
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-38796

GOSSAMER BIO, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

47-5461709
(I.R.S. Employer
Identification No.)

3013 Science Park Road
San Diego, California
(Address of principal executive offices)

92121
(Zip Code)

Registrant's telephone number, including area code: (858) 684-1300

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	GOSS	Nasdaq Global Select 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, a 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer		Smaller reporting company	<input type="checkbox"/>
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 Exchange Act). YES NO

As of November 6, 2019, the registrant had 66,038,122 shares of common stock (\$0.0001 par value) outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

GOSSAMER BIO, INC.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands, except share and par value amounts)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 130,708	\$ 105,219
Marketable securities	315,764	123,439
Restricted cash	—	200
Prepaid expenses and other current assets	5,902	3,095
Total current assets	<u>452,374</u>	<u>231,953</u>
Property and equipment, net	5,133	3,193
Operating lease right-of-use assets	10,860	—
Other assets	1,387	4,273
Total assets	<u>\$ 469,754</u>	<u>\$ 239,419</u>
LIABILITIES, CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	\$ 2,555	\$ 2,182
Accrued research and development expenses	19,171	10,653
Accrued expenses	11,443	7,568
Total current liabilities	<u>33,169</u>	<u>20,403</u>
Long-term debt	28,370	—
Operating lease liabilities	9,342	—
Accrued expenses - long-term	—	718
Total liabilities	<u>70,881</u>	<u>21,121</u>
Commitments and contingencies		
Series Seed convertible preferred stock, \$0.0001 par value; no shares issued and outstanding as of September 30, 2019 and 20,000,000 shares issued and outstanding as of December 31, 2018; liquidation preference of \$0 and \$20,000 as of September 30, 2019 and December 31, 2018, respectively	—	29,200
Series A convertible preferred stock, \$0.0001 par value; no shares issued and outstanding as of September 30, 2019 and 45,714,286 shares issued and outstanding as of December 31, 2018; liquidation preference of \$0 and \$80,000 as of September 30, 2019 and December 31, 2018, respectively	—	79,615
Series B convertible preferred stock, \$0.0001 par value; no shares issued and outstanding as of September 30, 2019 and 71,506,513 shares issued and outstanding as of December 31, 2018; liquidation preference of \$0 and \$230,000 as of September 30, 2019 and December 31, 2018, respectively	—	229,552
Stockholders' equity (deficit)		
Common stock, \$0.0001 par value; 700,000,000 shares authorized as of September 30, 2019 and 49,160,177 shares authorized as of December 31, 2018; 66,038,122 shares issued and 60,984,958 shares outstanding as of September 30, 2019, and 15,533,450 shares issued and 8,051,418 shares outstanding as of December 31, 2018	7	2
Additional paid-in capital	678,010	33,853
Accumulated deficit	(279,472)	(153,863)
Accumulated other comprehensive income (loss)	328	(61)
Total stockholders' equity (deficit)	<u>398,873</u>	<u>(120,069)</u>
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	<u>\$ 469,754</u>	<u>\$ 239,419</u>

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

GOSSAMER BIO, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(in thousands, except share and per share amounts)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Operating expenses:				
Research and development	\$ 40,148	\$ 18,857	\$ 100,807	\$ 29,411
In process research and development	—	8,261	2,000	49,659
General and administrative	9,838	22,906	27,544	30,116
Total operating expenses	<u>49,986</u>	<u>50,024</u>	<u>130,351</u>	<u>109,186</u>
Loss from operations	<u>(49,986)</u>	<u>(50,024)</u>	<u>(130,351)</u>	<u>(109,186)</u>
Other income, net	1,486	622	4,742	1,011
Net loss	<u>\$ (48,500)</u>	<u>\$ (49,402)</u>	<u>\$ (125,609)</u>	<u>\$ (108,175)</u>
Other comprehensive income:				
Unrealized gain (loss) on marketable securities, net of tax	(168)	232	389	235
Other comprehensive income (loss)	(168)	232	389	235
Comprehensive loss	<u>(48,668)</u>	<u>(49,170)</u>	<u>(125,220)</u>	<u>(107,940)</u>
Net loss per share, basic and diluted	<u>\$ (0.80)</u>	<u>\$ (7.69)</u>	<u>\$ (2.39)</u>	<u>\$ (17.64)</u>
Weighted average common shares outstanding, basic and diluted	<u>60,755,872</u>	<u>6,423,397</u>	<u>52,535,569</u>	<u>6,133,911</u>

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

GOSSAMER BIO, INC.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
(Unaudited)
(in thousands, except share amounts)

	Series Seed convertible preferred stock		Series A convertible preferred stock		Series B convertible preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of December 31, 2018	20,000,000	\$ 29,200	45,714,286	\$ 79,615	71,506,513	\$ 229,552	8,051,418	\$ 2	\$ 33,853	\$ (153,863)	\$ (61)	\$ (120,069)
Issuance of common stock in connection with a public offering, net of underwriting discounts, commissions, and offering costs	—	—	—	—	—	—	19,837,500	2	291,342	—	—	291,344
Conversion of convertible preferred stock into common stock	(20,000,000)	(29,200)	(45,714,286)	(79,615)	(71,506,513)	(229,552)	30,493,460	3	338,364	—	—	338,367
Vesting of restricted stock	—	—	—	—	—	—	1,619,592	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	27,500	—	3,089	—	—	3,089
Net loss	—	—	—	—	—	—	—	—	—	(32,611)	—	(32,611)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	140	140
Balance as of March 31, 2019	—	\$ —	—	\$ —	—	\$ —	60,029,470	\$ 7	\$ 666,648	\$ (186,474)	\$ 79	\$ 480,260
Vesting of restricted stock	—	—	—	—	—	—	404,637	—	—	—	—	—
Exercise of stock options	—	—	—	—	—	—	33,273	—	86	—	—	86
Stock-based compensation	—	—	—	—	—	—	—	—	5,140	—	—	5,140
Other additional paid-in capital	—	—	—	—	—	—	—	—	39	—	—	39
Net loss	—	—	—	—	—	—	—	—	—	(44,498)	—	(44,498)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	417	417
Balance as of June 30, 2019	—	\$ —	—	\$ —	—	\$ —	60,467,380	\$ 7	\$ 671,913	\$ (230,972)	\$ 496	\$ 441,444
Vesting of restricted stock	—	—	—	—	—	—	404,639	—	—	—	—	—
Exercise of stock options	—	—	—	—	—	—	112,939	—	369	—	—	369
Stock-based compensation	—	—	—	—	—	—	—	—	5,728	—	—	5,728
Net loss	—	—	—	—	—	—	—	—	—	(48,500)	—	(48,500)
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—	—	(168)	(168)
Balance as of September 30, 2019	—	\$ —	—	\$ —	—	\$ —	60,984,958	\$ 7	\$ 678,010	\$ (279,472)	\$ 328	\$ 398,873

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

	Series Seed convertible preferred stock		Series A convertible preferred stock		Series B convertible preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
		\$		\$		\$		\$				
Balance as of December 31, 2017	—	\$ —	—	\$ —	—	\$ —	9,160,888	\$ —	\$ 32	\$ (6,894)	\$ —	\$ (6,862)
Issuance of Series A preferred stock for cash, net of \$0.4 million in offering costs	—	—	41,328,286	71,944	—	—	—	—	—	—	—	—
Issuance of stock for acquisition	20,000,000	29,200	—	—	—	—	1,101,278	1	2,874	—	—	2,875
Issuance of Series A preferred stock to convert debt and accrued interest	—	—	3,499,209	6,124	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	605	—	—	605
Incremental vesting conditions placed on previously issued common shares	—	—	—	—	—	—	(4,580,444)	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	(26,037)	—	(26,037)
Balance as of March 31, 2018	20,000,000	\$ 29,200	44,827,495	\$ 78,068	—	\$ —	5,681,722	\$ 1	\$ 3,511	\$ (32,931)	\$ —	\$ (29,419)
Issuance of Series A preferred stock to convert debt and accrued interest	—	—	886,791	1,547	—	—	—	—	—	—	—	—
Vesting of restricted stock	—	—	—	—	—	—	251,542	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	1,374	—	—	1,374
Net loss	—	—	—	—	—	—	—	—	—	(32,736)	—	(32,736)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	3	3
Balance as of June 30, 2018	20,000,000	\$ 29,200	45,714,286	\$ 79,615	—	\$ —	5,933,264	\$ 1	\$ 4,885	\$ (65,667)	\$ 3	\$ (60,778)
Issuance of Series B preferred stock for cash, net of \$0.5 million in offering costs	—	—	—	—	71,506,513	229,552	—	—	—	—	—	—
Vesting of restricted stock	—	—	—	—	—	—	1,800,581	1	—	—	—	1
Stock-based compensation	—	—	—	—	—	—	—	—	18,169	—	—	18,169
Net loss	—	—	—	—	—	—	—	—	—	(49,402)	—	(49,402)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	232	232
Balance as of September 30, 2018	20,000,000	\$ 29,200	45,714,286	\$ 79,615	71,506,513	\$ 229,552	7,733,845	\$ 2	\$ 23,054	\$ (115,069)	\$ 235	\$ (91,778)

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

GOSSAMER BIO, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Net loss	\$ (125,609)	\$ (108,175)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	625	163
Stock-based compensation expense	13,957	20,148
In process research and development expenses	2,000	49,659
Amortization of long-term debt discount and issuance costs	148	—
Amortization of premium on investments, net of accretion of discounts	(2,296)	—
Net realized gain on investments	(1)	—
Changes in operating assets and liabilities:		
Operating lease right of use assets and liabilities, net	49	—
Prepaid expenses and other current assets	(2,807)	(1,442)
Other assets	2,886	(823)
Accounts payable	333	3,525
Accrued expenses	(760)	3,263
Accrued research and development expenses	8,518	7,778
Accrued compensation and benefits	2,263	—
Accrued interest expense	—	(117)
Net cash used in operating activities	<u>(100,694)</u>	<u>(26,021)</u>
Cash flows from investing activities		
Research and development asset acquisitions, net of cash acquired	(2,000)	(17,721)
Purchase of investments	(399,393)	(115,141)
Maturities of investments	205,750	—
Sales of investments	4,004	—
Purchase of property and equipment	<u>(2,438)</u>	<u>(3,168)</u>
Net cash used in investing activities	<u>(194,077)</u>	<u>(136,030)</u>
Cash flows from financing activities		
Proceeds from issuance of common stock in a public offering, net	291,311	—
Proceeds from the issuance of long-term debt, net of issuance costs of \$1,778	28,222	—
Proceeds from the exercise of stock options	527	—
Proceeds from issuance of Series A convertible preferred stock, net	—	73,491
Proceeds from issuance of Series B convertible preferred stock, net	—	229,552
Repayment of notes payable to related parties	<u>—</u>	<u>(40)</u>
Net cash provided by financing activities	<u>320,060</u>	<u>303,003</u>
Net increase in cash, cash equivalents and restricted cash	25,289	140,952
Cash, cash equivalents and restricted cash, at the beginning of the period	105,419	315
Cash, cash equivalents and restricted cash, at the end of the period	<u>\$ 130,708</u>	<u>\$ 141,267</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 854</u>	<u>\$ —</u>
Supplemental disclosure of noncash investing and financing activities:		
Acquisition of in-process research and development through issuance of stock	<u>\$ —</u>	<u>\$ 19,284</u>
Issuance of Series A convertible preferred stock to convert debt and accrued interest	<u>\$ —</u>	<u>\$ 6,124</u>
Recognition of operating lease right of use asset	<u>\$ 12,458</u>	<u>\$ —</u>
Recognition of operating lease liabilities	<u>\$ 13,182</u>	<u>\$ —</u>
Conversion of convertible preferred stock to common stock	<u>\$ 338,367</u>	<u>\$ —</u>
Change in unrealized gain on marketable securities, net of tax	<u>\$ 510</u>	<u>\$ 235</u>
Change in unrealized loss on foreign currency translations, net of tax	<u>\$ 121</u>	<u>\$ —</u>
Unpaid property and equipment	<u>\$ 127</u>	<u>\$ —</u>

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

GOSSAMER BIO, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of the Business

Gossamer Bio, Inc. (including its subsidiaries, referred to as “we,” “us,” “our,” or the “Company”) is a clinical-stage biopharmaceutical company focused on discovering, acquiring, developing and commercializing therapeutics in the disease areas of immunology, inflammation and oncology. The Company was incorporated in the state of Delaware on October 25, 2015 (originally as FSG Bio, Inc.) and is based in San Diego, California.

The condensed consolidated financial statements include the accounts of Gossamer Bio, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions among the consolidated entity have been eliminated in consolidation.

Initial Public Offering in February 2019

On February 12, 2019, the Company completed its initial public offering (“IPO”) with the sale of 19,837,500 shares of common stock, including shares of common stock issued upon the exercise in full of the underwriters’ option to purchase additional shares, at a public offering price of \$16.00 per share, resulting in net proceeds of \$291.3 million, after deducting underwriting discounts, commissions, and offering expenses.

In addition, in connection with the completion of the IPO, all of the Company’s outstanding shares of convertible preferred stock were automatically converted into 30,493,460 shares of common stock.

Liquidity and Capital Resources

The Company has incurred significant operating losses since its inception. As of September 30, 2019, the Company had an accumulated deficit of \$279.5 million. From the Company’s inception through September 30, 2019, the Company has funded its operations primarily through equity financings, including the Company’s IPO which closed on February 12, 2019. The Company raised \$601.3 million from October 2017 through March 2019 through Series A and Series B Convertible Preferred Stock financings, a convertible note financing, and the IPO, after deducting underwriting discounts, commissions, and offering expenses. In addition, the Company received \$12.8 million in cash in connection with the January 2018 acquisition of AA Biopharma Inc. On May 2, 2019 the Company, as guarantor, and its wholly-owned subsidiary GB001, Inc., as borrower, entered into a credit, guaranty and security agreement, as amended on September 18, 2019, (the “Credit Facility”) with MidCap Financial Trust (“MidCap”), an agent and as a lender, and the additional lenders party thereto from time to time (together with MidCap, the “Lenders”), pursuant to which the Lenders, including affiliates of MidCap and Silicon Valley Bank agreed to make term loans available to the Company for working capital and general business purposes, in a principal amount of up to \$150.0 million in term loan commitments, including a \$30.0 million term loan that was funded at the closing date. Under the Credit Facility, the Company has the ability to access the remaining \$120.0 million in three additional tranches (of \$40.0 million, \$30.0 million and \$50.0 million, respectively), subject to specified availability periods, the achievement of certain clinical development milestones, minimum cash requirements and other customary conditions. As of September 30, 2019, no other tranches under the Credit Facility have been drawn. See Note 5 for additional information regarding the Credit Facility.

The Company expects to continue to incur significant operating losses for the foreseeable future and may never become profitable. As a result, the Company will need to raise capital through equity offerings, debt financings other capital sources, including potential collaborations, licenses and other similar arrangements. Management believes that it has sufficient working capital on hand to fund operations through at least the next twelve months from the date these condensed consolidated financial statements were available to be issued. There can be no assurance that the Company will be successful in acquiring additional funding, that the Company’s projections of its future working capital needs will prove accurate, or that any additional funding would be sufficient to continue operations in future years.

Subsequent Events

The Company has evaluated subsequent events through November 12, 2019, the issuance date of the condensed consolidated financial statements, and has determined that there were no material subsequent events to recognize or disclose.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions of the Securities and Exchange Commission (“SEC”) on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In the opinion of management, the condensed consolidated financial statements include all adjustments necessary, which are of a normal and recurring nature, for the fair presentation of the Company’s financial position and of the results of operations and cash flows for the periods presented. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2018 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 22, 2019. The results of operations for the interim period shown in this report are not necessarily indicative of the results that may be expected for any other interim period or for the full year. The balance sheet at December 31, 2018, has been derived from the audited financial statements at that date.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of expenses during the reporting period. The most significant estimates in the Company’s condensed consolidated financial statements relate to accrued research and development expenses, the valuation of preferred and common stock, the valuation of stock options and the valuation allowance of deferred tax assets resulting from net operating losses. These estimates and assumptions are based on current facts, historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

The Company adopted Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (Topic 842) (commonly referred to as Accounting Standards Codification (“ASC”) 842), as of January 1, 2019, using the optional transition method. The optional transition method provides a method for recording existing leases at adoption and a cumulative catch up adjustment on January 1, 2019 for any differences between ASC 842 and the legacy guidance provided in ASC 840, *Leases* that would have impacted our income statement. No retrospective restatements are required under the optional transition method. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. The Company also applied the short-term lease recognition exemption for leases with terms at inception not greater than 12 months.

Adoption of the new standard resulted in the recording of additional operating lease right-of-use assets and operating lease liabilities of approximately \$12.5 million and \$13.2 million, respectively, as of January 1, 2019. The difference between the operating lease right-of-use assets and lease liabilities are due to accrued deferred rent and unamortized lease incentives.

Recently Issued Accounting Pronouncements – Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets and certain other instruments. For trade receivables and other instruments, entities will be required to use a new forward-looking expected loss model that generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. This guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those years, with early adoption permitted only as of annual reporting periods beginning after December 15, 2018. We are currently evaluating the timing and impact of the adoption of ASU 2016-13 on our unaudited condensed financial statements or related financial statement disclosures.

Net Loss Per Share

Basic net loss per share of common stock is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted net loss per share excludes the potential impact of the Company’s Series Seed Convertible Preferred Stock, Series A Convertible Preferred Stock, and Series B Convertible Preferred Stock, common stock options and unvested shares of restricted stock because their effect would be anti-dilutive due to the Company’s net loss. Since the Company had a net loss in each of the periods presented, basic and diluted net loss per common share are the same.

The table below provides potentially dilutive securities not included in the calculation of the diluted net loss per share because to do so would be anti-dilutive:

	As of September 30,	
	2019	2018
Shares issuable upon conversion of Series Seed Convertible Preferred Stock	—	4,444,444
Shares issuable upon conversion of Series A Convertible Preferred Stock	—	10,158,710
Shares issuable upon conversion of Series B Convertible Preferred Stock	—	15,890,306
Shares issuable upon exercise of stock options	8,099,861	2,104,311
Non-vested shares under restricted stock grants	5,053,169	7,799,605

3. Balance Sheet Accounts and Supplemental Disclosures

Property and Equipment

Property and equipment, net consisted of the following (in thousands):

	Estimated Useful Life (in years)	September 30, 2019	December 31, 2018
Office equipment	3-7	\$ 1,097	\$ 918
Computer equipment	5	112	15
Software	3	78	50
Lab equipment	2-5	2,530	1,070
Leasehold improvements	6-7	2,170	1,243
Construction in process	N/A	68	194
Total property and equipment		6,055	3,490
Less: accumulated depreciation		922	297
Property and equipment, net		\$ 5,133	\$ 3,193

Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Accrued compensation	\$ 6,365	\$ 4,102
Operating lease liabilities	2,291	—
Accrued professional service fees	2,059	2,697
Accrued other	728	769
Total accrued expenses	\$ 11,443	\$ 7,568

4. Fair Value Measurements and Available for Sale Investments

Fair Value Measurements

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

We classify our cash equivalents and available-for-sale investments within Level 1 or Level 2. The fair value of our investment grade corporate debt securities and commercial paper is determined using proprietary valuation models and analytical tools, which utilize market pricing or prices for similar instruments that are both objective and publicly available, such as matrix pricing or reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, and offers.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the hierarchy for assets measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018 (in thousands):

	Fair Value Measurements at End of Period Using:			
	Total Fair Value	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of September 30, 2019				
Money market funds	\$ 35,756	\$ 35,756	\$ —	\$ —
U.S. Treasury and agency securities	199,500	199,500	—	—
Commercial paper	30,985	—	30,985	—
Corporate debt securities	99,892	—	99,892	—
As of December 31, 2018				
Money market funds	\$ 17,295	\$ 17,295	\$ —	\$ —
U.S. Treasury securities	123,439	123,439	—	—

The Company did not reclassify any investments between levels in the fair value hierarchy during the periods presented.

Fair Value of Other Financial Instruments

As of September 30, 2019 and December 31, 2018, the carrying amounts of the Company's financial instruments, which include cash, interest and securities receivable, accounts payable and accrued expenses, approximate fair values because of their short maturities.

Interest and securities receivable as of September 30, 2019 and December 31, 2018, was \$1.2 million and \$0.6 million, respectively, and is recorded as a component of prepaid expenses and other current assets on the condensed consolidated balance sheets. Securities receivable reflect the timing differences of maturities or settlements of investments and the ultimate reinvestment of such amounts.

We believe that our term loan facility bears interest at a rate that approximates prevailing market rates for instruments with similar characteristics and, accordingly, the carrying value of the term loan facility approximates fair value. We estimate the fair value of long-term debt utilizing an income approach. We use a present value calculation to discount principal and interest payments and the final maturity payment on these liabilities using a discounted cash flow model based on observable inputs. The debt instrument is then discounted based on what the current market rates would be as of the reporting date. Based on the assumptions used to value these liabilities at fair value, the debt instrument is categorized as Level 2 in the fair value hierarchy.

Available for Sale Investments

We invest our excess cash in U.S. Treasury and agency securities and debt instruments of corporations and commercial obligations, which are classified as available-for-sale investments. These investments are carried at fair value and are included in the tables above. The Company evaluates securities with unrealized losses to determine whether such losses, if any, are other than temporary. Realized gains and losses are calculated using the specific identification method and recorded as interest income or expense. We do not generally intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity.

The aggregate market value, cost basis, and gross unrealized gains and losses of available-for-sale investments by security type, classified in marketable securities and long-term investments as of September 30, 2019 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value
Marketable securities				
U.S. Treasury and agency securities	\$ 185,844	\$ 145	\$ (4)	\$ 185,985
Commercial paper	29,887	—	—	29,887
Corporate debt securities	99,578	319	(5)	99,892
Total marketable securities	<u>\$ 315,309</u>	<u>\$ 464</u>	<u>\$ (9)</u>	<u>\$ 315,764</u>

As of September 30, 2019, the Company classified \$14.6 million of assets with original maturities of 90 days or less as cash equivalents. None of the investments have been in a gross unrealized loss for a period greater than 12 months. At each reporting date, we perform an evaluation of impairment to determine if any unrealized losses are other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition of the issuer, and our intent and ability to hold the investment until recovery of the amortized cost basis. We intend and have the ability to hold our investments in unrealized loss positions until their amortized cost basis has been recovered. Further, based on our evaluation, we determined that unrealized losses were not other-than-temporary as of September 30, 2019.

Contractual maturities of available-for-sale debt securities, as of September 30, 2019, were as follows (in thousands):

	Estimated Fair Value
Due within one year	\$ 290,813
One to two years	24,951
Total	<u>\$ 315,764</u>

We have the ability, if necessary, to liquidate any of our cash equivalents and marketable securities to meet our liquidity needs in the next 12 months. Accordingly, those investments with contractual maturities greater than one year from the date of purchase are classified as current assets on the accompanying condensed consolidated balance sheets.

5. Long-term Debt

On May 2, 2019, the Company, as guarantor, and its wholly-owned subsidiary GB001, Inc., as borrower, entered into the Credit Facility described in Note 1, pursuant to which the Lenders, including affiliates of MidCap and Silicon Valley Bank, agreed to make term loans available to the Company for working capital and general business purposes, in a principal amount of up to \$150.0 million in term loan commitments, including a \$30.0 million term loan that was funded at the closing date, with the ability to access the remaining \$120.0 million in three additional tranches (of \$40.0 million, \$30.0 million and \$50.0 million, respectively), subject to specified availability periods, the achievement of certain clinical development milestones, minimum cash requirements and other customary conditions. The second tranche is available no earlier than February 1, 2020 and no later than July 31, 2020. The third tranche is available no earlier than May 1, 2020 and no later than October 31, 2020. The fourth tranche is available no earlier than February 1, 2021 and no later than July 31, 2021. The Credit Facility is secured by substantially all of the Company's and its domestic subsidiaries' personal property, including intellectual property, and includes affirmative and negative covenants applicable to the Company.

Each term loan under the Credit Facility bears interest at an annual rate equal to the sum of (i) one-month LIBOR (customarily defined, with a change to prime rate if LIBOR funding becomes unlawful or impractical) plus (ii) 6.15%, subject to a LIBOR floor of 2.00%. The borrower is required to make interest-only payments on the term loan for all payment dates prior to June 1, 2021. The term loans under the Credit Facility will begin amortizing on June 1, 2021, with equal monthly payments of principal plus interest being made by the Company to the Lenders in consecutive monthly installments following such interest-only period for 36 months or, for any funding of the fourth tranche occurring after June 1, 2021, the number of months until the Credit Facility matures on May 1, 2024. Upon final repayment of the term loans, the borrower must pay an exit fee of 1.75% of the amount borrowed under the Credit Facility, less any partial exit fees previously paid. Upon partial prepayment of a portion of the term loans, the borrower must pay a partial exit fee of 1.75% of the principal being prepaid. At the borrower's option, the borrower may prepay the outstanding principal balance of the term loan in whole or in part, subject to a prepayment fee of 3.0% of any amount prepaid if the prepayment occurs through and including the first anniversary of the closing date, 2.0% of the amount prepaid if the prepayment occurs after the first anniversary of the closing date through and including the second anniversary of the closing date, and 1.0% of any amount prepaid after the second anniversary of the closing date and prior to May 1, 2024.

The Credit Facility includes affirmative and negative covenants applicable to the Company and certain of its subsidiaries. The affirmative covenants include, among others, covenants requiring such entities to maintain their legal existence and governmental approvals, deliver certain financial reports, maintain insurance coverage, maintain property, pay taxes, satisfy certain requirements regarding accounts and comply with laws and regulations. The negative covenants include, among others, restrictions on such entities from transferring collateral, incurring additional indebtedness, engaging in mergers or acquisitions, paying dividends or making other distributions, making investments, creating liens, amending material agreements and organizational documents, selling assets and suffering a change in control, in each case subject to certain exceptions. The Company and certain of its subsidiaries are also subject to an ongoing minimum cash financial covenant in which they must maintain unrestricted cash in an amount not less than 25% of the outstanding principal amount of the term loans. As of September 30, 2019, the Company was in compliance with these covenants.

The Credit Facility also includes events of default, the occurrence and continuation of which could cause interest to be charged at the rate that is otherwise applicable plus 3.0% and would provide MidCap, as agent, with the right to exercise remedies against the Company and/or certain of its subsidiaries, and the collateral securing the Credit Facility, including foreclosure against the properties securing the credit facilities, including cash. These events of default include, among other things, failure to pay any amounts due under the Credit Facility, a breach of covenants under the Credit Facility, insolvency or the occurrence of insolvency events, the occurrence of a change in control, the occurrence of certain U.S. Food and Drug Administration and regulatory events, failure to remain registered with the SEC and listed for trading on NASDAQ, the occurrence of a material adverse change, the occurrence of a default under a material agreement reasonably expected to result in a material adverse change, the occurrence of certain defaults under certain other indebtedness in an amount greater than \$2,500,000 and the occurrence of certain defaults under subordinated indebtedness and convertible indebtedness.

Our long-term debt as of September 30, 2019 consisted of the following (in thousands):

	<u>September 30, 2019</u>
Term loan	\$ 30,000
Debt discount and issuance costs	(1,630)
Long-term debt	<u>\$ 28,370</u>

The scheduled future minimum principal payments are as follows (in thousands)

	<u>September 30, 2019</u>
2019 (three-months)	\$ —
2020	—
2021	5,833
2022	10,000
2023	10,000
2024	4,167
Total	<u>\$ 30,000</u>

6. Convertible Note Financing

On October 2, 2017, the Company issued a convertible promissory note (the “Note”) in an amount of \$6.0 million to an investor. The Note accrued interest at 8% per year and had a maturity date of October 2, 2018. The Note was subject to an automatic conversion upon a qualified equity financing defined as a raise of \$40.0 million, excluding the conversion of the Note and other indebtedness. The conversion was equal to the outstanding principal amount of the Note plus all accrued and previously unpaid interest thereon, divided by the lowest price per share paid by investor for qualified equity financing. On January 4, 2018, the Note converted into 3,499,209 shares of Series A Convertible Preferred Stock.

7. Asset Acquisitions and Contingent Consideration

The following purchased assets were accounted for as asset acquisitions as substantially all of the fair value of the assets acquired were concentrated in a group of similar assets and/or the acquired assets were not capable of producing outputs due to the lack of employees and early stage of development. Because the assets had not yet received regulatory approval, the fair value attributable to these assets was recorded as in process research and development (“IPR&D”) expenses in the Company’s condensed consolidated statement of operations for the three and nine months ended September 30, 2019.

The Company accounts for contingent consideration payable upon achievement of certain regulatory, development or sales milestones in such asset acquisitions when the underlying contingency is met.

Acquisition of License from Pulmokine, Inc. (GB002)

On October 2, 2017, the Company, entered into a license agreement with Pulmokine, Inc. under which it was granted an exclusive worldwide license and sublicense to certain intellectual property rights owned or controlled by Pulmokine to develop and commercialize GB002 and certain backup compounds for the treatment, prevention and diagnosis of any and all disease or conditions. The Company also has the right to sublicense its rights under the license agreement, subject to certain conditions. The assets acquired are in the early stages of the U.S. Food and Drug Administration (“FDA”) approval process, and the Company intends to further develop the assets acquired through potential FDA approval as evidenced by the milestone arrangement in the contract. The development activities cannot be performed without significant cost and effort by the Company. The agreement will remain in effect from the effective date, unless terminated earlier, until, on a licensed product-by-licensed product and country-by-country basis, the later of ten years from the date of first commercial sale or when there is no longer a valid patent claim covering such licensed product or specified regulatory exclusivity for the licensed product in such country. The Company is obligated to make future development and regulatory milestone payments of up to \$63.0 million, commercial milestone payments of up to \$45.0 million, and sales milestone payments of up to \$190.0 million. The Company is also obligated to pay tiered royalties on sales for each licensed product, at percentages ranging from the mid-single digits to the high single-digits. The Company made an upfront payment of \$5.5 million in October 2017. As of September 30, 2019, no milestones had been accrued as the underlying contingencies had not yet been met.

AA Biopharma Inc. Acquisition (GB001)

On January 4, 2018, the Company acquired AA Biopharma Inc. pursuant to a merger agreement, and with the acquisition acquired the rights to GB001 and certain backup compounds. In connection with the merger agreement, the Company issued an aggregate of 20,000,000 shares of Series Seed Convertible Preferred Stock and 1,101,278 shares of Common Stock to the AA Biopharma shareholders. The Company recorded IPR&D of \$19.3 million in January 2018 in connection with the acquisition of AA Biopharma.

Acquisition of License from Aerpio Pharmaceuticals, Inc. (GB004)

On June 24, 2018, the Company entered into a license agreement with Aerpio Pharmaceuticals, Inc. (“Aerpio”) under which the Company was granted an exclusive worldwide license and sublicense to certain intellectual property rights owned or controlled by Aerpio to develop and commercialize GB004, and certain other related compounds for all applications. The Company also has the right to sublicense its rights under the license agreement, subject to certain conditions. The Company is obligated to make future development and regulatory milestone payments of up to \$55.0 million, commercial milestone payments of up to \$85.0 million and sales milestone payments of up to \$260.0 million. The Company is also obligated to pay tiered royalties on sales for each licensed product, at percentages ranging from a high single-digit to mid-teens, subject to certain customary reductions. The Company made an upfront payment of \$20.0 million in June 2018, which represented the purchase consideration for an asset acquisition. As of September 30, 2019, no milestones had been accrued as the underlying contingencies had not yet been met.

Adhaere Pharmaceuticals, Inc. Acquisition (GB1275)

On September 21, 2018, the Company acquired Adhaere Pharmaceuticals, Inc. (“Adhaere”) pursuant to a merger agreement for an upfront payment of \$7.5 million in cash, and with the acquisition acquired the rights to GB1275 and certain backup compounds. The Company is obligated to make regulatory, development and sales milestone payments of up to \$62.0 million and pay tiered royalties on worldwide net sales, at percentages ranging from low to mid-single digits, subject to customary reductions. In September 2018, the Company recorded IPR&D of \$7.5 million in connection with the acquisition of Adhaere. In May 2019, the Company made a milestone payment of \$1.0 million in connection with the filing of the Investigational New Drug (IND) application for the GB1275 program. As of September 30, 2019, no other milestones had been accrued as the underlying contingencies had not yet been met.

The Company recorded the following IPR&D expense on the condensed consolidated statements of operations (in thousands):

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
GB001	\$ —	\$ —	\$ —	\$ 19,148
GB004	—	—	—	20,000
GB1275	—	7,500	1,000	7,500
Other Programs	—	761	1,000	3,011
Total in process research and development	<u>\$ —</u>	<u>\$ 8,261</u>	<u>\$ 2,000</u>	<u>\$ 49,659</u>

8. Stockholders' Equity (Deficit)

In connection with the Company's IPO, the outstanding shares of the Company's Series Seed, Series A, and Series B Convertible Preferred Stock automatically converted into 30,493,460 shares of common stock.

Common Stock

On December 3, 2015, the Company issued 9,160,888 shares of common stock as founder shares for services rendered to the Company, valued at \$0.0001 par value per share, for a total of approximately \$4,100. On January 4, 2018, incremental vesting conditions were placed on the previously issued founder shares. Fifty percent of the previously issued founder shares vested on January 4, 2018, and the remaining founder shares are subject to vesting restrictions over a period of five years.

Pursuant to the employment agreements with the Company's founders executed January 4, 2018, the Company provided for certain potential additional issuances of common stock (the "anti-dilution shares") to each of the founders to ensure the total number of shares of common stock held by them and their affiliates (inclusive of any shares subject to equity awards granted by the Company) would represent 15% of the Company's fully-diluted capitalization until such time as the Company raised \$300 million in equity capital, including the capital raised in the Series A financing.

In furtherance of this obligation, on May 21, 2018, the Company issued 251,547 shares of common stock to the founders for services rendered to the Company, valued at \$2.61 per share with an additional 251,547 shares of restricted stock subject to the same vesting restrictions and vesting period as the founder shares. In addition, on September 6, 2018, the Company issued 1,795,023 shares of common stock to the founders for services rendered to the Company, valued at \$9.63 per share, with an additional 1,795,023 shares of restricted stock subject to the same vesting restrictions and vesting period as the founder shares.

Each share of common stock is entitled to one vote. Common stock owners are entitled to dividends when funds are legally available and declared by the Board.

Shares of Common Stock Subject to Repurchase

In November 2017, in connection with the issuance of the Series A Convertible Preferred Stock, certain employees entered into stock restriction agreements, whereby 1,305,427 shares are subject to forfeiture by the Company upon the stockholder's termination of employment or service to the Company. In January 2018, the Company's founders entered into stock restriction agreements, whereby 4,580,444 of previously unrestricted shares of common stock were subject to service vesting conditions. These shares are also subject to forfeiture by the Company upon the stockholders' termination of employment or service to the Company. Any shares subject to repurchase by the Company are not deemed, for accounting purposes, to be outstanding until those shares vest. As such, the Company recognizes the measurement date fair value of the restricted stock over the vesting period as compensation expense. As of September 30, 2019 and December 31, 2018, 5,053,169 and 7,482,032 shares of common stock were subject to repurchase by the Company, respectively. The unvested stock liability related to these awards is immaterial to all periods presented.

9. Equity Incentive Plans

Approval of the 2019 Equity Incentive Plan

In January 2019, the Company's board of directors and stockholders approved and adopted the 2019 Incentive Award Plan (the "2019 Plan"). The 2019 Plan became effective on February 6, 2019, the day prior to the effectiveness of the registration statement filed in connection with the IPO. Under the 2019 Plan, the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock or cash-based awards to individuals who are then employees, officers, directors or consultants of the Company, and employees and consultants of the Company's subsidiaries. A total of 5,750,000 shares of common stock were approved to be initially reserved for issuance under the 2019 Plan. The number of shares that remained available for issuance under the 2017 Plan (as defined below) as of the effective date of the 2019 Plan were, and shares subject to outstanding awards under the 2017 Plan as of the effective date of the 2019 Plan that are subsequently canceled, forfeited or repurchased by the Company will be added to the shares reserved under the 2019 Plan. In addition, the number of shares of common stock available for issuance under the 2019 Plan will be automatically increased on the first day of each calendar year during the ten-year term of the 2019 Plan, beginning with January 1, 2020 and ending with January 1, 2029, by an amount equal to 5% of the outstanding number of shares of the Company's common stock on December 31 of the preceding calendar year or such lesser amount as determined by the Company's board of directors. As of September 30, 2019, an aggregate of 2,486,308 shares of common stock were available for issuance under the 2019 Plan and 3,263,692 shares of common stock were subject to outstanding awards under the 2019 Plan.

Approval of the 2019 Employee Stock Purchase Plan

In January 2019, the Company's board of directors and stockholders approved and adopted the 2019 Employee Stock Purchase Plan (the "ESPP"). The ESPP became effective as of February 6, 2019, the day prior to the effectiveness of the registration statement filed in connection with the IPO. The ESPP permits participants to purchase common stock through payroll deductions of up to 20% of their eligible compensation. A total of 700,000 shares of common stock were approved to be initially reserved for issuance under the ESPP. In addition, the number of shares of common stock available for issuance under the ESPP will be automatically increased on the first day of each calendar year during the first ten-years of the term of the ESPP, beginning with January 1, 2020 and ending with January 1, 2029, by an amount equal to 1% of the outstanding number of shares of the Company's common stock on December 31 of the preceding calendar year or such lesser amount as determined by the Company's board of directors. As of September 30, 2019, an aggregate of 700,000 shares of common stock were available for issuance under the ESPP.

2017 Equity Incentive Plan

The Company's 2017 Equity Incentive Plan (the "2017 Plan") permitted the granting of incentive stock options, non-statutory stock options, restricted stock, restricted stock units and other stock-based awards. Subsequent to the adoption of the 2019 Plan, no additional equity awards can be made under the 2017 Plan. As of September 30, 2019, 4,819,318 shares of common stock were subject to outstanding options under the 2017 Plan, and 635,155 shares of restricted stock awards granted under the 2017 plan were unvested.

Stock Options

The fair value of each employee and non-employee stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Company, prior to its IPO on February 12, 2019, was a private company and lacks company-specific historical and implied volatility information. Therefore, it estimates its expected volatility based on the historical volatility of a publicly traded set of peer companies. Due to the lack of historical exercise history, the expected term of the Company's stock options for employees has been determined utilizing the "simplified" method for awards. The expected term of stock options granted to non-employees is equal to the contractual term of the option award. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is zero based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future.

The following table summarizes stock option activity during the nine months ended September 30, 2019:

	<u>Shares Subject to Options Outstanding</u>		<u>Weighted- Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>		
Outstanding as of December 31, 2018	5,107,329	\$ 7.51	9.7	\$ 16,343
Options granted	3,441,901	\$ 20.79		
Option exercised	(173,712)	\$ 3.04		
Options forfeited/cancelled	(275,657)	\$ 12.30		
Outstanding as of September 30, 2019	8,099,861	\$ 13.09	9.2	\$ 44,015
Options vested and exercisable as of September 30, 2019	644,722	\$ 3.88	8.7	\$ 8,323

The aggregate intrinsic value in the above table is calculated as the difference between fair value of the Company's common stock price on September 30, 2019 and the exercise price of the stock options. The weighted-average grant date fair value per share for the stock option grants during the nine months ended September 30, 2019 was \$20.79. At September 30, 2019, the total unrecognized compensation related to unvested stock option awards granted was \$57.8 million, which the Company expects to recognize over a weighted-average period of approximately 3.0 years.

Restricted Stock

The summary of the Company's restricted stock activity is as follows:

	Number of Restricted Stock Units Outstanding	Weighted- Average Grant Date Fair Value
Nonvested at December 31, 2018	7,482,032	\$ 4.01
Granted	—	—
Vested	(2,428,863)	\$ 4.11
Forfeited	—	—
Nonvested at September 30, 2019	<u>5,053,169</u>	<u>\$ 3.96</u>

At September 30, 2019, the total unrecognized compensation related to unvested restricted stock awards granted was \$14.6 million, which the Company expects to recognize over a weighted-average period of approximately 3.1 years.

Stock-Based Compensation Expense

Stock-based compensation expense has been reported in the Company's condensed consolidated statements of operations as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Research and development	\$ 2,727	\$ 144	\$ 6,483	\$ 200
General and administrative	3,001	18,025	7,474	19,948
Total stock-based compensation	<u>\$ 5,728</u>	<u>\$ 18,169</u>	<u>\$ 13,957</u>	<u>\$ 20,148</u>

For the three months ended September 30, 2019 and 2018, \$5.7 million and \$18.2 million, respectively, of the stock-based compensation expense related to the issuance of anti-dilutive shares. For the nine months ended September 30, 2019 and 2018, \$14.0 million and \$20.1 million, respectively, of the stock-based compensation expense related to the vesting of anti-dilution shares.

As of September 30, 2019, total unrecognized compensation expense related to the ESPP was \$1.7 million, which the Company expects to recognize over a weighted-average period of approximately 1.2 years.

10. Commitments and Contingencies

Leases

The Company subleases certain office and laboratory space under a non-cancelable operating lease expiring in December 2024 for the initial leased space and December 2022 for expansion space leased pursuant to an amendment to the lease agreement entered into in August 2018. The sublease agreement included options to extend for the entire premises through October 2028. The options to extend must be exercised prior to the termination of the original lease agreement. The period covered by the options was not included in the non-cancellable lease term as it was not determined to be reasonably certain to be executed. The lease agreement also includes a one-time termination option for the expansion space only whereby the Company can terminate the lease with advance written notice. The termination option was not determined to be reasonably certain to be executed. The lease is subject to charges for common area maintenance and other costs, and base rent is subject to an annual 3% increase each subsequent year. Costs determined to be variable and not based on an index or rate were not included in the measurement of the operating lease liabilities.

Monthly rent expense is recognized on a straight-line basis over the term of the lease. The operating lease is included in the balance sheet at the present value of the lease payments at a 7% discount rate using the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment as the leases do not provide an implicit rate. The weighted average remaining lease term was 4.5 years.

Lease costs were comprised of the following (in thousands):

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Operating lease cost	\$ 753	\$ 2,258
Variable lease cost	374	1,126
Short-term lease cost	13	42
Total lease cost	<u>\$ 1,140</u>	<u>\$ 3,426</u>

Cash paid for amounts included in the measurement of operating lease liabilities for the three and nine months ended September 30, 2019 was \$0.7 million and \$2.2 million, respectively.

Gross future minimum annual rental commitments as of September 30, 2019, were as follows (in thousands):

	Undiscounted Rent Payments
Year ending December 31,	
2019 (remaining 3 months)	\$ 739
2020	3,038
2021	3,127
2022	3,220
2023	1,694
2024	1,745
Total undiscounted rent payments	<u>\$ 13,563</u>
Present value discount	(1,930)
Present value	<u>\$ 11,633</u>
Current portion of operating lease liability (included as a component of accrued expenses)	\$ 2,291
Noncurrent operating lease liabilities	<u>9,342</u>
Total operating lease liability	<u>\$ 11,633</u>

Future minimum lease payments under non-cancelable operating leases at December 31, 2018 were as follows (in thousands):

Years ending December 31,	
2019	\$ 2,944
2020	3,035
2021	3,123
2022	3,216
2023	1,690
Thereafter	1,741
	<u>\$ 15,749</u>

For the three and nine months ended September 30, 2018 the Company recorded approximately \$0.6 million and \$1.5 million, respectively, in rent expense.

Litigation

The Company is not a party to any material legal proceedings and is not aware of any pending or threatened claims. From time to time, the Company may be subject to various legal proceedings and claims that arise in the ordinary course of its business activities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis and the unaudited interim condensed consolidated financial statements included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2018 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 22, 2019.

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained in this quarterly report, including statements regarding our future results of operations and financial position, business strategy, prospective products, product approvals, research and development costs, timing and likelihood of success, plans and objectives of management for future operations and future results of anticipated products, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this quarterly report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this quarterly report and are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors" of this report and Part I, Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K filed with the SEC on March 22, 2019. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

Overview

We are a clinical-stage biopharmaceutical company focused on discovering, acquiring, developing and commercializing therapeutics in the disease areas of immunology, inflammation and oncology. Our goal is to be an industry leader in each of these therapeutic areas and enhance and extend the lives of patients suffering from such diseases. To accomplish this goal, we have assembled a deeply experienced and highly skilled group of industry veterans, scientists, clinicians and key opinion leaders from leading biotechnology and pharmaceutical companies, as well as leading academic centers from around the world. Our collective immunology and translational discovery and development expertise serves as the foundation of our company.

We are pursuing product candidates with strong scientific rationale to address indications where there is both a high unmet need and an opportunity to develop best-in-class or first-in-class programs. We currently have four clinical-stage product candidates, in addition to multiple preclinical programs. We commenced our LEDA Phase 2b clinical trial for our most advanced product candidate, GB001, in moderate-to-severe eosinophilic asthma in October 2018. We expect to conduct an interim analysis in the first half of 2020, with full results from the study expected in the second half of 2020. If the interim analysis is positive, we plan on initiating a Phase 3 clinical trial thereafter. In the second quarter of 2019, we initiated our TITAN Phase 2 proof-of-concept clinical trial of GB001 in patients with chronic rhinosinusitis, both with and without nasal polyps. Topline data from this trial are expected in the second half of 2020. Additionally, we expect to initiate a translational Phase 2 clinical trial of GB001 in patients with chronic spontaneous urticaria in the first half of 2020. We are developing GB002 for the treatment of pulmonary arterial hypertension, or PAH. We plan to commence enrolling patients for a Phase 1b clinical trial in PAH in the fourth quarter of 2019, and we are finalizing the design of a Phase 2 clinical trial in PAH, which we expect to initiate in the first half of 2020. We believe that data generated from this Phase 2 clinical trial will inform the design of potential registrational studies of GB002 in PAH. We are developing GB004 for the treatment of inflammatory bowel disease, including ulcerative colitis, or UC, and Crohn's disease. In the second quarter of 2019, we initiated a Phase 1b clinical trial in mild-to-moderate UC patients with active disease symptoms and histology. We expect topline results from the study in the first half of 2020. We also plan to initiate a Phase 2 clinical trial in UC in the first half of 2020. We are developing GB1275 for the treatment of oncology indications. In the third quarter of 2019, we initiated a Phase 1/2 clinical trial for GB1275 in solid tumor indications as a monotherapy and in combination with either pembrolizumab or chemotherapy. Initial data from this trial is expected in the second half of 2020.

We were incorporated in October 2015 and commenced operations in 2017. To date, we have focused primarily on organizing and staffing our company, business planning, raising capital, identifying, acquiring and in-licensing our product candidates and conducting preclinical studies and early clinical trials. We have funded our operations primarily through equity financings. We raised \$601.3 million from October 2017 through April 2019 through Series A and B convertible preferred stock financings, a convertible note financing, and our initial public offering, or IPO, completed in February 2019. In addition, we received \$12.8 million in cash in connection with the January 2018 acquisition of AA Biopharma Inc., of which Pulmagen Therapeutics (Asthma) Limited is a wholly-owned subsidiary. As of September 30, 2019, we had \$446.5 million in cash, cash equivalents and marketable securities.

On February 12, 2019, we closed our IPO and the underwriters in the IPO purchased 19,837,500 shares, including the full exercise of their option to purchase additional shares of common stock. The net proceeds were \$291.3 million, after deducting underwriting discounts and commissions and estimated offering costs.

We have incurred significant operating losses since our inception and expect to continue to incur significant operating losses for the foreseeable future. For the three and nine months ended September 30, 2019, our net loss was \$48.5 million and \$125.6 million, respectively. For the three and nine months ended September 30, 2018, our net loss was \$49.4 million and \$108.2 million, respectively. As of September 30, 2019, we had an accumulated deficit of \$279.5 million. We expect our expenses and operating losses will increase substantially as we conduct our ongoing and planned clinical trials, continue our research and development activities and conduct preclinical studies, and seek regulatory approvals for our product candidates, as well as hire additional personnel, protect our intellectual property and incur additional costs associated with being a public company. In addition, as our product candidates progress through development and toward commercialization, we will need to make milestone payments to the licensors and other third parties from whom we have in-licensed or acquired our product candidates, including GB002, GB004 and GB1275. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year, depending in particular on the timing of our clinical trials and preclinical studies and our expenditures on other research and development activities.

We do not expect to generate any revenue from product sales unless and until we successfully complete development and obtain regulatory approval for one or more of our product candidates, which we expect will take a number of years. If we obtain regulatory approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Accordingly, until such time as we can generate substantial product revenues to support our cost structure, if ever, we expect to finance our cash needs through equity offerings, debt financings or other capital sources, including potentially collaborations, licenses and other similar arrangements. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter into such other arrangements when needed could have a negative impact on our financial condition and on our ability to pursue our business plans and strategies. If we are unable to raise additional capital when needed, we could be forced to delay, limit, reduce or terminate our product candidate development or future commercialization efforts or grant rights to develop and market our product candidates even if we would otherwise prefer to develop and market such product candidates ourselves.

Components of Results of Operations

Revenue

We have not generated any revenue since our inception and do not expect to generate any revenue from the sale of products for the foreseeable future.

Operating expenses

Research and development

Research and development expenses have related primarily to preclinical and clinical development of our product candidates and discovery efforts. Research and development expenses are recognized as incurred and payments made prior to the receipt of goods or services to be used in research and development are capitalized until the goods or services are received.

Research and development expenses include or could include:

- salaries, payroll taxes, employee benefits, and stock-based compensation charges for those individuals involved in research and development efforts;
- external research and development expenses incurred under agreements with contract research organizations, or CROs, investigative sites and consultants to conduct our clinical trials and preclinical and non-clinical studies;
- laboratory supplies;
- costs related to manufacturing our product candidates for clinical trials and preclinical studies, including fees paid to third-party manufacturers;
- costs related to compliance with regulatory requirements; and
- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent, maintenance of facilities, insurance, equipment and other supplies.

Our direct research and development expenses consist principally of external costs, such as fees paid to CROs, investigative sites and consultants in connection with our clinical trials, preclinical and non-clinical studies, and costs related to manufacturing clinical trial materials. We deploy our personnel and facility related resources across all of our research and development activities. We track external costs and personnel expense on a program-by-program basis and allocate common expenses, such as facility related resources, to each program based on the personnel resources allocated to such program. Stock-based compensation and personnel and common expenses not attributable to a specific program are considered unallocated research and development expenses.

We plan to substantially increase our research and development expenses for the foreseeable future as we continue the development of our product candidates and conduct discovery and research activities for our preclinical programs. We cannot determine with certainty the timing of initiation, the duration or the completion costs of current or future preclinical studies and clinical trials of our product candidates due to the inherently unpredictable nature of preclinical and clinical development. Clinical and preclinical development timelines, the probability of success and development costs can differ materially from expectations. We anticipate that we will make determinations as to which product candidates to pursue and how much funding to direct to each product candidate on an ongoing basis in response to the results of ongoing and future preclinical studies and clinical trials, regulatory developments and our ongoing assessments as to each product candidate's commercial potential. We will need to raise substantial additional capital in the future.

Our clinical development costs may vary significantly based on factors such as:

- per patient trial costs;
- the number of trials required for approval;
- the number of sites included in the trials;
- the countries in which the trials are conducted;
- the length of time required to enroll eligible patients;
- the number of patients that participate in the trials;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients;
- potential additional safety monitoring requested by regulatory agencies;
- the duration of patient participation in the trials and follow-up;
- the cost and timing of manufacturing our product candidates;
- the phase of development of our product candidates; and
- the efficacy and safety profile of our product candidates.

In process research and development

In process research and development, or IPR&D, expenses include in process research and development acquired as part of an asset acquisition or in-license for which there is no alternative future use, are expensed as incurred.

IPR&D expenses consist of our upfront payments made to Pulmokine, Inc., in connection with the in-license of GB002, the value of our stock issued to former AA Biopharma Inc. shareholders, in connection with the acquisition of GB001, our upfront and milestone payments made to Aerpio Pharmaceuticals, Inc., or Aerpio, in connection with the in-license of GB004, our upfront and milestone payments made to Adhaere Pharmaceuticals, Inc., or Adhaere, in connection with the acquisition of GB1275, and upfront and milestone payments made in connection with the acquisition and development of our other preclinical programs.

General and administrative

General and administrative expenses consist primarily of salaries and employee-related costs, including stock-based compensation, for personnel in executive, finance and other administrative functions. Other significant costs include facility-related costs, legal fees relating to intellectual property and corporate matters, professional fees for accounting and consulting services and insurance costs.

We expect our general and administrative expenses will increase for the foreseeable future to support our expanded infrastructure and increased costs of operating as a public company. These increases will likely include increased expenses related to audit, legal, regulatory and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance premiums, and investor relations costs associated with operating as a public company.

Other income, net

Other income, net consists of (1) interest income on our cash, cash equivalents and marketable securities, (2) interest expense related to the convertible promissory note issued in October 2017, and (3) other miscellaneous income (expense). The note converted into shares of our Series A convertible preferred stock in January 2018.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities in our condensed consolidated financial statements. We base our estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. On an ongoing basis, we evaluate our judgments and estimates in light of changes in circumstances, facts and experience. During the three and nine months ended September 30, 2019, there have been no significant changes in our critical accounting policies as discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K filed with the SEC on March 22, 2019.

Results of Operations – Comparison of the Three and Nine Months Ended September 30, 2019 and 2018

The following table sets forth our selected statements of operations data for the three months ended September 30, 2019 and 2018:

	Three months ended September 30,		2019 vs 2018 Change
	2019	2018	
	(in thousands)		
Operating expenses:			
Research and development	\$ 40,148	\$ 18,857	\$ 21,291
In process research and development	—	\$ 8,261	(8,261)
General and administrative	9,838	22,906	(13,068)
Total operating expenses	<u>49,986</u>	<u>50,024</u>	<u>(38)</u>
Loss from operations	<u>(49,986)</u>	<u>(50,024)</u>	<u>38</u>
Other income, net	1,486	622	864
Net loss	<u>\$ (48,500)</u>	<u>\$ (49,402)</u>	<u>\$ 902</u>

The following table sets forth our selected statements of operations data for the nine months ended September 30, 2019 and 2018:

	Nine months ended September 30,		2019 vs 2018
	2019	2018	Change
	(in thousands)		
Operating expenses:			
Research and development	\$ 100,807	\$ 29,411	\$ 71,396
In process research and development	2,000	\$ 49,659	(47,659)
General and administrative	27,544	30,116	(2,572)
Total operating expenses	130,351	109,186	21,165
Loss from operations	(130,351)	(109,186)	(21,165)
Other income, net	4,742	1,011	3,731
Net loss	\$ (125,609)	\$ (108,175)	\$ (17,434)

Operating Expenses

Research and development

Research and development expenses were \$40.1 million for the three months ended September 30, 2019, compared to \$18.9 million for the three months ended September 30, 2018, for an increase of \$21.3 million, which was primarily attributable to an increase of \$4.5 million of costs associated with preclinical and clinical trials for GB1275, an increase of \$3.6 million of costs associated with preclinical studies and clinical trials for GB001, an increase of \$2.6 million of costs associated with preclinical studies and clinical trials for GB004, an increase of \$2.3 million of costs associated with preclinical studies and clinical trials for GB002, an increase of \$2.3 million of costs associated with other preclinical studies and clinical trials, and an increase of \$6.0 million of costs related to personnel and other associated costs.

Research and development expenses were \$100.8 million for the nine months ended September 30, 2019, compared to \$29.4 million for the nine months ended September 30, 2018, for an increase of \$71.4 million, which was primarily attributable to an increase of \$17.7 million of costs associated with preclinical studies and clinical trials for GB001, an increase of \$13.1 million of costs associated with preclinical studies and clinical trials for GB002, an increase of \$11.7 million of costs associated with preclinical studies and clinical trials for GB004, an increase of \$9.9 million of costs associated with preclinical studies and clinical trials for GB1275, an increase of \$6.3 million of costs associated with other preclinical studies and clinical trials, and an increase of \$12.7 million of costs related to personnel and other associated costs.

The following table shows our research and development expenses by program for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
GB001	\$ 11,007	\$ 7,400	\$ 29,205	\$ 11,523
GB002	8,856	6,532	24,002	10,931
GB004	5,246	2,619	14,455	2,713
GB1275	4,484	9	9,861	9
Other Programs	2,946	681	7,599	1,277
Unallocated expenses	7,609	1,616	15,685	2,958
Total research and development	\$ 40,148	\$ 18,857	\$ 100,807	\$ 29,411

In process research and development

There were no IPR&D expenses for the three months ended September 30, 2019, compared to \$8.3 million for the three months ended September 30, 2018, for a decrease of \$8.3 million, which was primarily attributable to our \$7.5 million of costs associated with the acquisition of GB1275 in the third quarter of 2018, and \$0.8 million of costs associated with the acquisition of other preclinical programs.

IPR&D expenses were \$2.0 million for the nine months ended September 30, 2019, compared to \$49.7 million for the nine months ended September 30, 2018, for a decrease of \$47.7 million, which was primarily attributable to our \$19.3 million of costs associated with the issuance of our stock in connection with our acquisition of GB001 and AA Biopharma in the first quarter of 2018, \$20.0 million of costs associated with the in-license of GB004 in the second quarter of 2018, \$7.5 million of costs associated with the acquisition of GB1275 in the third quarter of 2018, and \$3.0 million of costs associated with the acquisition of other preclinical programs, partially offset by \$2.0 million in milestone payments during 2019.

General and administrative

General and administrative expenses were \$9.8 million for the three months ended September 30, 2019, compared to \$22.9 million for the three months ended September 30, 2018, for a decrease of \$13.1 million, which was primarily attributable to a \$15.0 million decrease in stock-based compensation costs, partially offset by a \$1.2 million increase in personnel-related costs, and a \$0.7 million increase associated with insurance costs.

General and administrative expenses were \$27.5 million for the nine months ended September 30, 2019, compared to \$30.1 million for the nine months ended September 30, 2018, for a decrease of \$2.6 million, which was primarily attributable to a \$12.5 million decrease in stock-based compensation costs, partially offset by a \$4.4 million increase in personnel-related costs, a \$3.2 million increase in professional and legal fees, and a \$1.9 million increase associated with insurance costs.

Other income, net

Other income, net was \$1.5 million for the three months ended September 30, 2019, compared to \$0.6 million for the three months ended September 30, 2018, related to an \$0.9 million increase in investment income earned on our cash, cash equivalents and marketable securities during the period.

Other income, net was \$4.7 million for the nine months ended September 30, 2019, compared to \$1.0 million for the nine months ended September 30, 2018, related to a \$3.7 million increase in investment income earned on our cash, cash equivalents and marketable securities during the period.

Liquidity and Capital Resources

We have incurred substantial operating losses since our inception and expect to continue to incur significant operating losses for the foreseeable future and may never become profitable. As of September 30, 2019 we had an accumulated deficit of \$279.5 million.

Our primary use of cash is to fund operating expenses, which consist primarily of research and development expenditures, and to a lesser extent, general and administrative expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the change in our outstanding accounts payable and accrued expenses.

From our inception through the nine months ended September 30, 2019, our operations have been financed primarily by gross proceeds of \$631.3 million from the sale of our convertible preferred stock, convertible promissory note, proceeds from our IPO and proceeds from our term loan. As of September 30, 2019, we had cash, cash equivalents and marketable securities of \$446.5 million.

On February 12, 2019, we closed our IPO and the underwriters in the IPO purchased 19,837,500 shares, including the full exercise of their option to purchase additional shares of common stock. The net proceeds from the IPO were \$291.3 million, after deducting underwriting discounts and commissions and estimated offering costs. In connection with the closing of the IPO, the outstanding shares of our convertible preferred stock were converted into shares of common stock at a ratio of 4.5-to-one. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to capital preservation and liquidity.

On May 2, 2019, we entered into a credit, guaranty and security agreement, as amended, pursuant to which the lenders party thereto agreed to make term loans available to us for working capital and general business purposes, in a principal amount of up to \$150.0 million in term loan commitments, including a \$30.0 million term loan which was funded at the closing date, with the ability to access the remaining \$120.0 million in three additional tranches (of \$40.0 million, \$30.0 million and \$50.0 million, respectively), subject to specified availability periods, the achievement of certain clinical development milestones, minimum cash requirements and other customary conditions. Additional information about this credit facility and our long-term borrowings is presented in Note 5 "Long-term Debt" to the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Form 10-Q, which is incorporated herein by this reference.

The following table shows a summary of our cash flows for each of the nine months ended September 30, 2019 and 2018, respectively:

	Nine months ended September 30,	
	2019	2018
	(in thousands)	
Net cash used in operating activities	\$ (100,694)	\$ (26,021)
Net cash used in investing activities	(194,077)	(136,030)
Net cash provided by financing activities	320,060	303,003
Net increase in cash, cash equivalents and restricted cash	<u>\$ 25,289</u>	<u>\$ 140,952</u>

Operating activities

During the nine months ended September 30, 2019, operating activities used approximately \$100.7 million of cash, primarily resulting from a net loss of \$125.6 million, partially reduced by stock-based compensation expense of \$14.0 million and changes in operating assets and liabilities of \$10.5 million. Net cash provided by changes in operating assets and liabilities consisted primarily of changes in operating lease right of use assets and liabilities, other assets, accounts payable, accrued research and development expenses, and accrued compensation and benefits of \$14.1 million, offset by cash used in prepaid expenses and other current assets and accrued expenses of \$3.6 million.

During the nine months ended September 30, 2018, operating activities used approximately \$26.0 million of cash, primarily resulting from a net loss of \$108.2 million, partially reduced by IPR&D license expenses of \$49.7 million, stock-based compensation expense of \$20.1 million, and changes in operating assets and liabilities of \$12.2 million. Net cash provided by changes in operating assets and liabilities consisted primarily of increases in accounts payable and accrued expenses of \$14.5 million, partially offset by cash used in prepaid expenses and other current assets, and other current and non-current assets and liabilities of \$2.3 million.

Investing activities

During the nine months ended September 30, 2019, investing activities used approximately \$194.1 million of cash, primarily resulting from the purchase of marketable securities of \$399.4 million, milestone payments of \$2.0 million, and purchases of property and equipment of \$2.4 million, offset by sales and maturities of investments of \$209.8 million.

During the nine months ended September 30, 2018, investing activities used approximately \$136.0 million of cash, primarily resulting from the purchase of marketable securities of \$115.1 million, the upfront payment made to Aerprio of \$20.0 million in connection with the in-license of GB004, the upfront payment of \$7.5 million in connection with the acquisition of GB1275 and Adhaere, upfront payments of \$3.0 million in connection with the acquisition of other preclinical programs, and the purchase of property and equipment of \$3.2 million, partially offset by \$12.8 million of cash proceeds received in connection with the acquisition of AA Biopharma.

Financing activities

During the nine months ended September 30, 2019, financing activities provided \$320.1 million of cash, primarily resulting from the net proceeds from our IPO of \$291.3 million, and proceeds from a long-term debt facility of \$30 million offset by \$1.8 million of debt issuance costs.

During the nine months ended September 30, 2018, financing activities provided \$303.0 million of cash, primarily resulting from the net proceeds from the issuance of our Series A and Series B convertible preferred stock.

Funding requirements

Based on our current operating plan, we believe that our existing cash, cash equivalents and marketable securities will be sufficient to fund our operations through at least the next 12 months. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect. Additionally, the process of testing product candidates in clinical trials is costly, and the timing of progress and expenses in these trials is uncertain.

Our future capital requirements will depend on many factors, including:

- the type, number, scope, progress, expansions, results, costs and timing of, our preclinical studies and clinical trials of our product candidates which we are pursuing or may choose to pursue in the future;
- the costs and timing of manufacturing for our product candidates;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs of obtaining, maintaining and enforcing our patents and other intellectual property rights;
- our efforts to enhance operational systems and hire additional personnel to satisfy our obligations as a public company, including enhanced internal controls over financial reporting;
- the costs associated with hiring additional personnel and consultants as our preclinical and clinical activities increase;
- the timing and amount of the milestone or other payments we must make to the licensors and other third parties from whom we have in-licensed our acquired product candidates;
- the costs and timing of establishing or securing sales and marketing capabilities if any product candidate is approved;
- our ability to achieve sufficient market acceptance, coverage and adequate reimbursement from third-party payors and adequate market share and revenue for any approved products;
- the terms and timing of establishing and maintaining collaborations, licenses and other similar arrangements; and
- costs associated with any products or technologies that we may in-license or acquire.

Until such time as we can generate substantial product revenues to support our cost structure, if ever, we expect to finance our cash needs through equity offerings, our credit facility, debt financings or other capital sources, including potentially collaborations, licenses and other similar arrangements.

However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders will be or could be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise funds through collaborations, licenses and other similar arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us and/or may reduce the value of our common stock. Our failure to raise capital or enter into such other arrangements when needed could have a negative impact on our financial condition and on our ability to pursue our business plans and strategies. If we are unable to raise additional capital when needed, we could be forced to delay, limit, reduce or terminate our product candidate development or future commercialization efforts or grant rights to develop and market our product candidates even if we would otherwise prefer to develop and market such product candidates ourselves.

Contractual Obligations and Commitments

Under our license agreements with Pulmokine and Aerpio and our merger agreement with Adhaere, as well as our other license and acquisition agreements, we have payment obligations that are contingent upon future events such as our achievement of specified development, regulatory and commercial milestones and are required to make royalty payments in connection with the sale of products developed under those agreements. As of September 30, 2019, we were unable to estimate the timing or likelihood of achieving the outstanding milestones or making future product sales and, therefore, any related payments had not been accrued as the underlying contingencies had not yet been met.

We enter into contracts in the normal course of business with clinical trial sites and clinical supply manufacturers and with vendors for preclinical studies, research supplies and other services and products for operating purposes. These contracts generally provide for termination after a notice period, and, therefore, are cancelable contracts. During the three and nine months ended September 30, 2019, there have been no material changes outside of the ordinary course of business in the composition of these contractual obligations or commitments as discussed in Item 7, “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 22, 2019.

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 the rules and regulations of the SEC.

JOBS Act

As an emerging growth company under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, we can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption 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 intend to rely on other exemptions provided by the JOBS Act, including without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of Sarbanes-Oxley.

We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year following the fifth anniversary of the consummation of our IPO, (ii) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.07 billion, (iii) the last day of the fiscal year in which we are deemed to be a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock held by non-affiliates exceeded \$700.0 million as of the last business day of the second fiscal quarter of such year, or (iv) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2019, there have been no material changes surrounding our market risk, including interest rate risk, foreign currency exchange risk, and inflation risk, from the discussion provided in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 22, 2019.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this quarterly report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three and nine months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently subject to any material legal proceedings. From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. Regardless of the outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed by us in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 22, 2019, and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed with the SEC on May 14, 2019.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On February 7, 2019, our registration statement on Form S-1 (File No. 333-228984) was declared effective by the SEC for our initial public offering. At the closing of the offering on February 12, 2019, we sold 19,837,500 shares of common stock, which included the exercise in full by the underwriters of their option to purchase 2,587,500 additional shares, at an initial public offering price of \$16.00 per share and received gross proceeds of \$317.4 million, which resulted in net proceeds to us of approximately \$291.3 million, after deducting underwriting discounts and commissions of approximately \$22.2 million and offering-related transaction costs of approximately \$3.9 million. None of the expenses associated with the initial public offering were paid to directors, officers, persons owning ten percent or more of any class of equity securities, or to their associates, or to our affiliates. Merrill Lynch, Pierce, Fenner & Smith Incorporated, SVB Leerink LLC, Barclays Capital Inc. and Evercore Group L.L.C. acted as joint book-running managers for the offering.

As of September 30, 2019, we have not used any of the proceeds from our initial public offering. There has been no material change in the planned use of proceeds from our initial public offering from that described in the final prospectus filed by us with the SEC on February 8, 2019.

Issuer Repurchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	Amended and Restated Certificate of Incorporation.	8-K	2-12-2019	3.1	
3.2	Amended and Restated Bylaws.	8-K	2-12-2019	3.2	
4.1	Form of Common Stock Certificate.	S-1/A	1-23-2019	4.1	
4.2	Amended and Restated Investors' Rights Agreement, dated July 20, 2018, by and among the Registrant and certain of its stockholders.	S-1	1-21-2018	4.2	
10.1	First Amendment to Credit, Guaranty and Security Agreement, dated September 18, 2019, by and among GB001, Inc., as borrower, the Registrant, as guarantor, the other guarantors from time to time party thereto and MidCap Financial Trust, as Agent and as Lender, and the additional lenders from time to time party thereto.				X
31.1	Certification of Chief Executive Officer of Gossamer Bio, Inc., as required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer of Gossamer Bio, Inc., as required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	XBRL Report Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Calculation Linkbase Document				X
101.LAB	XBRL Taxonomy Label Linkbase Document				X
101.PRE	XBRL Presentation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X

* This certification is deemed not filed for purpose of section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

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.

GOSSAMER BIO, INC.

Date: November 12, 2019

By: /s/ Sheila Gujrathi
Sheila Gujrathi
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 2019

By: /s/ Bryan Giraudo
Bryan Giraudo
Chief Financial Officer
(Principal Financial and Accounting Officer)

OMNIBUS FIRST AMENDMENT TO CREDIT, GUARANTY AND SECURITY AGREEMENT AND FIRST AMENDMENT TO PLEDGE AGREEMENT

This OMNIBUS FIRST AMENDMENT TO CREDIT, GUARANTY AND SECURITY AGREEMENT AND FIRST AMENDMENT TO PLEDGE AGREEMENT (this “**Agreement**”) is made as of this 18th day of September, 2019 (“**Effective Date**”), by and among **GB001, INC.**, a Delaware corporation (“**Borrower**”), **GOSSAMER BIO, INC.**, Delaware corporation (“**Parent**”), and the Subsidiaries of Parent shown as signatories hereto, each as a Guarantor (collectively, with Parent, the “**Guarantors**”), **MIDCAP FINANCIAL TRUST**, as Agent for Lenders (in such capacity and together with its permitted successors and assigns, the “**Agent**”) and the other financial institutions or other entities from time to time parties to the Credit Agreement referenced below, each as a Lender.

RECITALS

A. Agent, Lenders, Borrower and Guarantors have entered into that certain Credit, Guaranty and Security Agreement, dated as of May 2, 2019 (as amended, restated, supplemented or otherwise modified prior to the date hereof, the “**Original Credit Agreement**” and as the same is amended hereby and as it may be further amended, restated, supplemented or otherwise modified from time to time, the “**Credit Agreement**”), pursuant to which the Lenders have agreed to make certain advances of money and to extend certain financial accommodations to Borrower in the amounts and manner set forth in the Credit Agreement.

B. Parent, certain of its direct and indirect Subsidiaries party thereto (together with Parent, the “**Pledgors**”) and Agent have entered into that certain Pledge Agreement, dated as of May 2, 2019 (as amended, restated, supplemented or otherwise modified prior to the date hereof, the “**Original Pledge Agreement**” and as the same is amended hereby and as it may be further amended, restated, supplemented or otherwise modified from time to time, the “**Pledge Agreement**”), pursuant to which the Pledgors have granted to Agent a security interest in certain equity interests set forth therein to secure the Obligations under the Credit Agreement.

C. Parent and certain of its Subsidiaries desire to consummate a corporation reorganization (the “**Reorganization**”) pursuant to which Gossamer Bio Luxembourg S.à r.l., a Luxembourg private limited liability company (*société à responsabilité limitée*) (the “**New Luxembourg Subsidiary**”) will be formed as a new direct Subsidiary of Parent and Parent will contribute to the New Luxembourg Subsidiary (x) all of the equity interest of Gossamer Bio Services Limited, a company incorporated and organized under the laws of Ireland (“**Gossamer Bio Services**”) pursuant to that certain Share Contribution Agreement, dated as of September 18, 2019, by and among Parent and the New Luxembourg Subsidiary and in the form most recently sent to Agent by Borrower prior to the date hereof (the “**Gossamer Bio Services Contribution Agreement**”), and (y) all of the equity interest of each of the Parent’s Subsidiaries set forth on **Exhibit A** hereto (together with Gossamer Bio Services, collectively, the “**Irish Subsidiaries**”), pursuant to the that certain Share Contribution Agreement, dated on or about September 18, 2019, by and among Parent and the New Luxembourg Subsidiary and in the form most recently sent to Agent by Borrower prior to the date hereof (the “**Irish Subsidiaries Contribution Agreement**” and together with the Gossamer Bio Services Contribution Agreement, the “**Contribution Agreements**”).

D. Parent, Borrower and the other Guarantors have requested that Agent and the Lenders constituting at least the Required Lenders (i) consent to the Reorganization, (ii) amend certain terms of the Original Credit Agreement relating to the Reorganization and (iii) amend certain terms of the Original Pledge Agreement relating to the Reorganization, including the release of Agent’s security interest in the Released Collateral (defined below) and, on and subject to the conditions and terms set forth herein, the Agent and the Lenders constituting at least the Required Lenders have agreed to consent to the Reorganization and so amend the Original Credit Agreement and the Original Pledge Agreement, each as more fully set forth and subject to the terms and conditions herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the terms and conditions set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent, Required Lenders, and Borrower hereby agree as follows:

1. **Recitals; Construction.** This Agreement shall constitute a Financing Document and the Recitals and each reference to the Credit Agreement, unless otherwise expressly noted, will be deemed to reference the Credit Agreement as modified hereby. The Recitals set forth above shall be construed as part of this Agreement as if set forth fully in the body of this Agreement. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement (including those capitalized terms used in the Recitals hereto).

2. **Limited Consent.**

(a) Subject to the satisfaction of the conditions and accordance with the terms set forth in this Agreement, notwithstanding Section 7.1 of the Credit Agreement, Agent and each Required Lender hereby consents to the consummation of the Reorganization; *provided*, that (i) the Reorganization shall be consummated, in all material respects, in accordance with the terms of the Contribution Agreements and (ii) at the time the Reorganization is consummated and after giving effect thereto, no Event of Default has occurred and is continuing.

(b) The limited consent in paragraph 2(a) is effective solely for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (i) except as expressly provided herein, be a consent to any amendment, waiver or modification of any term or condition of the Credit Agreement or of any other Financing Document; (ii) prejudice any right that Agent or the Lenders have or may have in the future under or in connection with the Credit Agreement or any other Financing Document; (iii) waive any Default and/or Event of Default that may exist and is continuing as of the date hereof; or (iv) establish a custom or course of dealing among Borrower, on the one hand, and Agent or any Lender, on the other hand.

(c) Each party hereto acknowledges and agrees that, as of the date hereof, New Luxembourg Subsidiary and each Irish Subsidiary constitutes a Restricted Foreign Subsidiary under the Credit Agreement and each other Financing Document and that each such Subsidiary shall be subject to all terms, covenants and agreements in any Financing Document applicable to Restricted Foreign Subsidiaries, including, without limitation, Section 6.8 of the Credit Agreement.

3. **Amendment to Credit Agreement.** Subject to the terms and conditions of this Agreement, including, without limitation, the conditions to effectiveness set forth in Section 7 below, the Original Credit Agreement is hereby amended as follows:

(a) Clause (a) of the definition of “**Excluded Property**” in Article 16 of the Original Credit Agreement is hereby amended by inserting “(excluding the Luxembourg Subsidiary)” immediately following “Restricted Foreign Subsidiary” in the second line thereof.

4. **Amendments to the Original Pledge Agreement.**

(a) Schedule I of the Original Pledge Agreement is hereby amended by deleting such schedule in its entirety and replacing it with the attached Schedule I.

(b) Agent, without recourse, representation or warranty and at Credit Parties' sole cost and expense, hereby releases all of its right, title and interest in and to all Equity Interests (as defined in the Original Pledge Agreement) of the Irish Subsidiaries pledged to Agent by Parent (collectively, the "**Released Collateral**").

5. **Representations and Warranties; Reaffirmation of Security Interest.** Each Credit Party hereby confirms that all of the representations and warranties set forth in the Credit Agreement are true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) with respect to such Credit Party as of the date hereof except to the extent that any such representation or warranty relates to a specific date in which case such representation or warranty shall be true and correct in all material respects as of such earlier date. Nothing herein is intended to impair or limit the validity, priority or extent of Agent's security interests in and Liens on the Collateral. Each Credit Party acknowledges and agrees that the Credit Agreement, the other Financing Documents and this Agreement constitute the legal, valid and binding obligation of such Credit Party, and are enforceable against such Credit Party in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws relating to the enforcement of creditors' rights generally and by general equitable principles.

6. **Conditions to Effectiveness.** This Agreement shall become effective as of the date on which each of the following conditions has been satisfied, as determined by Agent in its sole discretion:

(a) Agent shall have received (including by way of facsimile or other electronic transmission) a duly authorized, executed and delivered counterpart of the signature page to this Agreement, from Borrower, each Guarantor, Agent and the Required Lenders;

(b) Agent shall have received complete and correct copies of the organizational documents of New Luxembourg Subsidiary as in effect on the date hereof and any other document, agreement or instrument related thereto reasonably requested by Agent;

(c) To the extent certificated, Agent shall have received the original stock certificate of New Luxembourg Subsidiary and an accompanying undated stock powers executed by the Parent;

(d) Agent shall have received fully executed copies of each Contribution Agreement and each document, agreement or instrument executed in connection therewith and evidence reasonably satisfactory to Agent that the Reorganization will be consummated substantially contemporaneously (and in any event within three (3) Business Days) with the execution hereof;

(e) all representations and warranties of the Credit Parties contained herein shall be true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) as of the date hereof, except to the extent that any such representation or warranty relates to a specific date in which case such representation or warranty shall be true and correct in all material respects as of such earlier date (without duplication of any materiality qualifier in the text of such representation or warranty) (and such parties' delivery of their respective signatures hereto shall be deemed to be its certification thereof);

(f) both immediately before and after giving effect to this Agreement, no Default or Event of Default shall have occurred and be continuing or result therefrom; and

(g) the Credit Parties shall have delivered such other documents, information, certificates, records, permits, and filings as the Agent may reasonably request.

7. **Release.** In consideration of the agreements of Agent and Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Credit Party, voluntarily, knowingly, unconditionally and irrevocably, with specific and express intent, for and on behalf of itself and all of its respective parents, subsidiaries, affiliates, members, managers, predecessors, successors, and assigns, and each of their respective current and former directors, officers, shareholders, agents, and employees, and each of their respective predecessors, successors, heirs, and assigns (individually and collectively, the “**Releasing Parties**”) does hereby fully and completely release, acquit and forever discharge each of Agent, Lenders, and each their respective parents, subsidiaries, affiliates, members, managers, shareholders, directors, officers and employees, and each of their respective predecessors, successors, heirs, and assigns (individually and collectively, the “**Released Parties**”), of and from any and all actions, causes of action, suits, debts, disputes, damages, claims, obligations, liabilities, costs, expenses and demands of any kind whatsoever, at law or in equity, whether matured or unmatured, liquidated or unliquidated, vested or contingent, choate or inchoate, known or unknown that the Releasing Parties (or any of them) has against the Released Parties or any of them (whether directly or indirectly), based in whole or in part on facts, whether or not now known, existing on or before the Effective Date. Each Credit Party acknowledges that the foregoing release is a material inducement to Agent’s and each Lender’s decision to enter into this Agreement and agree to the modifications contemplated hereunder, and has been relied upon by Agent and Lenders in connection therewith.

8. **No Waiver or Novation.** The execution, delivery and effectiveness of this Agreement shall not operate as a waiver of any right, power or remedy of Agent, nor constitute a waiver of any provision of the Credit Agreement, the Financing Documents or any other documents, instruments and agreements executed or delivered in connection with any of the foregoing. Nothing herein is intended or shall be construed as a waiver of any existing Defaults or Events of Default under the Credit Agreement or other Financing Documents or any of Agent’s rights and remedies in respect of such Defaults or Events of Default. This Agreement (together with any other document executed in connection herewith) is not intended to be, nor shall it be construed as, a novation of the Credit Agreement.

9. **Affirmation.** Except as specifically amended pursuant to the terms hereof, each Credit Party hereby acknowledges and agrees that the Credit Agreement and all other Financing Documents (and all covenants, terms, conditions and agreements therein) shall remain in full force and effect, and are hereby ratified and confirmed in all respects by such Credit Party, including without limitation the granting of Liens in the Collateral to secure the Obligations and other Financing Documents. Each Credit Party covenants and agrees to comply with all of the terms, covenants and conditions of the Credit Agreement and the Financing Documents, notwithstanding any prior course of conduct, waivers, releases or other actions or inactions on Agent’s or any Lender’s part which might otherwise constitute or be construed as a waiver of or amendment to such terms, covenants and conditions. Each Credit Party confirms and agrees that all security interests and Liens granted to Agent pursuant to the Financing Documents continue in full force and effect, and all Collateral remains free and clear of any Liens, other than those granted to Agent and Permitted Liens.

10. **Miscellaneous.**

(a) **Reference to the Effect on the Credit Agreement.** Upon the effectiveness of this Agreement, each reference in the Credit Agreement to “this Agreement,” “hereunder,” “hereof,” “herein,” or words of similar import shall mean and be a reference to the Credit Agreement, as modified by this Agreement. Except as specifically set forth above, the Credit Agreement, and all other Financing Documents (and all covenants, terms, conditions and agreements therein), shall remain in full force and effect, and are hereby ratified and confirmed in all respects by each Credit Party.

(b) THIS AGREEMENT AND THE RIGHTS, REMEDIES AND OBLIGATIONS OF THE PARTIES HERETO, AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS AGREEMENT, THE RELATIONSHIP OF THE PARTIES, AND/OR THE INTERPRETATION AND ENFORCEMENT OF THE RIGHTS AND DUTIES OF THE PARTIES AND ALL OTHER MATTERS RELATING HERETO OR ARISING THEREFROM (WHETHER SOUNDING IN CONTRACT LAW, TORT LAW OR OTHERWISE), SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW). NOTWITHSTANDING THE FOREGOING, AGENT AND LENDERS SHALL HAVE THE RIGHT TO BRING ANY ACTION OR PROCEEDING AGAINST EACH CREDIT PARTY OR ITS PROPERTY IN THE COURTS OF ANY OTHER JURISDICTION WHICH AGENT AND LENDERS (IN ACCORDANCE WITH THE PROVISIONS OF SECTION 12.1 OF THE CREDIT AGREEMENT) DEEM NECESSARY OR APPROPRIATE TO REALIZE ON THE COLLATERAL OR TO OTHERWISE ENFORCE AGENT’S AND LENDERS’ RIGHTS AGAINST SUCH CREDIT PARTY OR ITS PROPERTY. EACH CREDIT PARTY EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND EACH CREDIT PARTY HEREBY WAIVES ANY OBJECTION THAT IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE, OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. EACH CREDIT PARTY HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINTS, AND OTHER PROCESS ISSUED IN SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS, AND OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO THE APPLICABLE CREDIT PARTY AT THE ADDRESS SET FORTH IN ARTICLE 11 OF THE CREDIT AGREEMENT AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE EARLIER TO OCCUR OF SUCH CREDIT PARTY’S ACTUAL RECEIPT THEREOF OR THREE (3) DAYS AFTER DEPOSIT IN THE U.S. MAIL, PROPER POSTAGE PREPAID.

(c) TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH CREDIT PARTY, AGENT AND LENDERS EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

(d) **Incorporation of Credit Agreement Provisions.** The provisions contained in Section 13.2 (Indemnification) of the Credit Agreement are incorporated herein by reference to the same extent as if reproduced herein in their entirety.

(e) **Headings.** Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

(f) Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart of this Agreement by facsimile or by electronic mail delivery of an electronic version (e.g., .pdf or .tif file) of an executed signature page shall be effective as delivery of an original executed counterpart hereof and shall bind the parties hereto.

(g) Entire Agreement. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

(h) Severability. In case any provision of or obligation under this Agreement shall be invalid, illegal or unenforceable in any applicable jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

(i) Successors/Assigns. This Agreement shall bind, and the rights hereunder shall inure to, the respective successors and assigns of the parties hereto, subject to the provisions of the Credit Agreement and the other Financing Documents.

[SIGNATURES APPEAR ON FOLLOWING PAGES]

IN WITNESS WHEREOF, intending to be legally bound, the undersigned have executed this Agreement as of the day and year first hereinabove set forth.

AGENT:

MIDCAP FINANCIAL TRUST, a Delaware statutory trust

By: Apollo Capital Management, L.P., its investment manager

By: Apollo Capital Management GP, LLC, its general partner

By: /s/ Maurice Amsellem

Name: Maurice Amsellem

Title: Authorized Signatory

LENDERS:

MIDCAP FINANCIAL TRUST, a Delaware statutory trust

By: Apollo Capital Management, L.P., its investment manager

By: Apollo Capital Management GP, LLC, its general partner

By: /s/ Maurice Amsellem

Name: Maurice Amsellem

Title: Authorized Signatory

MIDCAP FUNDING H TRUST, a Delaware statutory trust

By: Apollo Capital Management, L.P., its investment manager

By: Apollo Capital Management GP, LLC, its general partner

By: /s/ Maurice Amsellem

Name: Maurice Amsellem

Title: Authorized Signatory

LENDER:

APOLLO INVESTMENT CORPORATION

By: Apollo Investment Management, L.P., as Advisor

By: ACC Management, LLC, as its General Partner

By: /s/ Joseph D. Glatt

Name: Joseph D. Glatt

Title: Vice President

LENDER:

SILICON VALLEY BANK

By: /s/ Kristine Rohmer

Name: Kristine Rohmer

Title: Vice President

LENDER:

FLEXPOINT MCLS HOLDINGS LLC

By: /s/ Daniel Edelman

Name: Daniel Edelman

Title: Vice President

LENDER:

ELM 2018-2 TRUST

By: MidCap Financial Services Capital Management, LLC, as Servicer

By: /s/ John O'Dea

Name: John O'Dea

Title: Authorized Signatory

BORROWER:

GB001, INC.

By: /s/ Christian Waage

Name: Christian Waage

Title: Director

GUARANTORS:

GOSSAMER BIO, INC.

By: /s/ Christian Waage
Name: Christian Waage
Title: Executive Vice President & General Counsel

GB002, INC.

By: /s/ Christian Waage
Name: Christian Waage
Title: Director

GB003, INC.

By: /s/ Christian Waage
Name: Christian Waage
Title: Director

GB004, INC.

By: /s/ Christian Waage
Name: Christian Waage
Title: Director

GB005, INC.

By: /s/ Christian Waage
Name: Christian Waage
Title: Director

GB006, INC.

By: /s/ Christian Waage
Name: Christian Waage
Title: Director

GB007, INC.

By: /s/ Christian Waage
Name: Christian Waage
Title: Director

GOSSAMER BIO SERVICES, INC.

By: /s/ Christian Waage
Name: Christian Waage
Title: Director

ACKNOWLEDGED AND AGREED:

**GOSSAMER BIO LUXEMBOURG S.À R.L.,
as an Issuer**

By: /s/ Bryan Giraudo
Name: Bryan Giraudo
Title: Director

EXHIBIT A

GOSSAMER BIO 001 LTD.

GOSSAMER BIO 002 LTD.

GOSSAMER BIO 003 LTD.

GOSSAMER BIO 004 LTD.

GOSSAMER BIO 005 LTD.

GOSSAMER BIO 006 LTD.

GOSSAMER BIO 007 LTD.

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Sheila Gujrathi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gossamer Bio, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Sheila Gujrathi

Sheila Gujrathi

President and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Bryan Giraudo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gossamer Bio, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Bryan Giraudo

Bryan Giraudo

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

I, Sheila Gujrathi, President and Chief Executive Officer of Gossamer Bio, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the accompanying Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 (the "Report"), as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: November 12, 2019

/s/ Sheila Gujrathi

Sheila Gujrathi

President and Chief Executive Officer

(Principal Executive Officer)

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

I, Bryan Giraudo, Chief Financial Officer of Gossamer Bio, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the accompanying Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 (the “Report”), as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: November 12, 2019

/s/ Bryan Giraudo

Bryan Giraudo

Chief Financial Officer

(Principal Financial and Accounting Officer)