agreement to allow the issuance and sale of up to $80,000 in gross proceeds, from time to time during the term of the Amended Sales Agreement, through an “at-the-market” equity offering program under which JonesTrading will act as the Company’s sales agent ("the 2021 ATM Facility"). The 2021 ATM Facility provides that JonesTrading will continue to be entitled to compensation for its services in an amount of up to 3.0% of the gross proceeds of any shares sold under the 2021 ATM Facility. The Company has no obligation to sell any shares under the Amended Sales Agreement and may, at any time, suspend solicitation and offers under the 2021 ATM Facility. The Company has not sold any shares of common stock at-the-market under the 2021 ATM Facility as of September 30, 2021.

The Company’s financial statements have been prepared on the basis of continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the ordinary course of business. The Company has primarily funded its operations with proceeds from private and public sales of its securities, proceeds from a collaboration agreement with Novartis Institutes for Biomedical Research, Inc. (“Novartis”), proceeds from a license agreement with GlaxoSmithKline Intellectual Property (No. 4) Limited (“GSK”) and issuance of a term loan with K2 Health Ventures LLC (“K2HV”). The Company has a history of incurring losses and negative cash flows from operations. As of September 30, 2021, the Company had an accumulated deficit of $116,693.

The Company expects that its operating losses and negative cash flows will continue for the foreseeable future. As of November 4, 2021, the issuance date of this Quarterly Report on Form 10-Q, the Company expects that its cash, cash equivalents and marketable securities will be sufficient to fund its operating expenses, debt service obligations and capital expenditure requirements for at least the next 12 months. The future viability of the Company beyond that date is dependent on its ability to raise additional capital to finance its operations.

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

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

The ongoing global outbreak of the novel coronavirus disease ("COVID-19") has resulted in significant governmental measures being implemented to control the spread of the virus and while the Company cannot predict their scope or the severity of the outbreak, these developments and measures could materially and adversely affect the Company's business, the Company's results of operations and financial condition. The Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business and has taken steps to minimize its impact on the Company's business. Although COVID-19 has not had a material adverse impact on the Company's operations and its clinical and preclinical programs, the extent to which COVID-19 ultimately impacts the Company's business, results of operations or financial condition will depend on future developments which are highly uncertain and cannot be predicted with confidence, such as the duration of the outbreak, new information that may emerge concerning the severity of COVID-19 or the effectiveness of actions taken to contain the pandemic or mitigate its impact, among others. Certain of the Company's third-party service providers have experienced shutdowns or other business disruptions. As a result, the Company's ability to conduct its business in the manner and on the timelines presently planned could be materially or negatively affected, which could have a material adverse impact on the Company's business, results of operations and financial condition.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The accounting policies followed in the preparation of the interim condensed consolidated financial statements are consistent in all material respects with those presented in Note 2 to the financial statements included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC") on March 9, 2021.

Use of Estimates

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

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

Unaudited Interim Financial Information

The accompanying condensed consolidated financial statements are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of September 30, 2021 and the results of its operations and its cash flows for the nine months ended September 30, 2021 and 2020. The financial data and other information disclosed in these notes related to the three and nine months ended September 30, 2021 and 2020 are also unaudited. The condensed balance sheet at December 31, 2020, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. The results for the three and nine months ended September 30, 2021 are not necessarily indicative of results to be expected for the year ending December 31, 2021, any other interim periods, or any future year period.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13")*, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes may result in earlier recognition of credit losses. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which narrowed the scope and changed the effective date for non-public entities for ASU 2016-13. The FASB subsequently issued supplemental guidance within ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief ("ASU 2019-05")*. ASU 2019-05 provides an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For public entities that are Securities and Exchange Commission filers, excluding entities eligible to be smaller reporting companies, ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. For all other entities, ASU 2016-13 is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. This standard will be effective for the Company on January 1, 2023. The Company is currently evaluating the potential impact that this standard may have on its condensed consolidated financial statements and related disclosures.

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

3. Marketable Securities

As of September 30, 2021, the fair value of available-for-sale marketable debt securities by type of security was as follows:

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities:				
U.S. Treasury notes	$ 73,017	$ 9	(10)	$ 73,016
U.S. government agency bonds	15,836	1	(3)	15,834
	$ 88,853	$ 10	$ (13)	$ 88,850

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

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

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

	September 30, 2021	
	Amortized Cost	Fair Value
Maturing in one year or less	$ 56,568	$ 56,576
Maturing after one year	32,285	32,274
	$ 88,853	$ 88,850

As of December 31, 2020, there were no available-for-sale marketable debt securities.

The Company determined that there was no material change in the credit risk of these investments. As a result, the Company determined it did not hold any investments with an other-than-temporary decline in fair value as of September 30, 2021 and December 31, 2020.

4. Fair Value of Financial Assets

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

	Fair Value Measurements as of September 30, 2021 using:			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 44,686	$ —	$ —	$ 44,686
Cash	23	—	—	23
Marketable securities:				
U.S. Treasury notes	—	73,016	—	73,016
U.S. government agency bonds	—	15,834	—	15,834
	$ 44,709	$ 88,850	$ —	$ 133,559

	Fair Value Measurements as of December 31, 2020 using:			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 139,266	$ —	$ —	$ 139,266
	$ 139,266	$ —	$ —	$ 139,266

As of September 30, 2021 and December 31, 2020, the Company's cash equivalents were invested in money market funds, U.S. Treasury notes and U.S. government agency bonds and were valued based on Level 1 and Level 2 inputs. During the nine months ended September 30, 2021 and 2020, there were no transfers between Level 1, Level 2 and Level 3.

5. Collaboration and License Agreements

Novartis Agreement

In January 2016, the Company entered into a collaboration agreement with Novartis (the "Novartis Agreement"), which was subsequently amended in May 2016, July 2017, September 2017, and October 2018. Pursuant to the Novartis Agreement, the Company granted Novartis a worldwide exclusive license to research, develop, manufacture and commercialize antibodies that target cluster of differentiation 73 ("CD73"). In addition, the Company initially granted Novartis the right to purchase exclusive option rights (each an "Option") for up to four specified targets (each an "Option Target") including certain development, manufacturing, and commercialization rights. Novartis initially had the right to exercise up to three purchased Options. Under the Novartis Agreement, therefore, Novartis had the ability to exclusively license the development and manufacturing rights for up to four targets (inclusive of CD73). In January 2020, Novartis did not purchase and exercise its single remaining Option under the Novartis Agreement and, as a result, the option purchase period expired. Therefore, there are no Options remaining eligible for purchase, and potential exercise, and the Company's performance obligations under the Novartis Agreement have ended. Under the Novartis Agreement, the Company is currently entitled to potential development milestones of $325,000 and sales milestones of $200,000, as well as tiered royalties on annual net sales by Novartis ranging from high single-digit to mid-teens percentages upon the successful commercialization of NZV930 (formerly SRF373).

Termination

Unless terminated earlier, the Novartis Agreement will continue in effect until neither the Company nor Novartis is researching, developing, manufacturing or commercializing NZV930. Novartis may terminate the Novartis Agreement for any reason upon prior notice to the Company within a specified time period. Either party may terminate the Novartis Agreement in full if an undisputed material breach is not cured within a certain period of time or upon notice of insolvency of the other party. To the extent Novartis terminates for convenience, or the Company terminates for Novartis' material breach, Novartis will grant the Company, on mutually agreeable financial terms, an exclusive, worldwide, irrevocable, perpetual and royalty-bearing license with respect to intellectual property controlled by Novartis that is reasonably necessary to research, develop, manufacture or commercialize NZV930.

Revenue Recognition – Collaboration Revenue – Related Party

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

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

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

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In January 2020, Novartis did not purchase and exercise its single remaining Option under the Novartis Agreement and, as a result, the option purchase period expired. Future costs associated with this target were removed from the estimated total costs in the cost-to-cost model. This resulted in the Company recognizing the remaining deferred revenue of $38,592 to collaboration revenue - related party in January 2020.

For the three and nine months ended September 30, 2021 and 2020, the Company recognized the following totals of collaboration revenue – related party:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Collaboration revenue - related party	$ —	$ —	$ —	$ 38,592

GSK Agreement

In December 2020, the Company entered into a license agreement with GSK (as amended by the GSK Amendment (as defined below) the "GSK Agreement"). Pursuant to the GSK Agreement, the Company granted GSK a worldwide, exclusive, sublicensable license to develop, manufacture and commercialize antibodies that target the antibody SRF813, targeting CD112R, also known as PVRIG (the “Licensed Antibodies”). GSK will be responsible for the development, manufacturing and commercialization of the Licensed Antibodies and a joint development committee has been formed to facilitate information sharing between the Company and GSK. Under the terms of the GSK Agreement, GSK is obligated to use commercially reasonable efforts to develop and commercialize the Licensed Antibodies. In August 2021, the Company entered into the first amendment to the GSK License Agreement (the "GSK Amendment"). Pursuant to the GSK Amendment, the Company will provide additional transition and supply services related to the development and manufacturing of the Licensed Antibodies.

Development, Manufacturing and Commercialization of Licensed Antibodies

GSK has the sole right to develop, manufacture and commercialize the Licensed Antibodies and corresponding licensed products worldwide. GSK is obligated to use commercially reasonable efforts to develop the Licensed Antibodies and corresponding licensed products. GSK is responsible for all costs and expenses of such development, manufacturing and commercialization and is obligated to provide the Company with updates on its development, manufacturing and commercialization activities through the joint development committee.

Exclusivity

During the term of the GSK Agreement, neither the Company, nor any affiliates, will research, develop, manufacture, or commercialize any alternative product.

Financial Terms

Under the terms of the GSK Agreement, GSK made a one-time upfront payment of $85,000 and is required to make additional payments to the Company for supply services and transition services, estimated to be $4,952 and $990, respectively. The Company is eligible to receive up to $90,000 in clinical and $155,000 in regulatory milestones. In addition, the Company may receive up to $485,000 in sales milestone payments. The Company is also eligible to receive royalties on global net sales of any approved products based on the licensed antibodies, ranging in percentages from high single digits to mid-teens. Due to the uncertainty of pharmaceutical development and the historical failure rates generally associated with drug development, the Company may not receive any milestone payments or any royalty payments under the GSK Agreement.

Termination

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

Revenue Recognition – License Related Revenue

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

The Company assessed the GSK Agreement in accordance with ASC 606 and concluded that GSK is a customer. The Company identified the following promises under the contract: (i) a worldwide, exclusive, sublicensable license to develop, manufacture and commercialize the Licensed Antibodies; (ii) supplying Licensed Antibodies until an Investigational New Drug application is accepted by a regulatory authority (iii) transition services until an Investigational New Drug application is accepted by a regulatory authority; and (iv) participation on the joint development and joint patent committees. The Company assessed the above promises and determined that the worldwide, exclusive, sublicensable license to develop, manufacture and commercialize the Licensed Antibodies is considered functional intellectual property and distinct from other promises under the contract. This functional license is distinct in the context of the GSK Agreement as GSK can benefit from the license on its own or together with other readily available resources. In addition, the supply and transition services are not complex or specialized, could be performed by another qualified third party, are not expected to significantly modify or customize the license to SRF813, and are expected to be performed only for a short period of time. The Company determined that the impact of participation on the joint development and joint patent committees was insignificant and had an immaterial impact on the accounting model. Based on these assessments, the Company identified three distinct performance obligations at the outset of the GSK Agreement.

The Company determined the transaction price of the GSK Agreement, under ASC 606, to be $90,942, consisting of the upfront payment of $85,000 plus $4,952 for supply of the Licensed Antibodies and $990 for the transition services. The Company evaluated how much variable consideration related to clinical and regulatory milestones to include in the transaction price using the most likely amount approach and concluded that no amount should be included in the transaction price due to the high degree of uncertainty and risk associated with these potential payments. The Company also determined that royalties and sales milestones relate solely to the licenses of intellectual property and are therefore excluded from the transaction price under the sales- or usage-based royalty exception of ASC 606. Revenue related to these royalties and sales milestones will only be recognized when the associated sales occur, and relevant thresholds are met.

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As noted above, the Company identified three performance obligations in the GSK Agreement: (i) the delivery of the worldwide, exclusive, sublicensable license to develop, manufacture and commercialize the Licensed Antibodies; (ii) supply of Licensed Antibodies until an Investigational New Drug application is accepted by a regulatory authority; and (iii) transition services until an Investigational New Drug application is accepted by a regulatory authority. The selling price of each performance obligation in the GSK Agreement was determined based on the Company's standalone selling price, with the objective of determining the price at which it would sell such an item if it were to be sold regularly on a standalone basis. The Company recognizes revenue for the license performance obligation at a point in time, that is upon transfer of the license to GSK. As control of the license was transferred on the effective date of December 16, 2020 and GSK could begin to use and benefit from the license, the Company recognized $85,000 of license related revenue during the year ended December 31, 2020 under the GSK Agreement. The Company will recognize $4,952 and $990 allocated to the supply services and transition services over time. The Company transfers control of these services over time and GSK receives and consumes the benefit over time as the Company performs the services. During the three and nine months ended September 30, 2021, the Company recognized $48 and $709 of license related revenue, respectively, related to the transition services and recognized $344 and $1,823 of license related revenue, respectively, related to the supply services, which represents the costs incurred for the manufacturing and transition services that were performed.

The aggregate amount of the transaction price allocated to the performance obligations that is partially unsatisfied was $912. The Company expects to recognize the remaining revenue associated with the GSK Agreement in the year ending December 31, 2021. As of September 30, 2021, the Company did not have a contract liability associated with the GSK Agreement. The Company will re-evaluate the transaction price at the end of each reporting period and as uncertain events are resolved, or other changes in circumstances occur, adjust its estimate of the transaction price if necessary.

For the three and nine months ended September 30, 2021 and 2020, the Company recognized the following totals of license related revenue:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
License related revenue	$ 392	$ —	$ 2,532	$ —

6. Stockholders' Equity

Common Stock

As of September 30, 2021 and December 31, 2020, the Company's certificate of incorporation, as amended and restated, authorized the Company to issue 150,000,000 shares, of $0.0001 par value common stock.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, as may be declared by the board of directors, if any, subject to the preferential dividend rights of any outstanding preferred stock. No dividends have been declared or paid by the Company through September 30, 2021.

As of September 30, 2021 and December 31, 2020, the Company had reserved 33,878,328 and 22,728,991 shares, respectively, of common stock for the exercise of outstanding stock options, shares to be issued under the 2021 ATM Facility, shares to be issued upon the conversion of the Loan Agreement (as defined below), and the number of shares remaining available for future grant under the Company's 2018 Stock Option and Incentive Plan and 2018 Employee Stock Purchase Plan.

On May 1, 2019, the Company entered into the 2019 Sales Agreement with JonesTrading to issue and sell up to $30,000 in shares of the Company's common stock from time to time. In the nine months ended September 30, 2020, the Company sold 11,218,593 shares of common stock at-the-market under the 2019 Sales Agreement, resulting in net proceeds of approximately $29,086. The Company did not sell any shares of common stock at-the-market under the 2019 Sales Agreement in the three months ended September 30, 2020. Through September 30, 2020, the Company sold 11,229,174 shares of common stock at-the-market under the 2019 Sales Agreement for net proceeds of $29,110. As of June 30, 2020 the Company fully utilized and closed the 2019 ATM Facility.

In May 2020, the Company entered into the 2020 Sales Agreement with JonesTrading to issue and sell up to $50,000 in shares of the Company's common stock, from time to time. In the three and nine months ended September 30, 2021, the Company sold 69,785 and 2,303,545 shares of common stock at-the-market under the 2020 Sales Agreement, resulting in net proceeds of approximately $497 and $19,479, respectively. The Company did not sell any shares of common stock at-the-market under the 2020 Sales Agreement in 2020.

In August 2021, the Company entered into the Amended Sales Agreement with JonesTrading, which amends the 2020 Sales Agreement to allow the issuance and sale of up to $80,000 in shares of the Company's common stock, from time to time. The Company has not sold any shares of common stock at-the-market under the 2021 ATM Facility as of September 30, 2021.

7. Stock-Based Awards

2014 Stock Incentive Plan

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

As of December 31, 2018, all remaining shares available under the 2014 Plan were transferred to the Company’s 2018 Stock Option and Incentive Plan (the “2018 Plan”).

2018 Stock Option and Incentive Plan

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

As of September 30, 2021, 855,968 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.

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Stock Options

The following table summarizes the Company's stock option activity since December 31, 2020:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2020	6,011,126	$ 5.55	7.28	$ 24,912
Granted	1,725,605	9.24		
Exercised	(486,632)	3.99		
Forfeited	(242,848)	5.51		
Outstanding as of September 30, 2021	7,007,251	$ 6.57	7.17	$ 15,121
Options exercisable at September 30, 2021	4,427,353	$ 6.12	6.27	$ 11,324
Vested and expected to vest at September 30, 2021	7,007,251	$ 6.57	7.17	$ 15,121

The weighted average grant-date fair value per share of stock options granted during the nine months ended September 30, 2021 and year ended December 31, 2020 was $6.50 and $2.11, respectively.

As of September 30, 2021 and December 31, 2020, there were outstanding stock options held by non-employees for the purchase of 276,570 and 253,971 shares of common stock, respectively, with service-based vesting conditions.

2018 Employee Stock Purchase Plan

In April 2018, the Company's 2018 Employee Stock Purchase Plan (the "ESPP") was approved by its stockholders and became effective. A total of 256,818 shares of common stock were initially reserved for issuance under this plan. In addition, the number of shares of common stock that may be issued under the ESPP automatically increased on January 1, 2019, and shall increase each January 1 thereafter through January 1, 2028, by the lesser of (i) 1% of the number of shares of the Company's common stock outstanding on the immediately preceding December 31 and (ii) such lesser number of shares as determined by the administrator of the Company's ESPP. As of September 30, 2021, a total of 1,084,476 shares of common stock were reserved for issuance under this plan.

For the three and nine months ended September 30, 2021 and 2020, the Company issued 27,522 and 46,899, and 40,147 and 89,172 shares of common stock under the ESPP, respectively.

Restricted Stock Units

The Company has granted restricted stock units ("RSUs") with service-based vesting conditions. RSUs represent the right to receive shares of common stock upon meeting specified vesting requirements. Unvested shares of restricted common stock may not be sold or transferred by the holder. These restrictions lapse according to the service-based vesting conditions of each award. In 2020, the Company granted 1,071,400 RSUs that vest in full after eighteen-months as long as the individual remains an employee of the Company at such time.

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The table below summarizes the Company's restricted stock unit activity since December 31, 2020:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested restricted stock units as of December 31, 2020	1,043,300	$ 3.21
Granted	—	—
Vested	(997,400)	3.21
Forfeited	(45,900)	3.18
Unvested restricted stock units as of September 30, 2021	—	$ —

The expense related to RSUs granted to employees was $124 and $1,103, and $552 and $1,541 for the three and nine months ended September 30, 2021 and 2020, respectively.

Stock-Based Compensation

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Research and development expenses	$ 848	$ 709	$ 2,535	$ 2,134
General and administrative expenses	1,196	1,254	4,168	3,679
	$ 2,044	$ 1,963	$ 6,703	$ 5,813

Included in the stock compensation expense recognized during the three and nine months ended September 30, 2021 is $28 and $449 of stock-based compensation, respectively, resulting from modifications to previously issued stock option awards in connection with the transition of the Company's Chief Executive Officer to Chairman of the Board, which is recorded in general and administrative expense. As of September 30, 2021, the Company had an aggregate of $12,433 of unrecognized stock-based compensation cost, which is expected to be recognized over a weighted average period of 1.59 years.

8. Debt

On November 22, 2019, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with K2HV (the "Lender"). The Lender made available to the Company term loans in an aggregate principal amount of up to $25,000 under the Loan Agreement. The Company plans to use the proceeds of the term loans to support clinical development as well as for working capital and general corporate purposes. The Loan Agreement provides a term loan commitment of $25,000 in three potential tranches: (i) a $7,500 term loan facility funded on November 22, 2019 (the "First Tranche Term Loan"), (ii) a $10,000 term loan facility funded on June 5, 2020 (the "Second Tranche Term Loan"), and (iii) a $7,500 term loan facility (the "Third Tranche Term Loan"). All three of these term loans have a maturity date of December 1, 2023.

Borrowings under all three loan facilities bear interest at a floating per annum rate equal to the greater of (i) 8.65% and (ii) the Prime Rate plus 3.90%. The Company is permitted to make interest-only payments on the First Tranche Term Loan for the first eighteen months following the funding date. The interest-only period can be extended by an additional six months, subject to the funding of the Second Tranche Term Loan; and by an additional six months, subject to the funding of the Third Tranche Term Loan. The term of the combined facility will be 48 months, with repayment in monthly installments commencing at the end of the resulting interest-only period as outlined above through the end of the 48-month term.

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The Company is obligated to pay a final fee equal to 4.45% of the aggregate amount of the term loans funded, such payment to occur upon the earliest of (i) the maturity date, (ii) the acceleration of the term loans, and (iii) the prepayment of the term loans. The Company has the option to prepay all, but not less than all, of the outstanding principal balance of the term loans under the Loan Agreement. If the Company prepays all of the term loans prior to the maturity date, it will pay the Lender a prepayment penalty fee based on a percentage of the outstanding principal balance, equal to 5% if the payment occurs on or before 24 months after the initial funding date, 3% if the prepayment occurs more than 24 months after, but on or before 36 months after the initial funding date, or 1% if the prepayment occurs more than 36 months after the initial funding date.

The Lender may, at its option, elect to convert any portion of no more than $4,000 of the then outstanding term loan amount and all accrued and unpaid interest thereon into shares of the Company's common stock at a conversion price of $1.56 per share. The Company determined that the embedded conversion option is not required to be separated from the term loan. The embedded conversion option meets the derivative accounting scope exception since the embedded conversion option is indexed to the Company's own common stock and qualifies for classification within stockholders' equity. The Company recognized a beneficial conversion feature of $2,101, which represents the difference between the commitment date stock price of $2.33 per share and the conversion price of $1.56 per share. The beneficial conversion feature was recorded as a discount on the term loan and is accreted to interest expense using the effective interest method over the term of the loan. The effective interest rate of the term loan as of September 30, 2021 is 12.36%.

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

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

In June 2020, the Company drew down the Second Tranche Term Loan and received an additional $10,000 in proceeds. The Company is permitted to make interest-only payments on the First Tranche Term Loan and the Second Tranche Term Loan until January 2022 in accordance with the terms of the Loan Agreement.

In August 2020, the Lender elected to convert $2,000 of the outstanding term loan amount into 1,282,050 shares of the Company's common stock, in accordance with the Loan Agreement. In February 2021, the Lender elected to convert $1,500 of the outstanding term loan amount into 961,538 shares of the Company's common stock, in accordance with the Loan Agreement. The Company recognized $563 of interest expense in the nine months ended September 30, 2021 from accelerating amortization of the beneficial conversion feature and debt discount as a result of the conversion in February 2021. As of September 30, 2021, the outstanding principal balance was $14,000.

On October 1, 2021, the Company entered into a First Amendment to Loan and Security Agreement (the "Loan Amendment") with the Lender, which amends the existing Loan Agreement. Under the Loan Amendment, the Lender made available to the Company term loans in an aggregate principal amount of up to $50,000, in three potential tranches: (i) a $25,000 term loan facility (including refinancing of the Company's outstanding amounts under the Existing Loan Agreement) funded on October 1, 2021, (ii) up to a $15,000 term loan facility, and (iii) a $10,000 term loan facility. All three of these tranches have a maturity date of October 1, 2025.

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

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

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

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

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

The Company recorded interest expense related to the loan facility of $421 and $1,858, and $1,469 and $2,237 for the three and nine months ended September 30, 2021 and 2020, respectively. The fair value of the loan at September 30, 2021 approximates its face amount due to the floating interest rate.

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

	September 30, 2021
2021	$ —
2022	—
2023	3,739
2024	5,378
2025	4,883
Total principal payments	14,000
Final fee due at maturity in 2025	779
Total principal payments and final fee	14,779
Unamortized debt discount and final fee	(593)
Note payable	$ 14,186

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9. Net Loss per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Basic and diluted net loss per share attributable to common stockholders:				
Numerator:				
Net loss	$ (19,893)	$ (15,774)	$ (54,435)	$ (8,011)
Denominator:				
Weighted average common shares outstanding — basic and diluted	45,236,775	40,004,555	43,510,078	33,822,682
Net loss per share attributable to common stockholders — basic and diluted	$ (0.44)	$ (0.39)	$ (1.25)	$ (0.24)

The Company's potential dilutive securities have been excluded from the computation of diluted net loss per share for the three and nine months ended September 30, 2021, as the effect would be to reduce the net loss per share. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The Company excluded the following potential common shares, presented based on amounts outstanding at each period end, from the computation of diluted net loss per share attributable to common stockholders for the periods indicated above because including them would have had an anti-dilutive effect:

	September 30,	
	2021	2020
Stock options to purchase common stock	7,007,251	6,114,639
Shares to be issued under the 2018 ESPP	1,084,476	724,305
RSUs issued and expected to vest	—	1,051,900
Shares available from conversion of note payable	320,514	1,282,050
	8,412,241	9,172,894

10. Income Taxes

The Company did not provide for any income taxes for the three and nine months ended September 30, 2021 or 2020.

The Company has evaluated the positive and negative evidence bearing upon its ability to realize the deferred tax assets. Management has considered the Company's history of cumulative net losses incurred since inception and its lack of commercialization of any products or generation of any revenue from product sales since inception and has concluded that it is more likely than not that the Company will not realize the benefits of the deferred tax assets. Accordingly, a full valuation allowance has been established against the deferred tax assets as of September 30, 2021 and December 31, 2020. Management reevaluates the positive and negative evidence at each reporting period.

As of September 30, 2021 and December 31, 2020, the Company had no accrued interest or tax penalties recorded. The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal and state jurisdictions, where applicable. The Company's tax years are still open under statute from 2017 to present. All years may be examined to the extent the tax credit or net operating loss carryforwards are used in future periods. There are currently no federal or state audits.

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

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

11. Leases

Sublease Agreement with EQRx, Inc.

In the three and nine months ended September 30, 2021 and 2020, the Company recognized sublease income of $656 and $1,969, and $792 and $1,885, respectively.

As of September 30, 2021, future undiscounted cash inflows under the sublease are as follows:

Year Ending December 31,		
2021	$	709
2022		2,884
2023		241
	$	3,834

12. Commitments and Contingencies

Legal Proceedings

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

Adimab Development and Option Agreement

During the three and nine months ended September 30, 2021, the Company recognized research and development expense related to milestones achieved under the agreement of $1,500 and $3,000, respectively. During the nine months ended September 30, 2020, the Company recognized research and development expense related to milestones achieved under the agreement of $2,000. The Company did not recognize research and development expense related to milestones achieved under the agreement in the three months ended September 30, 2020.

13. Related Party Transactions

Novartis Institutes for BioMedical Research, Inc.

Novartis is a related party because it is a greater than 5% stockholder of the Company. In January 2016, the Company entered into the Novartis Agreement and sold 2,000,000 shares of its Series A-1 Preferred Stock to Novartis for gross proceeds of $13,500. In addition, concurrent with the Company's initial public offering of common stock, the Company issued Novartis 766,666 shares of its common stock at $15.00 per share, for proceeds of $11,500 in a private placement. The Company did not recognize any collaboration revenue - related party under the Novartis Agreement in the nine months ended September 30, 2021. The Company recognized $38,592 in collaboration revenue - related party in the nine months ended September 30, 2020. The Company did not recognize any collaboration revenue - related party under the Novartis Agreement in the three months ended September 30, 2021 or 2020. As of September 30, 2021 and 2020, no amounts were due from Novartis.

During the three and nine months ended September 30, 2021 and 2020, the Company made no cash payments to Novartis related to the Novartis Agreement.

Vaccinex, Inc.

On November 30, 2017, the Company entered into a research agreement (the "Vaccinex Research Agreement") with Vaccinex, Inc. ("Vaccinex"), pursuant to which Vaccinex used its technology to assist the Company with identifying and selecting experimental human monoclonal antibodies against targets selected by the Company. On March 23, 2021, the Company exercised its option under the Vaccinex Research Agreement to enter into an exclusive license agreement (the "Vaccinex License Agreement") to certain antibodies generated under the Vaccinex Research Agreement. The Company's Chairman of the Board and former Chief Executive Officer is a member of the board of directors of Vaccinex. During the nine

months ended September 30, 2021, the Company paid Vaccinex $850 relating to the Vaccinex License Agreement. The payment was recognized as research and development expense. Vaccinex is eligible to receive up to an aggregate of $3,500 based on achievement of certain clinical milestones and up to an aggregate of $11,500 based on achievement of certain regulatory milestones per Licensed Product. The Company also owes low single digit royalties on global net sales of any approved Licensed Products. The Company did not make any payments to Vaccinex under the License Agreement in the three months ended September 30, 2021 or the three and nine months ended September 30, 2020. During the three and nine months ended September 30, 2021 and 2020, the Company made no payments relating to the Vaccinex Research Agreement. The amount due by the Company to Vaccinex under the Vaccinex Research Agreement was $50 as of September 30, 2021 and 2020. There was no amount due by the Company to Vaccinex under the Vaccinex License Agreement as of September 30, 2021 or 2020.

14. Subsequent Events

On October 1, 2021, the Company entered into the Loan Amendment, which amends the existing Loan Agreement. Refer to Note 8 for further discussion of the terms of the Loan Amendment.

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, 2020 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission or SEC.

Overview

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

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

NZV930 (formerly SRF373) and SRF617 are antibodies inhibiting cluster of differentiation, or CD, 73 and CD39, respectively, and illustrate how our specialized knowledge of TME biology can be leveraged across programs. CD73 and CD39 are both critical enzymes involved in the production of extracellular adenosine, a key metabolite with strong immunosuppressive properties within the TME. NZV930 and SRF617 each aim to reduce the production of immunosuppressive adenosine, but target different points of the adenosine pathway. In addition to reducing the production of adenosine, we believe SRF617 will also stimulate anti-tumor immunity because of its ability to maintain levels of extracellular adenosine triphosphate, or ATP, a proinflammatory molecule. In June 2018, a Phase 1 trial of NZV930 was initiated by our partner, Novartis. We initiated a Phase 1/1b dose escalation trial of SRF617 in March 2020 and initiated combination cohorts of the ongoing trial in January 2021. SRF617 received Orphan Drug Designation from FDA for the treatment of pancreatic cancer in March 2021. In June 2021, we presented initial clinical data demonstrating SRF617's potential as a combination therapy.

SRF388 is an antibody targeting interleukin 27, or IL-27, an immunosuppressive cytokine, or protein secreted by cells, in the TME that is overexpressed in certain cancers, including hepatocellular, lung and renal cell carcinoma. Due to its immunosuppressive nature, there is a rationale for inhibiting IL-27 to treat cancer, as this approach will influence the activity of multiple types of immune cells that are necessary to recognize and attack a tumor. We initiated a Phase 1 dose escalation clinical trial of SRF388 in April 2020, and initiated expansion stages of the ongoing trial in June 2021. SRF388 received Orphan Drug Designation and Fast Track Designation from FDA for the treatment of hepatocellular carcinoma in November 2020. In June 2021, we presented initial clinical data at the American Society of Clinical Oncology Annual Meeting demonstrating monotherapy activity.

SRF813 is an antibody targeting CD112R, also known as PVRIG, an inhibitory protein expressed on natural killer, or NK, and T cells. SRF813 blocks the interaction of CD112R with CD112, its binding partner that is expressed on tumor cells. SRF813 can promote the activation of both NK and T cells, with potential to elicit a strong anti-tumor response and promote immunological memory. In October 2019, we formally declared SRF813 as a development candidate resulting in the initiation of IND-enabling activities. On December 16, 2020, we granted GSK, an exclusive license to worldwide development and commercialization rights of SRF813.

SRF114 is a highly specific antibody targeting CCR8, a chemokine receptor expressed on regulatory T cells, or Tregs, in the TME. SRF114 causes depletion of intra-tumoral Tregs, important regulators of immune suppression and tolerance, through antibody-dependent cellular cytotoxicity, or ADCC. In March 2021, we initiated IND-enabling activities for SRF114.

We expect that the unique insights generated in any one of our product programs will accelerate the development of the other programs in a synergistic fashion due to the interconnections between these TME pathways.

We were incorporated and commenced principal operations in 2014. We have devoted substantially all of our resources to developing our programs, including NZV930, SRF617, SRF388, SRF813, and SRF114, 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 public and private sales of our securities, payments received under the Novartis Agreement, payments received under the GSK Agreement and a debt financing. As of September 30, 2021, we had cash, cash equivalents and marketable securities of $149.7 million. Since our inception, we have incurred significant losses. Our ability to generate product revenue sufficient to achieve profitability will depend on the successful development and eventual commercialization of one or more of the product candidates we develop. Our net loss was $19.9 million and $54.4 million for the three and nine months ended September 30, 2021, respectively. Our net loss was $15.8 million and $8.0 million for the three and nine months ended September 30, 2020, respectively. As of September 30, 2021, we had an accumulated deficit of $116.7 million. We expect to continue to incur significant expenses and operating losses for at least the next several years, particularly as we:

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

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

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

We believe that our existing cash, cash equivalents and marketable securities, as of September 30, 2021 will enable us to fund our operating expenses, debt service obligations and capital expenditure requirements into 2023, excluding any future milestone payments from Novartis and GSK. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our available capital resources sooner than we expect.

We are monitoring the ongoing global outbreak and spread of the novel coronavirus disease, or COVID-19, and have taken steps to identify and mitigate the adverse impacts on, and risks to, our business posed by its spread and actions taken by governmental and health authorities to address the COVID-19 pandemic. Although COVID-19 has not had a material adverse impact on our operations and our clinical and preclinical programs, the extent to which COVID-19 ultimately impacts the Company's business, results of operations or financial condition will depend on future developments which are highly uncertain and cannot be predicted with confidence, such as the duration of the outbreak, new information that may emerge concerning the severity of COVID-19 or the effectiveness of actions taken to contain the pandemic or mitigate its impact, among others. Given the fluidity of the COVID-19 pandemic, however, we do not yet know the full extent of the potential impact of COVID-19 on our business operations. We will continue to monitor the situation closely.

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 Novartis Agreement and the GSK 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 Novartis Agreement and the GSK Agreement, as well as any additional collaborations or licenses that we may enter into in the future.

Novartis Agreement

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

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

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 Novartis Agreement. We recognize revenue using the cost-to-cost method, which we believe best depicts the transfer of control to the customer. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of actual costs incurred to the total estimated costs expected upon satisfying the identified performance obligation. Under this method, revenue is recorded as a percentage of the estimated transaction price based on the extent of progress towards completion.

Through September 30, 2021, we had received an aggregate of $150.0 million from Novartis in upfront payments, milestone payments, and option purchase payments. As of January 2020, we no longer have any performance obligations under the Novartis Agreement. We removed all costs associated with the remaining performance obligation for the single remaining Option from the cost-to-cost model in January 2020. This resulted in our recognizing the remaining deferred revenue of $38.6 million to collaboration revenue – related party in the first quarter of 2020. We did not recognize any collaboration revenue - related party in the three or nine months ended September 30, 2021.

GSK Agreement

In December 2020, we entered into the GSK Agreement, under which we granted GSK a worldwide, exclusive, sublicensable license to develop, manufacture and commercialize antibodies that target the antibody SRF813, targeting CD112R, also known as PVRIG, or the Licensed Antibodies. GSK will be responsible for the development, manufacturing and commercialization of the Licensed Antibodies and a joint development committee has been formed to facilitate information sharing between us and GSK. Under the terms of the GSK Agreement, GSK is obligated to use commercially reasonable efforts to develop and commercialize the Licensed Antibodies.

Under the terms of the agreement, as amended, GSK made a one-time upfront payment of $85.0 million and is required to make additional payments to us for supply services and transition services, estimated to be $5.0 million and $1.0 million, respectively. We are eligible to receive up to $90.0 million in clinical and $155.0 million in regulatory milestones. In addition, we may receive up to $485.0 million in sales milestone payments. We are also eligible to receive royalties on global net sales of any approved products based on the licensed antibodies, ranging in percentages from high single digits to mid-teens.

Under ASC 606 we account for (i) the delivery of the worldwide, exclusive, sublicensable license to develop, manufacture and commercialize the Licensed Antibodies; (ii) supply of Licensed Antibodies until an Investigational New Drug application is accepted by a regulatory authority; and (iii) transition services until an Investigational New Drug application is accepted by a regulatory authority as separate and distinct performance obligations. We determined the transaction price of the GSK Agreement, under ASC 606, to be $90.9 million, consisting of the upfront payment of $85.0 million plus $4.9 million for supply of the Licensed Antibodies and $1.0 million for the transition services. We recognized revenue for the license performance obligation at a point in time, that is upon transfer of the license to GSK. As control of the license was transferred on the effective date of December 16, 2020 and GSK could begin to use and benefit from the license, we recognized $85.0 million of license related revenue during the year ended December 31, 2020 under the GSK Agreement. We will recognize the $5.0 million and $1.0 million allocated to the supply services and transition services over time. We transfer control of these services over time and GSK receives and consumes the benefit over time as we perform the services. For the three months ended September 30, 2021, we recognized $0.3 million of license related revenue from the supply services and an immaterial amount of license related revenue from the transition services. For the nine months ended September 30, 2021, we recognized $0.7 million of license related revenue from transition services and $1.8 million of license related revenue from the supply services, which represents the costs incurred for the manufacturing and transition services that were performed.

Through September 30, 2021, we have received $85.0 million from GSK in upfront payments and $2.9 million in reimbursement for the transition and supply services.

Operating Expenses

Research and Development Expenses

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(in thousands)			
SRF388	$ 2,833	$ 1,225	$ 8,333	$ 4,142
SRF617	4,287	1,427	8,557	4,756
SRF813	399	1,724	2,147	4,383
SRF114	1,092	61	2,363	223
Other early-stage programs	300	120	419	772
Unallocated research and discovery expenses	5,126	4,897	15,431	16,014
Total research and development expenses	$ 14,037	$ 9,454	$ 37,250	$ 30,290

Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We anticipate that our research and development expenses will increase in the future as we anticipate incurring increased clinical development costs as we advance our SRF617 and SRF388 Phase 1 clinical trials as well as increased costs relating to the SRF114 program as we pursue IND-enabling activities.

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

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

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

General and Administrative Expenses

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

We anticipate that our general and administrative expenses will increase in the future as a result of incurring increased accounting, audit, legal, regulatory, compliance, and director and officer insurance costs as well as investor and public relations expenses associated with operating as a public company.

Interest and Other Income (Expense), Net

Interest and other income consist primarily of interest earned on our cash, cash equivalents, and marketable securities as well as interest expense incurred on our Loan and Security Agreement, the Loan Agreement with K2 Health Ventures LLC, or K2HV.

Results of Operations

Comparison of Three Months Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the three months ended September 30, 2021 and 2020, along with the changes in those items:

	Three months ended September 30,		
	2021	2020	2021 v 2020
	(in thousands)		
License related revenue	$ 392	$ —	$ 392
Operating expenses:			
Research and development	14,037	9,454	4,583
General and administrative	5,847	4,904	943
Total operating expenses	19,884	14,358	5,526
Loss from operations	(19,492)	(14,358)	(5,134)
Interest and other income (expense), net	(401)	(1,416)	1,015
Net loss	$ (19,893)	$ (15,774)	$ (4,119)

License Related Revenue

During the three months ended September 30, 2021, we recognized $0.3 million of license related revenue related to the supply services and an immaterial amount of license related revenue related to the transition services, which represents the costs incurred for the manufacturing and transition services that were performed. We did not recognize any license related revenue in the three months ended September 30, 2020.

Research and Development Expenses

The following table summarizes our research and development expenses for the three months ended September 30, 2021 and 2020, along with the changes in those items:

	Three months ended September 30,		
	2021	2020	2021 v 202
	(in thousands)		
Direct research and development expenses by program:			
SRF388	$ 2,833	$ 1,225	$
SRF617	4,287	1,427	
SRF813	399	1,724	
SRF114	1,092	61	
Other early-stage programs	300	120	
Research and discovery and unallocated expenses:			
Personnel related (including stock-based compensation)	3,272	3,337	
Facility related and other	1,854	1,560	
Total research and development expenses	$ 14,037	$ 9,454	$

Research and development expenses were $14.0 million for the three months ended September 30, 2021, compared to $9.5 million for the three months ended September 30, 2020. The increase of $4.6 million was primarily due to increases of $1.6 million in external costs for our SRF388 program, $2.9 million in external costs for our SRF617 program, $1.0 million in external costs for our SRF114 program, $0.2 million in external costs for our other early-stage programs and $0.2 million for research and discovery and unallocated costs, partially offset by a decrease of $1.3 million in external costs for our SRF813 program.

The increase in research and development expenses for our SRF388 program was primarily due to continued enrollment in our Phase 1 dose escalation trial and advancement into the expansion stages of the ongoing trial in 2021.

The increase in research and development expenses for our SRF617 program was primarily due to continued enrollment in our Phase 1/1b dose escalation trial and advancement into combination cohorts of the ongoing trial in 2021.

The increase in research and development expenses for our SRF114 program was primarily due to the initiation of IND-enabling activities in 2021.

The increase in research and discovery and unallocated expenses was primarily due to increased facility and lab costs in the third quarter of 2021 compared to the third quarter of 2020 as a result of reduced presence in the office due to safety concerns arising from the COVID-19 global pandemic in the third quarter of 2020.

The decrease in research and development expenses for our SRF813 program was primarily due to the transfer of responsibility for development of this program to GSK as part of the GSK Agreement signed in December 2020.

General and Administrative Expenses

General and administrative expenses were $5.8 million for the three months ended September 30, 2021, compared to $4.9 million for the three months ended September 30, 2020. The increase of $0.9 million was primarily due to increases in personnel and facility related costs.

Interest and Other Income (Expense), Net

Interest and other income (expense), net were approximately $(0.4) million and $(1.4) million during the three months ended September 30, 2021 and 2020, respectively, due primarily to interest expense related to the Loan Agreement with K2HV and interest income on invested balances of our cash, cash equivalents and marketable securities.

Comparison of Nine Months Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the nine months ended September 30, 2021 and 2020, along with the changes in those items:

	Nine months ended September 30,		
	2021	2020	2021 v 2020
		(in thousands)	
Collaboration revenue - related party	$ —	$ 38,592	$ (38,592)
License related revenue	2,532	—	2,532
Total revenue	$ 2,532	$ 38,592	$ (36,060)
Operating expenses:			
Research and development	37,250	30,290	6,960
General and administrative	17,923	14,686	3,237
Total operating expenses	55,173	44,976	10,197
Loss from operations	(52,641)	(6,384)	(46,257)
Interest and other income (expense), net	(1,794)	(1,627)	(167)
Net loss	$ (54,435)	$ (8,011)	$ (46,424)

Collaboration Revenue - Related Party

Collaboration revenue was $38.6 million for the nine months ended September 30, 2020, all of which was derived from the Novartis Agreement. In January 2020 our performance obligations under the Novartis Agreement ended and we removed all costs from the cost-to-cost model. This resulted in the recognition of the remaining deferred revenue of $38.6 million to collaboration revenue – related party in the first quarter of 2020. We did not recognize any collaboration revenue - related party in the nine months ended September 30, 2021.

License Related Revenue

During the nine months ended September 30, 2021, we recognized $1.8 million and $0.7 million of license related revenue related to the supply services and transition services, respectively, which represents the costs incurred for the manufacturing and transition services that were performed. We did not recognize any license related revenue in the nine months ended September 30, 2020.

Research and Development Expenses

The following table summarizes our research and development expenses for the nine months ended September 30, 2021 and 2020, along with the changes in those items:

	Nine months ended September 30,		
	2021	2020	2021 v 2020
		(in thousands)	
Direct research and development expenses by program:			
SRF388	$ 8,333	$ 4,142	$ 4,191
SRF617	8,557	4,756	3,801
SRF813	2,147	4,383	(2,236)
SRF114	2,363	223	2,140
Other early-stage programs	419	772	(353)
Research and discovery and unallocated expenses:			
Personnel related (including stock-based compensation)	10,217	11,509	(1,292)
Facility related and other	5,214	4,505	709
Total research and development expenses	$ 37,250	$ 30,290	$ 6,960

Research and development expenses were $37.3 million for the nine months ended September 30, 2021, compared to $30.3 million for the nine months ended September 30, 2020. The increase of $7.0 million was primarily due to increases of $4.2 million in external costs for our SRF388 program, $3.8 million in external costs for our SRF617 program and $2.1 million in external costs for our SRF114 program, which were partially offset by decreases of $0.6 million for research and discovery and unallocated costs, $0.4 million in external costs for our other early-stage programs and $2.2 million in external costs for our SRF813 program.

The increase in research and development expenses for our SRF388 program was primarily due to continued enrollment in our Phase 1 dose escalation trial and advancement into the expansion stages of the ongoing trial in 2021.

The increase in research and development expenses for our SRF617 program was primarily due to continued enrollment in our Phase 1/1b doss escalation trial and advancement into combination cohorts of the ongoing trial in 2021.

The increase in research and development expenses for our SRF114 program was primarily due to the initiation of IND-enabling activities in the first quarter of 2021.

The decrease in research and discovery and unallocated expenses was primarily due to the reduction in severance expense incurred in 2020 as a result of the strategic restructuring announced in January 2020.

The decrease in research and development expenses for our SRF813 program was primarily due to the transfer of responsibility for development of the program to GSK as part of the GSK Agreement signed in December 2020.

General and Administrative Expenses

General and administrative expenses were $17.9 million for the nine months ended September 30, 2021, compared to $14.7 million for the nine months ended September 30, 2020. The increase of $3.2 million was primarily due to increases in personnel and facility related costs, including $0.4 million of stock-based compensation resulting from modifications to previously issued stock option awards in connection with the transition of our Chief Executive Officer to Chairman of the Board.

Interest and Other Income (Expense), Net

Interest and other income (expense), net were approximately $(1.8) million and $(1.6) million during the nine months ended September 30, 2021 and 2020, respectively, due primarily to interest expense related to the Loan Agreement with K2HV and interest income on invested balances of our cash, cash equivalents and marketable securities.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating losses. We have generated limited revenue to date from the Novartis Agreement and the GSK Agreement. We have not yet commercialized any product and we do not expect to generate revenue from sales of any products for several years, if at all. To date, we have financed our operations with proceeds from public and private sales of our securities, payments received under the Novartis Agreement, payments received under the GSK Agreement and a debt financing. Through September 30, 2021, we had received gross proceeds of $216.7 million from public and private sales of our securities, $17.5 million from our Loan Agreement with K2HV, $87.9 million from the GSK Agreement and $150.0 million from the Novartis Agreement.

In May 2019, we entered into the 2019 Sales Agreement, with JonesTrading to issue and sell up to $30.0 million in shares of our common stock, from time to time. As of June 30, 2020, we sold 11,229,174 shares of common stock at-the-market under the 2019 Sales Agreement for net proceeds of $29.1 million, and had fully utilized and closed the 2019 ATM Facility.

In May 2020, we entered into the 2020 Sales Agreement, with JonesTrading to issue and sell up to $50.0 million in shares of our common stock, from time to time. Through September 30, 2021, we sold 2,303,545 shares of common stock at-the-market under the 2020 Sales Agreement for net proceeds of $19.5 million.

In August 2021, the Company entered into the Amended Sales Agreement with JonesTrading, which amends the 2020 Sales Agreement to allow the issuance and sale of up to $80 million in shares of the Company's common stock, from time to time. The Company did not sell any shares of common stock at-the-market under the Amended Sales Agreement in the three or nine months ended September 30, 2021.

As of September 30, 2021, we had cash, cash equivalents and marketable securities of $149.7 million.

Future Funding Requirements

We expect our expenses will increase in the future as we anticipate incurring increased clinical development costs as we advance our SRF617 and SRF388 Phase 1 clinical trials as well as increased costs relating to the SRF114 program as we pursue IND-enabling activities. Additionally, we expect to continue to incur additional costs associated with operating as a public company.

We believe that our existing cash, cash equivalents, and marketable securities, as of November 4, 2021, will enable us to fund our operating expenses, debt service obligations and capital expenditure requirements into 2023, excluding any future milestone payments from Novartis and GSK. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our capital resources sooner than we expect.

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

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

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

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

Until such time, if ever, that we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity or debt financings and collaboration arrangements. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interests of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. If we raise additional funds through the issuance of debt securities, these securities could contain covenants that would restrict our operations. We may require additional capital beyond our currently anticipated amounts. Additional capital may not be available on reasonable terms, or at all. If we raise additional funds through collaboration arrangements in the future, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates, or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate development or future commercialization efforts.

Cash Flows

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

	Nine months ended September 30,	
	2021	2020
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ (46,487)	$ (42,312)
Investing activities	(89,491)	55,328
Financing activities	21,685	39,695
Net increase (decrease) in cash and cash equivalents and restricted cash	$ (114,293)	$ 52,711

Operating Activities

During the nine months ended September 30, 2021, net cash used in operating activities was $46.5 million, primarily due to a net loss of $54.4 million and changes in our operating assets and liabilities of $3.0 million, partially offset by non-cash charges of $10.9 million. Net cash used in changes in our operating assets and liabilities for the nine months ended September 30, 2021 consisted primarily of a $0.5 million decrease in accrued expenses and other current liabilities, a $1.2 million decrease in accounts payable and a decrease of 1.6 million in our operating lease liability. This was offset by an increase of $0.3 million in prepaid expenses and other current assets. The decrease in accrued expenses and other current liabilities is primarily due to the decrease in accrued bonus and contract manufacturing costs, the decrease in our operating lease liability is a result of rental payment made on our operating leases, and the decrease in accounts payable is a result of timing of payments. The increase in prepaid expenses and other current assets is primarily due to receivables from GSK related to reimbursement for the supply and transition services performed.

During the nine months ended September 30, 2020, net cash used in operating activities was $42.3 million, primarily due a net loss of $8.0 million and changes in our operating assets and liabilities of $44.3 million, partially offset by non-cash charges of $10.1 million. Net cash used in changes in our operating assets and liabilities for the nine months ended September 30, 2020 consisted primarily of a $38.6 million decrease in deferred revenue-related party, a $1.3 million decrease in accrued expenses and other current liabilities, a $2.9 million decrease in accounts payable, a $1.1 million increase in other liabilities, and an increase of $2.4 million in prepaid expenses and other current assets. The decrease in deferred revenue-related party was due to the recognition of $38.6 million in revenue in 2020 due to the removal of all future costs in the cost-to-cost model as a result of Novartis' decision not to purchase and exercise the single remaining Option under the Collaboration Agreement prior to it expiring in January 2020. The increase in other liabilities represents a commercial option fee which we incurred under the agreement with Adimab LLC in January 2020, but is not payable within twelve months of the balance sheet date. The decrease in accounts payable and accrued expenses is a result of the strategic restructuring announced in January 2020.

Investing Activities

During the nine months ended September 30, 2021, net cash used in investing activities was $89.5 million related to the net purchases of marketable securities.

During the nine months ended September 30, 2020, net cash provided by investing activities was $55.3 million, primarily due to $56.0 million of proceeds from sales or maturities of marketable securities partially offset by purchases of marketable securities of $0.7 million.

Financing Activities

During the nine months ended September 30, 2021, net cash provided by financing activities was $21.7 million, consisting of proceeds of $19.5 million received from issuance of our shares of common stock at-the-market under the 2020 Sales Agreement, proceeds of $0.3 million received from the issuance of shares under our 2018 Employee Stock Purchase Plan, and proceeds of $1.9 million from the exercise of options to purchase common stock.

During the nine months ended September 30, 2020, net cash provided by financing activities was $39.7 million, consisting of proceeds of $29.1 million received from issuance of our shares of common stock at-the-market under the 2019 Sales Agreement, proceeds from the issuance of the second tranche of our convertible note payable of $10.0 million, and proceeds of $0.4 million from the exercise of options to purchase common stock.

Contractual Obligations

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

During the nine months ended September 30, 2021, there were no material changes, to our contractual obligations and commitments from those described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations and Commitments” in our Annual Report on Form 10-K filed with the SEC on March 9, 2021.

Critical Accounting Policies and Significant Judgments and Estimates

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

Our critical accounting policies and the methodologies and assumptions we apply under them have not materially changed since our Annual Report on Form 10-K filed with the SEC on March 9, 2021.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

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

Emerging Growth Company and Smaller Reporting 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.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our cash, cash equivalents and marketable securities as of September 30, 2021 consisted of cash, a money market fund invested primarily in short-term U.S. Treasury obligations and U.S. government agency 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. Controls and Procedures

Limitations on Effectiveness of Controls and Procedures

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

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

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934). Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2021.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has occurred during the three months ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

In October 2020, we filed an opposition in the European Patent Office, or EPO, opposing the grant of European Patent No. EP 3258951B1 to Compugen, Ltd., or the Compugen Patent. We are one of two parties opposing the grant of the Compugen Patent, which relates generally to PVRIG (an alternate name for CD112R) antibodies for use in treating cancer. The proprietor's response to the statements of opposition was filed on March 22, 2021; we are currently awaiting a summons to oral proceedings. Accordingly, final resolution of the opposition may be several years in the future.

In June 2021, we filed an opposition in the European Patent Office, or EPO, opposing the grant of European Patent No. EP 3153526B1 to INSERM (Institut National de la Santé et de la Recherche Médicale), or the INSERM Patent. We are one of four parties opposing the grant of the INSERM Patent, which relates generally to pharmaceutical compositions comprising anti-CD39 antibodies which inhibit activity of regulatory T cells (Treg) for use in the treatment or prevention of cancers. We currently await the proprietor's response to the statements of opposition and subsequently a summons to oral proceedings. Accordingly, final resolution of the opposition may be several years in the future.

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

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A ("Risk Factors") of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

Exhibit Number	Description
10.1	Amendment No. 1, to the Capital on DemandTM Sales Agreement, dated as of August 5, 2021, by and between Surface Oncology, Inc. and JonesTrading Institutional Services LLC (incorporated by reference to Exhibit 1.1 to the Company's Quarterly Report on Form 10-Q filed on August 5, 2021 (File No. 001-38459)).
10.2 †	Amendment No. 1, dated as of August 11, 2021, to License Agreement, dated as of December 16, 2020, by and between Surface Oncology, In.c and GLAXOSMITHKLINE INTELLECTUAL PROPERTY (No. 4) LIMITED.
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial and Accounting Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

† Certain confidential portions (indicated by brackets and asterisks) have been omitted from this exhibit because they are both (i) not material and (ii) the type that the registrant treats as private or confidential, in accordance with the rules of the Securities and Exchange Commission.

SIGNATURES

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

Surface Oncology, Inc.

Date: November 4, 2021 By: /s/ Robert W. Ross, M.D.

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

Date: November 4, 2021 By: /s/ Jessica Fees

Jessica Fees
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 10.2

AMENDMENT NO. 1 TO LICENSE AGREEMENT

This Amendment No. 1 ("**Amendment No. 1**") to the License Agreement dated December 20, 2020 between GlaxoSmithKline Intellectual Property (No. 4) Limited, having a principal place of business at 980 Great West Road, Brentford, Middlesex TW8 9GS United Kingdom ("**GSK**") and Surface Oncology, Inc., having a place of business at 50 Hampshire Street, Cambridge MA 02139 ("**Surface**") is effective as of August 11, 2021 ("**Amendment Effective Date**"). Each of GSK and Surface may be referred to herein as a "**Party**" and together, the "**Parties**".

RECITALS

WHEREAS, GSK and Surface desire to amend the Transition Plan as set forth on Exhibit C hereto, in accordance with Section 15.6.

NOW THEREFORE, in consideration of the premises and the mutual promises and conditions hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, do hereby agree as follows:

1. Definitions. Capitalized terms used but not defined herein shall have the meaning set forth in the Agreement.

2. Transition Plan. The Parties agree to amend the Transition Plan as attached hereto as Exhibit C in order to permit Surface to order [***] of Licensed Product from the Existing CMO for transfer to GSK, as described in more detail in the Transition Plan. The Transition Plan sets forth the additional Transition Costs to be reimbursed to Surface by GSK in connection with the Manufacture of [***] of Licensed Product in accordance with Section 3.4 of the Agreement. Further, the Parties acknowledge and agree that [***] in accordance with the Transition Plan.

IN WITNESS WHEREOF, each Party has caused this Amendment No. 1 to be duly executed by its authorized representative on the Amendment Effective Date.

SURFACE ONCOLOGY, INC.

/s/ Robert Ross
Name: Robert Ross, MD
Title: President and CEO

/s/ Jessica Fees
Name: Jessica Fees
Title: Chief Financial Officer

GLAXOSMITHKLINE INTELLECTUAL PROPERTY NO. 4 LIMITED

/s/ John Sadler
NAME: JOHN SADLER
AUTHORISED SIGNATORY
FOR AND ON BEHALF OF
THE WELLCOME FOUNDATION LIMITED
CORPORATE DIRECTOR

/s/ Claire MacLeod
NAME: CLAIRE MACLEOD
AUTHORISED SIGNATORY
FOR AND ON BEHALF OF
EDINBURGH PHARMACEUTICAL INDUSTRIES LIMITED
CORPORATE DIRECTOR

DATE: 18TH AUGUST 2021

EXHIBIT C TRANSITION PLAN

[***]

ACTIVE/113088899.2

Exhibit 31.1

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

I, Robert W. Ross, M.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Surface Oncology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

    d. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 4, 2021

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

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

Exhibit 31.2

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

I, Jessica Fees, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Surface Oncology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

    d. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Jessica Fees

Jessica Fees
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Surface Oncology, Inc. (the "Company") for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert W. Ross, M.D., Chief Executive Officer of the Company, hereby certifies, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that to his knowledge:

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

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

Date: November 4, 2021

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

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Surface Oncology, Inc. (the "Company") for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jessica Fees, Chief Financial Officer of the Company, hereby certifies, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that to his knowledge:

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

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

Date: November 4, 2021

/s/ Jessica Fees

Jessica Fees
Chief Financial Officer
(Principal Financial and Accounting Officer)

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