
**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 March 31, 2023

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-38796

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	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 May 4, 2023, the registrant had 95,444,095 shares of common stock (\$0.0001 par value) outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

GOSSAMER BIO, INC.

Condensed Consolidated Balance Sheets

(in thousands, except share and par value amounts)

	March 31, 2023	December 31, 2022
ASSETS	(unaudited)	
Current assets		
Cash and cash equivalents	\$ 65,242	\$ 111,973
Marketable securities	136,614	143,705
Prepaid expenses and other current assets	8,557	6,202
Total current assets	210,413	261,880
Property and equipment, net	3,516	3,981
Operating lease right-of-use assets	5,234	5,909
Other assets	743	680
Total assets	\$ 219,906	\$ 272,450
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	\$ 2,731	\$ 1,459
Accrued research and development expenses	11,523	15,626
Current portion of long-term debt	11,613	11,613
Accrued expenses and other current liabilities	14,704	20,532
Total current liabilities	40,571	49,230
Long-term convertible senior notes	195,925	195,709
Long-term debt	9,221	11,988
Operating lease liabilities - long-term	2,645	3,446
Total liabilities	248,362	260,373
Commitments and contingencies (Note 9)		
Stockholders' equity (deficit)		
Common stock, \$0.0001 par value; 700,000,000 shares authorized as of March 31, 2023 and December 31, 2022; 95,444,096 shares issued and outstanding as of March 31, 2023, and 94,478,405 shares issued and 94,423,181 shares outstanding as of December 31, 2022	10	10
Additional paid-in capital	1,053,358	1,044,864
Accumulated deficit	(1,081,388)	(1,032,223)
Accumulated other comprehensive loss	(436)	(574)
Total stockholders' equity (deficit)	(28,456)	12,077
Total liabilities and stockholders' equity (deficit)	\$ 219,906	\$ 272,450

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

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

	Three months ended March 31,	
	2023	2022
Operating expenses:		
Research and development	\$ 37,795	\$ 42,322
In process research and development	15	20
General and administrative	10,132	12,001
Total operating expenses	47,942	54,343
Loss from operations	(47,942)	(54,343)
Other expense		
Interest income	587	224
Interest expense	(3,500)	(3,467)
Other income (expense), net	1,690	(199)
Total other expense, net	(1,223)	(3,442)
Net loss	\$ (49,165)	\$ (57,785)
Other comprehensive income (loss):		
Foreign currency translation	23	(8)
Unrealized gain (loss) on marketable securities	115	(377)
Other comprehensive income (loss)	138	(385)
Comprehensive loss	(49,027)	(58,170)
Net loss per share, basic and diluted	\$ (0.52)	\$ (0.76)
Weighted average common shares outstanding, basic and diluted	94,870,293	75,894,692

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

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

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' equity (deficit)
	Shares	Amount				
Balance as of December 31, 2022	94,423,181	\$ 10	\$ 1,044,864	\$ (1,032,223)	\$ (574)	\$ 12,077
Vesting of restricted stock	55,225	—	—	—	—	—
Stock-based compensation	—	—	8,127	—	—	8,127
Issuance of common stock pursuant to Employee Stock Purchase Plan	249,623	—	367	—	—	367
Issuance of common stock for restricted stock units vested	716,067	—	—	—	—	—
Net loss	—	—	—	(49,165)	—	(49,165)
Other comprehensive income	—	—	—	—	138	138
Balance as of March 31, 2023	95,444,096	\$ 10	\$ 1,053,358	\$ (1,081,388)	\$ (436)	\$ (28,456)

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount				
Balance as of December 31, 2021	75,752,664	\$ 8	\$ 932,944	\$ (811,534)	\$ 45	\$ 121,463
Cumulative-effect adjustment from change in accounting principle (See Note 2)	—	—	(53,527)	8,689	—	(44,838)
Vesting of restricted stock	165,675	—	—	—	—	—
Exercise of stock options	39,525	—	126	—	—	126
Stock-based compensation	—	—	10,983	—	—	10,983
Issuance of common stock pursuant to Employee Stock Purchase Plan	77,496	—	595	—	—	595
Issuance of common stock for restricted stock units vested	518,577	—	—	—	—	—
Net loss	—	—	—	(57,785)	—	(57,785)
Other comprehensive loss	—	—	—	—	(385)	(385)
Balance as of March 31, 2022	76,553,937	\$ 8	\$ 891,121	\$ (860,630)	\$ (340)	\$ 30,159

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

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

	Three months ended March 31,	
	2023	2022
Cash flows from operating activities		
Net loss	\$ (49,165)	\$ (57,785)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	465	452
Stock-based compensation expense	8,127	10,983
In process research and development expenses	15	20
Amortization of operating lease right-of-use assets	675	645
Amortization of long-term debt discount and issuance costs	352	292
Amortization of premium (discount) on marketable securities, net of accretion of discounts	(1,531)	125
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(2,355)	(2,589)
Other assets	(63)	61
Operating lease liabilities	(723)	(683)
Accounts payable	1,223	(2,507)
Accrued expenses and other current liabilities	(273)	52
Accrued research and development expenses	(4,103)	753
Accrued compensation and benefits	(8,117)	(5,802)
Accrued interest expense	2,484	2,500
Net cash used in operating activities	(52,989)	(53,483)
Cash flows from investing activities		
Research and development asset acquisitions, net of cash acquired	(15)	(20)
Purchase of marketable securities	(76,863)	(37,403)
Maturities of marketable securities	85,600	46,000
Purchase of property and equipment	—	(157)
Net cash provided by investing activities	8,722	8,420
Cash flows from financing activities		
Proceeds from issuance of common stock pursuant to Employee Stock Purchase Plan	367	595
Proceeds from the exercise of stock options	—	126
Principal repayments of long-term debt	(2,903)	—
Net cash provided by (used in) financing activities	(2,536)	721
Effect of exchange rate changes on cash and cash equivalents	72	(154)
Net decrease in cash and cash equivalents	(46,731)	(44,496)
Cash and cash equivalents, at the beginning of the period	111,973	183,467
Cash, cash equivalents and restricted cash, at the end of the period	\$ 65,242	\$ 138,971
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 663	\$ 675
Supplemental disclosure of noncash investing and financing activities:		
Operating lease right-of-use asset obtained in exchange for lease liability	\$ —	\$ 3,029
Change in unrealized gain (loss) on marketable securities, net	\$ 115	\$ (377)

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

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

Note 1 - Description of 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 unaudited 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.

Liquidity and Capital Resources

The Company has incurred significant operating losses since its inception. As of March 31, 2023, the Company had an accumulated deficit of \$1,081.4 million. From the Company’s inception through March 31, 2023, the Company has funded its operations primarily through equity and debt financings. The Company raised \$1,062.1 million from October 2017 through March 31, 2023 through the sale of Series A and Series B convertible preferred stock, issuance of convertible notes, its initial public offering (“IPO”), the Credit Facility and 2027 Notes (as defined in Note 5 below), and issuance of common stock in May 2020 and July 2022. See Note 5 for additional information regarding the Credit Facility and the 2027 Notes.

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 additional capital through equity offerings, debt financings or 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 12 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.

Note 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, 2022 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 17, 2023. 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, 2022, 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. 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.

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. The Company uses the if-converted method for assumed conversion of the 2027 Notes to compute the weighted average shares of common stock outstanding for diluted net loss per share. Diluted net loss per share excludes the potential impact of the Company's common stock options and unvested shares of restricted stock and the potential shares issuable upon conversion of the 2027 Notes 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 March 31,	
	2023	2022
2027 Notes	12,321,900	12,321,900
Shares issuable upon exercise of stock options	21,681,917	13,321,692
Non-vested shares under restricted stock grants	544,336	2,415,204
Total potentially dilutive securities	<u>34,548,153</u>	<u>28,058,796</u>

Note 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)	March 31, 2023	December 31, 2022
Office equipment	3-7	\$ 1,097	\$ 1,097
Computer equipment	5	123	123
Software	3	130	130
Lab equipment	2-5	6,180	6,098
Leasehold improvements	6-7	2,562	2,562
Construction in process	N/A	—	83
Total property and equipment		<u>10,092</u>	<u>10,093</u>
Less: accumulated depreciation		6,576	6,112
Property and equipment, net		<u>\$ 3,516</u>	<u>\$ 3,981</u>

For each of the three months ended March 31, 2023 and 2022 the Company recorded approximately \$0.5 million in depreciation expense, which is included in general and administrative expense and research and development expense on the consolidated statements of operations and comprehensive loss.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	As of	
	March 31, 2023	December 31, 2022
Accrued compensation and benefits	\$ 5,417	\$ 13,534
Operating lease liabilities	3,060	2,983
Accrued consulting fees	1,137	1,104
Accrued interest	3,549	1,065
Accrued legal fees	390	380
Accrued accounting fees	185	521
Accrued other	966	945
Total accrued expenses and other current liabilities	<u>\$ 14,704</u>	<u>\$ 20,532</u>

Note 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.

The Company classifies its cash equivalents and available-for-sale investments within Level 1 or Level 2. The fair value of the Company's 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 March 31, 2023 and December 31, 2022 (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 March 31, 2023				
Money market funds	\$ 53,868	\$ 53,868	\$ —	\$ —
U.S. Treasury and agency securities	51,358	51,358	—	—
Commercial paper	72,066	—	72,066	—
Corporate debt securities	17,354	—	17,354	—
As of December 31, 2022				
Money market funds	\$ 54,662	\$ 54,662	\$ —	\$ —
U.S. Treasury and agency securities	31,458	31,458	—	—
Commercial paper	134,954	—	134,954	—
Corporate debt securities	8,838	—	8,838	—

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 March 31, 2023 and December 31, 2022, the carrying amounts of the Company's financial instruments, which include cash, restricted cash, prepaid and other current assets, interest receivable, accrued research and development expenses, accounts payable and accrued expenses and other current liabilities, approximate fair values because of their short maturities.

There was no significant interest receivable as of March 31, 2023 and December 31, 2022. Interest receivable is recorded as a component of prepaid expenses and other current assets on the condensed consolidated balance sheets.

The Company believes that its Credit Facility bears interest at a rate that approximates prevailing market rates for instruments with similar characteristics and, accordingly, the carrying value of the Credit Facility approximates fair value. The Company estimates the fair value of long-term debt utilizing an income approach. The Company uses 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.

As of March 31, 2023 and December 31, 2022, the fair value of the Company's 2027 Notes was \$59.1 million and \$61.0 million, respectively. The fair value was determined on the basis of market prices observable for similar instruments and is considered Level 2 in the fair value hierarchy (see Note 5).

Available for Sale Investments

The Company invests its excess cash in U.S. Treasury and agency securities, corporate debt securities, and commercial paper, which are classified as available-for-sale investments. These investments are carried at fair value and are included in the tables below. The Company evaluates securities with unrealized losses to determine whether such losses, if any, are due to credit-related factors. Realized gains and losses are calculated using the specific identification method and recorded in other income (expense) in the Company's condensed consolidated statement of operations and comprehensive loss. The Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recover of their amortized cost basis.

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 March 31, 2023 and December 31, 2022 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value
As of March 31, 2023				
U.S. Treasury and agency securities	\$ 51,340	\$ 18	\$ —	\$ 51,358
Corporate debt securities	17,346	8	—	17,354
Commercial paper	67,936	—	(34)	67,902
Total marketable securities	\$ 136,622	\$ 26	\$ (34)	\$ 136,614
Number of securities with unrealized losses			12	
As of December 31, 2022				
U.S. Treasury and agency securities	\$ 31,445	\$ 13	\$ —	\$ 31,458
Corporate debt securities	8,876	—	(38)	8,838
Commercial paper	103,508	—	(99)	103,409
Total marketable securities	\$ 143,829	\$ 13	\$ (137)	\$ 143,705
Number of securities with unrealized losses			16	

As of March 31, 2023 and December 31, 2022, the Company classified \$4.2 million and \$31.5 million, respectively, of assets with original maturities of 90 days or less as cash and cash equivalents.

At each reporting date, the Company performs an evaluation of impairment to determine if any unrealized losses are due to credit-related factors. The Company records an allowance for credit losses when unrealized losses are due to credit-related factors. Factors considered when evaluating available-for-sale investments for impairment include the severity of the impairment, changes in underlying credit ratings, the financial condition of the issuer, the probability that the scheduled cash payments will continue to be made and the Company's intent and ability to hold the investment until recovery of the amortized cost basis. The Company intends and has the ability to hold its investments in unrealized loss positions until their amortized cost basis has been recovered. As of March 31, 2023 and December 31, 2022, there were no material declines in the market value of the Company's available-for-sale investments due to credit-related factors.

Contractual maturities of available-for-sale debt securities, as of March 31, 2023, were as follows (in thousands):

	Estimated Fair Value
Less than one year	\$ 136,614
Greater than one year	—
Total	\$ 136,614

The Company has the ability, if necessary, to liquidate any of its cash equivalents and marketable securities to meet its liquidity needs in the next 12 months.

Note 5 - Indebtedness

Credit Facility

On May 2, 2019, the Company entered into a credit, guaranty and security agreement, as amended on September 18, 2019, July 2, 2020, December 7, 2022 and February 14, 2023 (the "Credit Facility"), with MidCap Financial Trust ("MidCap"), as agent and lender, and the additional lenders party thereto from time to time (together with MidCap, the "Lenders"), pursuant to which the Lenders, 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 two additional tranches (each \$60.0 million), subject to specified availability periods, the achievement of certain clinical development milestones, minimum cash requirements and other customary conditions. The Company did not achieve the clinical development milestone required to access one of the \$60.0 million tranches, and access to the other \$60.0 million tranche expired on December 31, 2022. The Company, GB001, Inc., GB002, Inc., and GB004, Inc., each wholly-owned subsidiaries of the Company, are designated as co-borrowers to the

Credit Facility, whereas GB003, Inc., GB005, Inc., GB007, Inc., GB008, Inc. and Gossamer Bio Services, Inc., each wholly-owned subsidiaries of the Company, are designated as guarantors. The Credit Facility is secured by substantially all of the Company's and its domestic subsidiaries' personal property, including intellectual property.

Each term loan under the Credit Facility bears interest at an annual rate equal to the sum of (i) the secured overnight financing rate ("SOFR"), plus corresponding spread, plus (ii) 7.00%, subject to a SOFR floor of 2.00%. The borrower is required to make interest-only payments on the term loan for all payment dates prior to July 1, 2022. The term loans under the Credit Facility began amortizing on July 1, 2022, 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 until the Credit Facility matures on January 1, 2025. 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 3.00% of any amount prepaid if the prepayment occurs through and including the first anniversary of the second amendment effective date, 2.00% of the amount prepaid if the prepayment occurs after the first anniversary of the second amendment effective date through and including the second anniversary of the second amendment effective date, and 1.00% of any amount prepaid after the second anniversary of the second amendment effective date and prior to January 1, 2025.

On December 7, 2022, the Company entered into the Third Amendment to the Credit Facility, with no change to the principal or repayment terms, except with respect to the interest rate applicable to the Credit Facility, with the implementation of a forward-looking term rate based on SOFR as the replacement of LIBOR as the benchmark interest rate. The Company accounted for the change in reference rate as a non-substantial modification as allowed under ASU 2020-04.

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 March 31, 2023, 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 3.00% 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 ("FDA") 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 \$2.5 million and the occurrence of certain defaults under subordinated indebtedness and convertible indebtedness.

Debt consisted of the following (in thousands):

	March 31, 2023	December 31, 2022
Debt, current portion	\$ 11,613	\$ 11,613
Debt, non-current portion	9,677	12,581
Total debt	21,290	24,194
Less: unamortized debt discount and issuance costs	(456)	(593)
Debt, net	\$ 20,834	\$ 23,601

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

	March 31, 2023
2023 (remaining 9 months)	\$ 8,709
2024	11,613
2025	968
Total	<u>\$ 21,290</u>

5.00% Convertible Senior Notes due 2027

On May 21, 2020, the Company issued \$200.0 million aggregate principal amount of 5.00% convertible senior notes due 2027 in a public offering (the "2027 Notes"). The 2027 Notes were registered pursuant to the Company's shelf registration statement on Form S-3 filed with the SEC on April 10, 2020. The interest rate on the 2027 Notes is fixed at 5.00% per annum. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2020. The 2027 Notes will mature on June 1, 2027. The net proceeds from the offering, after deducting the underwriting discounts and commissions and other offering costs, were approximately \$193.6 million. The 2027 Notes may be settled in cash, shares of the Company's common stock, or a combination thereof, solely at the Company's election. The initial conversion rate of the 2027 Notes is 61.6095 shares per \$1,000 principal amount, which is equivalent to a conversion price of approximately \$16.23 per share, subject to adjustments. In addition, following certain corporate events that occur prior to the maturity date or if the Company issues a notice of redemption, the Company will increase the conversion rate for a holder who elects to convert its 2027 Notes in connection with such a corporate event during the related redemption period in certain circumstances.

The 2027 Notes are senior unsecured obligations of the Company, ranking senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the 2027 Notes, and are effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness, including all indebtedness under the Credit Facility.

Holder may convert their notes at their option only in the following circumstances: (1) during any calendar quarter (and only during such calendar quarter) commencing after the calendar quarter ending on September 30, 2020, if the last reported sale price per share of the Company's common stock exceeds 130% of the conversion price for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter; (2) during the five consecutive business days immediately after any 10 consecutive trading day period (such 10 consecutive trading day period, the "measurement period") in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price per share of the Company's common stock on such trading day and the conversion rate on such trading day; (3) upon the occurrence of certain corporate events or distributions on the Company's common stock; (4) if the Company calls such notes for redemption; and (5) at any time from, and including, March 1, 2027 until the close of business on the scheduled trading day immediately before the maturity date.

The Company will not have the right to redeem the 2027 Notes prior to June 6, 2024. On or after June 6, 2024 and on or before the 50th scheduled trading day immediately before the maturity date, the Company may redeem the 2027 Notes, in whole or in part, if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect on (1) each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (2) the trading day immediately before the date the Company sends such notice. In the case of any optional redemption, the Company will redeem the 2027 Notes at a redemption price equal to 100% of the principal amount of such Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

If the Company undergoes a fundamental change prior to the maturity date of the 2027 Notes, holders of the 2027 Notes may require the Company to repurchase for cash all or part of their 2027 Notes at a repurchase price equal to 100% of the principal amount of the 2027 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The indenture governing the 2027 Notes provides for customary terms and covenants, including that upon certain events of default, either the trustee or the holders of not less than 25% in aggregate principal amount of the 2027 Notes then outstanding may declare the unpaid principal amount of the 2027 Notes and accrued and unpaid interest, if any, thereon immediately due and payable. As of March 31, 2023, the Company was in compliance with these covenants. In the case of certain events of bankruptcy, insolvency or reorganization, the principal amount of the 2027 Notes together with accrued and unpaid interest, if any, thereon will automatically become and be immediately due and payable.

As of March 31, 2023, there were no events or market conditions that would allow holders to convert the 2027 Notes. When the 2027 Notes become convertible within 12 months of the balance sheet date, the carrying value of the 2027 Notes will be reclassified to short-term.

Prior to the adoption of ASU 2020-06, the Company accounted for the 2027 Notes as a liability and equity component. The carrying amount of the liability component was calculated by measuring the fair value of similar debt instruments that do not have associated convertible features. The carrying amount of the equity component representing the conversion option was \$53.5 million and was determined by deducting the fair value of the liability component from the par value of the 2027 Notes. The equity component was not re-measured as long as it continued to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (“debt discount”) was amortized to interest expense over the term of the 2027 Notes. The debt discount is amortized to interest expense over the term of the 2027 Notes at an effective interest rate of 11.17% over the contractual terms of the 2027 Notes.

The Company accounts for the 2027 Notes as a single liability measured at amortized cost. As the equity component is no longer required to be split into a separate component, the Company recorded an adjustment to reflect this update. See Note 2 for the impact of this adjustment upon adoption to the 2027 Notes.

In accounting for the debt issuance costs of \$0.4 million related to the 2027 Notes, the Company allocated the total amount incurred to the liability and equity components of the 2027 Notes based on their relative fair values. Issuance costs attributable to the liability component were \$0.3 million, were recorded as a reduction to the liability portion of the 2027 Notes and were amortized to interest expense over the term of the 2027 Notes. Issuance costs attributable to the equity component, representing the conversion option, were netted with the equity component in stockholders' equity.

The net carrying amount of the 2027 Notes was as follows (in thousands):

	March 31, 2023	December 31, 2022
Principal amount	\$ 200,000	\$ 200,000
Unamortized debt discount	(3,818)	(4,021)
Unamortized debt issuance cost	(257)	(270)
Net carrying amount	<u>\$ 195,925</u>	<u>\$ 195,709</u>

The following table sets forth the interest expense recognized related to the 2027 Notes (in thousands):

	Three months ended March 31,	
	2023	2022
Contractual interest expense	\$ 2,500	\$ 2,500
Amortization of debt discount	202	191
Amortization of debt issuance cost	14	13
Total interest expense related to the 2027 Notes	<u>\$ 2,716</u>	<u>\$ 2,704</u>

Note 6 - Licenses, 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 statements of operations and comprehensive loss for the three months ended March 31, 2023 and 2022.

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.

License from Pulmokine, Inc. (Seralutinib)

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 seralutinib 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 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 \$58.0 million, which includes a payment of \$10.0 million due upon initiation of the first Phase 3 clinical trial, 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. In addition, if the Company chooses to sublicense or assign to any third parties its rights under the agreement with respect to a licensed product, or the Company's seralutinib operating subsidiary undergoes a change of control, the Company must pay to Pulmokine a specified percentage of all revenue to be received in connection with such transaction. The Company made an upfront payment of \$5.5 million in October 2017. In December 2020, the Company accrued a milestone payment of \$5.0 million in connection with the initiation of the first Phase 2 clinical trial of seralutinib, which was paid in January 2021. As of March 31, 2023, no other milestones had been accrued as the underlying contingencies had not yet been met.

Note 7 - Stockholders' Equity

Common Stock

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 Company's board of directors.

Private Placement Financing

On July 15, 2022, we completed a private placement of 16,649,365 shares of our common stock at purchase price of \$7.21 per share. The gross proceeds from the private placement were approximately \$120.1 million, before deducting offering expenses. On August 9, 2022, we filed a registration statement on Form S-3 registering the shares of common stock issued in the private placement, which registration statement became automatically effective on August 9, 2022.

Shares of Common Stock Subject to Repurchase

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 (the "founder shares"). 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. These shares are subject to repurchase by the Company upon a founder's termination of employment or service to the Company.

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 \$300.0 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.

During the three months ended March 31, 2023, no shares were forfeited due to termination of employment. During the year ended December 31, 2022, no shares were forfeited due to termination of employment. 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 March 31, 2023 and December 31, 2022, no shares and 55,227 shares of common stock, respectively, were subject to repurchase by the Company. The unvested stock liability related to these awards is immaterial to all periods presented.

Note 8 - Equity Incentive Plans

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 March 31, 2023, an aggregate of 1,054,621 shares of common stock were available for issuance under the 2019 Plan. As of March 31, 2023 and December 31, 2022, 19,695,296 and 16,199,202 shares of common stock, respectively, were subject to outstanding awards under the 2019 Plan.

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. During the three months ended March 31, 2023, 249,623 shares were issued pursuant to the ESPP. As of March 31, 2023, an aggregate of 3,146,016 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 March 31, 2023 and December 31, 2022, 2,530,957 and 2,582,771 shares of common stock, respectively, were subject to outstanding options under the 2017 Plan. As of March 31, 2023, no 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 uses its own volatility to the extent it has sufficient trading history, and for awards in which sufficient trading history is not available, a peer group is used. 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 three months ended March 31, 2023:

	Shares Subject to Options Outstanding		Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
	Shares	Weighted-Average Exercise Price		
Outstanding as of December 31, 2022	17,487,165	\$ 9.24	8.1	\$ 47
Options granted	4,620,560	\$ 1.22		
Options exercised	—	\$ —		
Options forfeited/cancelled	(425,808)	\$ 8.34		
Outstanding as of March 31, 2023	21,681,917	\$ 7.54	8.1	\$ 227
Options vested and expected to vest as of March 31, 2023	21,681,917	\$ 7.54	8.1	\$ 227
Options exercisable as of March 31, 2023	8,140,578	\$ 12.19	6.4	\$ —

The aggregate intrinsic value in the above table is calculated as the difference between fair value of the Company's common stock price on March 31, 2023 and the exercise price of the stock options. The aggregate intrinsic value of stock options exercised during the three months ended March 31, 2023 and 2022 was \$0.0 million and \$0.2 million, respectively.

The weighted-average grant date fair value per share for the stock option grants during the three months ended March 31, 2023 and 2022 was \$0.81 and \$8.53, respectively.

The aggregate fair value of stock options that vested during the three months ended March 31, 2023 and 2022 was \$15.9 million and \$10.4 million, respectively.

Restricted Stock

The summary of the Company's restricted stock activity during the three months ended March 31, 2023 is as follows:

	Number of Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2022	1,350,035	\$ 10.83
Granted	—	—
Vested	(771,293)	10.69
Forfeited	(34,406)	11.15
Nonvested at March 31, 2023	544,336	\$ 10.99

As of March 31, 2023, the total unrecognized compensation related to unvested restricted stock awards granted was \$5.2 million, which the Company expects to recognize over a weighted-average period of approximately 0.9 years.

Stock-Based Compensation Expense

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

	Three months ended March 31,	
	2023	2022
Research and development	\$ 4,690	\$ 6,618
General and administrative	3,437	4,365
Total stock-based compensation expense	\$ 8,127	\$ 10,983

As of March 31, 2023, the total unrecognized compensation related to unvested stock option awards granted was \$41.4 million, which the Company expects to recognize over a weighted-average period of approximately 2.5 years.

As of March 31, 2023, the total unrecognized compensation expense related to the ESPP was \$2.1 million, which the Company expects to recognize over a weighted-average period of approximately 0.9 years.

Note 9 - Commitments and Contingencies

Leases

The Company subleases certain office and laboratory space under a non-cancelable operating lease expiring in January 2025 for the initial leased space and for the expansion space leased pursuant to an amendment to the lease agreement entered into in August 2018. In February 2022, the Company exercised its renewal option to extend the term of the expansion space until January 2025. 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-cancelable lease term as it 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 leases. The operating leases are included in the condensed consolidated balance sheet at the present value of the lease payments at a weighted average discount rate of 7% 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. As of March 31, 2023, the weighted average remaining lease term was 1.8 years.

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

	Three months ended March 31,	
	2023	2022
Operating lease cost	\$ 778	\$ 761
Short-term lease cost	13	10
Total lease cost	\$ 791	\$ 771

Cash paid for amounts included in the measurement of operating lease liabilities for the three months ended March 31, 2023 and 2022 was \$1.1 million and \$0.8 million, respectively.

Gross future minimum annual rental commitments as of March 31, 2023, were as follows (in thousands):

	Undiscounted Rent Payments
Year ending December 31	
2023 (remaining 9 months)	\$ 2,492
2024	3,419
2025	144
Total undiscounted rent payments	\$ 6,055
Present value discount	(350)
Present value of lease payments	\$ 5,705
Current portion of operating lease liabilities (included as a component of accrued expenses and other current liabilities)	3,060
Noncurrent operating lease liabilities	2,645
Total operating lease liability	\$ 5,705

For each of the three months ended March 31, 2023 and 2022, the Company recorded \$0.9 million in rent expense.

Note 10 - Subsequent Events

Effective May 5, 2023, and in accordance with the terms of the 2019 Plan, the Company's board of directors (the "Board") approved a stock option repricing (the "Option Repricing") whereby the exercise price of each Eligible Option (as defined below) was immediately reduced to \$1.36 per share, the closing stock price on May 5, 2023. For purposes of the Option Repricing, "Eligible Options" are 6,825,335 outstanding stock options as of May 5, 2023 (vested or unvested) granted under the 2019 Plan prior to November 30, 2022 and held by those eligible employees of the Company identified by the Board, including the Company's executive officers except for Faheem Hasnain, the Company's Chairman and Chief Executive Officer. The Board and Mr. Hasnain collectively determined that Mr. Hasnain would not participate in the Option Repricing.

The participation of the executive officers of the Company in the Option Repricing was subject to their agreement to cancel a portion of their Eligible Options effective immediately (the "Cancelled Options"). Each executive was required to agree to cancel one-third of their Eligible Options, on a grant-by-grant basis. The Cancelled Options were deducted proportionately from the vested and unvested portions of each Repriced Option grant.

To the extent an Eligible Option is exercised prior to the Premium End Date (as defined below), or the eligible employee's employment terminates prior to the Premium End Date, the eligible employee will be required to pay the original exercise price per share of the Eligible Options. The "Premium End Date" means the earliest of (i) May 5, 2024, (ii) the date of a change in control, (iii) the eligible employee's death or disability, or (iv) if an eligible employee is an executive subject to the cancellation of a portion of Eligible Options and is terminated under circumstances giving rise to severance under his or her employment agreement, the date of such termination. Except for the reduction in the exercise prices of the Eligible Options as described above, the Eligible Options will retain their existing terms and conditions as set forth in the 2019 Plan and the applicable award agreements.

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, 2022 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 17, 2023.

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, and Section 27A of the Securities Act of 1933, as amended, or the Securities 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 strategies and plans, research and development plans, the anticipated timing, costs, design and conduct of our ongoing and planned preclinical studies and planned clinical trials for our product candidates, the timing and likelihood of regulatory filings and approvals for our product candidates, the impact of COVID-19 on our business, 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 17, 2023. 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. All forward-looking statements are qualified in their entirety by this cautionary statement, which is made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Overview

We are a clinical-stage biopharmaceutical company focused on developing and commercializing seralutinib for the treatment of pulmonary arterial hypertension, or PAH. In December 2022, we announced positive topline results from the Phase 2 TORREY Study in PAH patients. Upon completion of the 24-week blinded portion of the Phase 2 TORREY Study, patients were able to enroll into an open-label extension trial. We anticipate reporting results from this ongoing open-label extension trial in the middle of 2023. We expect to initiate a Phase 3 program in PAH in the third quarter of 2023. We expect to begin clinical development of seralutinib for the treatment of pulmonary hypertension associated with interstitial lung disease in the first half of 2024. We have decided to terminate all ongoing studies and discontinue development of GB5121. 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 employees are a team of highly dedicated, passionate individuals who pride themselves on a culture of respect, humility, transparency, inclusion, dedication, collaboration and fun. Our ultimate goal is to enhance and extend the lives of patients.

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 clinical trials. We have funded our operations primarily through equity and debt financings. We raised \$1,062.1 million from October 2017 through March 31, 2023 through the sale of Series A and Series B convertible preferred stock financings, issuance of convertible notes, proceeds from our IPO completed in February 2019, proceeds from our Credit Facility, proceeds from our concurrent underwritten public offerings of 5.00% convertible senior

notes due 2027, or the 2027 Notes, and our common stock in May 2020, and proceeds from a private placement of our common stock in July 2022. As of March 31, 2023, we had \$201.9 million in cash, cash equivalents and marketable securities.

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 months ended March 31, 2023 and 2022, our net loss was \$49.2 million and \$57.8 million, respectively. As of March 31, 2023, we had an accumulated deficit of \$1,081.4 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 seralutinib. 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 relate primarily to preclinical and clinical development of our product candidates and discovery efforts, as well as our discontinued clinical product candidates. 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 expect our research and development expenses for the foreseeable future to remain relatively flat 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 costs incurred as a result of the COVID-19 pandemic, including clinical trial delays;
- 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 IPR&D acquired as part of an asset acquisition or in-license for which there is no alternative future use, are expensed as incurred.

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 for the foreseeable future to remain relatively flat to support our current infrastructure and continued costs of operating as a public company. These expenses will likely include 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 (expense), net

Other income (expense), net consists of (1) interest income on our cash, cash equivalents and marketable securities, (2) sublease income, (3) interest expense related to our Credit Facility and our 2027 Notes, and (4) other miscellaneous income (expense).

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 generally accepted accounting principles in the United States, or GAAP. The preparation of these financial statements requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, 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 months ended March 31, 2023, there have been no significant changes in our critical accounting policies and estimates 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 17, 2023.

Results of Operations – Comparison of the Three Months Ended March 31, 2023 and 2022

The following table sets forth our selected statements of operations data for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,		2023 vs 2022
	2023	2022	Change
	(in thousands)		
Operating expenses:			
Research and development	\$ 37,795	\$ 42,322	\$ (4,527)
In process research and development	15	20	(5)
General and administrative	10,132	12,001	(1,869)
Total operating expenses	47,942	54,343	(6,401)
Loss from operations	(47,942)	(54,343)	6,401
Other income (expense)			
Interest income	587	224	363
Interest expense	(3,500)	(3,467)	(33)
Other income (expense), net	1,690	(199)	1,889
Total other income (expense), net	(1,223)	(3,442)	2,219
Net loss	\$ (49,165)	\$ (57,785)	\$ 8,620

Operating Expenses

Research and development

Research and development expenses were \$37.8 million for the three months ended March 31, 2023, compared to \$42.3 million for the three months ended March 31, 2022, for a decrease of \$4.5 million, which was primarily attributable to a decrease of \$11.3 million of costs associated with preclinical studies for other terminated programs and a decrease of \$1.8 million of costs associated with preclinical studies and clinical trials for other programs, offset by an increase of \$5.8 million of costs associated with preclinical studies and clinical trials for serlutinib and an increase of \$2.8 million of costs associated with preclinical studies and clinical trials for GB5121.

The following table shows our research and development expenses by program for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022
	(in thousands)	
Seralutinib	\$ 17,950	\$ 12,154
GB5121	12,315	9,512
Other programs	6,993	8,812
Other terminated programs	537	11,844
Total research and development	\$ 37,795	\$ 42,322

In process research and development

There were no significant IPR&D expenses for the three months ended March 31, 2023 and 2022.

General and administrative

General and administrative expenses were \$10.1 million for the three months ended March 31, 2023, compared to \$12.0 million for the three months ended March 31, 2022, for a decrease of \$1.9 million, which was primarily attributable to a \$0.9 million decrease in stock-based compensation expense, a decrease of \$0.5 million in professional services expense and a decrease of \$0.2 million in insurance costs.

Other expense, net

Other expense, net was \$1.2 million for the three months ended March 31, 2023, compared to other expense, net of \$3.4 million for the three months ended March 31, 2022, for a decrease of \$2.2 million, which was primarily attributable to an increase in investment accretion.

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 March 31, 2023, we had an accumulated deficit of \$1,081.4 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. We may also use cash on hand to repurchase 2027 Notes through open-market transactions, including through a Rule 10b5-1 trading plan to facilitate open-market repurchases, or otherwise, from time to time.

Under our license agreement with Pulmokine, 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 March 31, 2023, we were unable to estimate the timing or likelihood of achieving the milestones or making future product sales. Other contractual obligations include future payments under our Credit Facility, 2027 Notes and existing operating leases.

From our inception through March 31, 2023, our operations have been financed primarily by gross proceeds of \$1,062.1 million from the sale of our convertible preferred stock, issuance of convertible notes, proceeds from our IPO, proceeds from our Credit Facility, proceeds from our concurrent underwritten public offerings of 2027 Notes and common stock, and proceeds from our private placement of common stock. As of March 31, 2023 we had cash, cash equivalents and marketable securities of \$201.9 million. 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 on September 18, 2019, July 2, 2020, December 7, 2022 and February 14, 2023 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 two additional tranches (each \$60.0 million), subject to specified availability periods, the achievement of

certain clinical development milestones, minimum cash requirements and other customary conditions, or the Credit Facility. As of March 31, 2023, no tranches under the Credit Facility were available to be drawn.

On April 10, 2020, we filed a registration statement on Form S-3, or the 2020 Shelf Registration Statement, covering the offering from time to time of common stock, preferred stock, debt securities, warrants and units, which registration statement became automatically effective on April 10, 2020.

On May 21, 2020, we issued \$200.0 million aggregate principal amount 5.00% convertible senior notes due 2027 in a registered public offering. The interest rate on the 2027 Notes is fixed at 5.00% per annum. Interest is payable semi-annually in arrears on June 1 and December 1 of each year commencing on December 1, 2020. The total net proceeds from the 2027 Notes, after deducting the underwriting discounts and commissions and other offering costs, were approximately \$193.6 million. Concurrent with the registered underwritten public offering of the 2027 Notes, we completed an underwritten public offering of 9,433,963 shares of our common stock. We received net proceeds of \$117.1 million, after deducting underwriting discounts and commissions and other offering costs. Our concurrent offerings of 2027 Notes and common stock were registered pursuant to the 2020 Shelf Registration Statement.

On March 3, 2022, we filed a registration statement on Form S-3 covering the offering from time to time of common stock, preferred stock, debt securities, warrants and units, which registration statement became automatically effective on March 3, 2022.

On July 15, 2022, we completed a private placement of 16,649,365 shares of our common stock. The aggregate gross proceeds for the private placement were approximately \$120.1 million, before deducting offering expenses. On August 9, 2022, we filed a registration statement on Form S-3 registering the resale of the shares of common stock issued in the private placement, which registration statement became automatically effective on August 9, 2022.

Additional information about our long-term borrowings is presented in Note 5 “Indebtedness” 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 three months ended March 31, 2023 and 2022, respectively:

	Three months ended March 31,	
	2023	2022
	(in thousands)	
Net cash used in operating activities	\$ (52,989)	\$ (53,483)
Net cash provided by investing activities	8,722	8,420
Net cash provided by (used in) financing activities	(2,536)	721
Effect of exchange rate changes on cash and cash equivalents	72	(154)
Net decrease in cash and cash equivalents	<u>\$ (46,731)</u>	<u>\$ (44,496)</u>

Operating activities

During the three months ended March 31, 2023, operating activities used approximately \$53.0 million of cash, primarily resulting from a net loss of \$49.2 million and changes in accrued research and development expenses of \$4.1 million and changes in accrued compensation and benefits of \$8.1 million, reduced by stock-based compensation expense of \$8.1 million.

During the three months ended March 31, 2022, operating activities used approximately \$53.5 million of cash, primarily resulting from a net loss of \$57.8 million and changes in accrued compensation and benefits of \$5.8 million, reduced by stock-based compensation expense of \$11.0 million.

Investing activities

During the three months ended March 31, 2023, investing activities provided approximately \$8.7 million of cash, primarily resulting from the maturities of marketable securities of \$85.6 million, offset by the purchases of marketable securities of \$76.9 million.

During the three months ended March 31, 2022, investing activities provided approximately \$8.4 million of cash, primarily resulting from the maturities of marketable securities of \$46.0 million, offset by the purchases of marketable securities of \$37.4 million.

Financing activities

During the three months ended March 31, 2023, financing activities used \$2.5 million of cash, primarily resulting from the principal repayments of long-term debt of \$2.9 million, offset by proceeds from the purchase of shares pursuant to the ESPP of \$0.4 million.

During the three months ended March 31, 2022, financing activities provided \$0.7 million of cash, primarily resulting from the purchase of shares pursuant to the ESPP and proceeds from the exercise of stock options.

Funding requirements

Based on our current operating plan, we believe that our existing cash, cash equivalents and marketable securities, and access to our Credit Facility, will be sufficient to fund our operations through at least the next 12 months from the date these condensed consolidated financial statements were available to be issued. 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 our 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;
- costs associated with any products or technologies that we may in-license or acquire; and
- any delays and cost increases that result from the COVID-19 pandemic or other epidemic diseases.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2023, 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, 2022 filed with the SEC on March 17, 2023.

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 months ended March 31, 2023 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, 2022 filed with the SEC on March 17, 2023, except as follows:

We are dependent on the services of our management and other clinical and scientific personnel, and if we are not able to retain these individuals or recruit additional management or clinical and scientific personnel, our business will suffer.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel. We are highly dependent upon our senior management, particularly our Chief Executive Officer, as well as our senior scientists and other members of our senior management team. The loss of services of any of these individuals could delay or prevent the successful development of seralutinib, initiation or completion of our planned clinical trials or the commercialization of seralutinib. For example, effective November 16, 2020, Faheem Hasnain was appointed as our President and Chief Executive Officer, replacing Sheila Gujrathi, M.D., and in 2021, we appointed three new members to our executive team. Executive leadership transitions can be inherently difficult to manage and, as a result, we may experience disruption or have difficulty in maintaining or developing our business. Although we have executed employment agreements or offer letters with each member of our senior management team, these agreements are terminable at will with or without notice and, therefore, we may not be able to retain their services as expected. We do not currently maintain “key person” life insurance on the lives of our executives or any of our employees. This lack of insurance means that we may not have adequate compensation for the loss of the services of these individuals.

We will need to effectively manage our managerial, operational, financial and other resources in order to successfully pursue our clinical development and commercialization efforts. We may not be successful in maintaining our unique company culture and continuing to attract or retain qualified management and scientific and clinical personnel in the future due to the increasingly intense competition for qualified personnel among pharmaceutical, biotechnology and other businesses, particularly in the San Diego area. Our industry has experienced a high rate of turnover for all personnel in recent years. In addition, we recently executed an operational reorganization to focus on seralutinib that reduced our headcount by over twenty-five percent, which may expose us to unexpected liabilities beyond cash payments related primarily to one-time severance payments. This headcount reduction may also lead to increased attrition and could lead to reduced employee morale and problems retaining existing and recruiting future employees. To provide added incentives to retain and motivate key contributors, our board of directors recently approved a stock option repricing. See Part II, Item 5 of this Quarterly Report on Form 10-Q for information about the stock option repricing. If we are not able to attract, integrate, retain and motivate necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy.

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

None.

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

Effective May 5, 2023, and in accordance with the terms of the 2019 Plan, the Board approved a stock option repricing (the “Option Repricing”) whereby the exercise price of each Eligible Option (as defined below) was immediately reduced to \$1.36 per share, the closing stock price on May 5, 2023. For purposes of the Option Repricing, “Eligible Options” are all outstanding stock options as of May 5, 2023 (vested or unvested) granted under the 2019 Plan prior to November 30, 2022 and held by those eligible employees identified by the Board, including our executive officers identified in the table below. The Board and Faheem Hasnain, our Chairman and Chief Executive Officer, collectively determined that Mr. Hasnain would not participate in the Option Repricing.

The participation of our executive officers in the Option Repricing was subject to their agreement to cancel a portion of their Eligible Options, as indicated in the table below, effective immediately (the “Cancelled Options”). Each executive was required to agree to cancel one-third of their Eligible Options, on a grant-by-grant basis. The Cancelled Options were deducted proportionately from the vested and unvested portions of each Repriced Option grant.

To the extent an Eligible Option is exercised prior to the Premium End Date (as defined below), or the eligible employee’s employment terminates prior to the Premium End Date, the eligible employee will be required to pay the original exercise price per share of the Eligible Options. The “Premium End Date” means the earliest of (i) May 5, 2024, (ii) the date of a change in control, (iii) the eligible employee’s death or disability, or (iv) if an eligible employee is an executive subject to the cancellation of a portion of Eligible Options and is terminated under circumstances giving rise to severance under his or her employment agreement, the date of such termination. Except for the reduction in the exercise prices of the Eligible Options as described above, the Eligible Options will retain their existing terms and conditions as set forth in the 2019 Plan and the applicable award agreements.

The Board believes that the Option Repricing with the Premium End Date is in the best interests of the Company, as the amended stock options will provide added incentives to retain and motivate our key contributors, including the executive officers listed in the table below, without incurring the stock dilution resulting from significant additional equity grants to the eligible participants or significant additional cash expenditures resulting from additional cash compensation. In addition, in determining that the participation of the executive officers in the Option Repricing would be conditioned on the cancellation of 0.5 stock options for each Eligible Option retained by the executives, the Board considered that the Cancelled Options will be returned to the share reserve under the 2019 Plan and will be available for future issuance thereunder by us, resulting in an immediate reduction in dilution to us for the benefit of shareholders and ensuring we have sufficient shares to incentivize new and ongoing employees for the foreseeable future.

Information regarding the number of Cancelled Options and Eligible Options for each of our executive officers is provided in the table below.

Executive Officer	Original Number of Eligible Options	Original Exercise Price Range of Eligible Options	Number of Cancelled Options	Number of Eligible Options Remaining Following Option Repricing
Bryan Giraud, <i>Chief Operating Officer and Chief Financial Officer</i>	721,500	\$9.79 – 22.10	240,499	481,001
Christian Waage, <i>Executive Vice President, Technical Operations and Administration</i>	456,500	\$9.79 – 22.10	152,166	304,334
Richard Aranda, M.D., <i>Chief Medical Officer</i>	372,925	\$8.47 – 22.10	124,307	248,618
Caryn Peterson, <i>Executive Vice President, Regulatory</i>	346,425	\$8.49 – 22.10	115,472	230,953
Other Non-Executive Management Employees	699,925	\$8.70 – 22.10	233,304	466,621

The foregoing description of the Option repricing and the cancellation of the cancelled options is qualified in its entirety by reference to the form of Option repricing and cancellation agreement to be filed by us as an exhibit to our Quarterly Report on Form 10-Q for the fiscal quarter ending June 30, 2023.

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.	10-Q	5/12/2020	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	12/21/2018	4.2	
4.3	Indenture, dated as of May 21, 2020, by and between the Company and Wilmington Trust, National Association.	8-K	5/21/2020	4.1	
4.4	First Supplemental Indenture, dated May 21, 2020, by and between the Company and Wilmington Trust, National Association.	8-K	5/21/2020	4.2	
4.5	Form of Global Note representing 5.00% Convertible Senior Notes due 2027 (included as part of Exhibit 4.4).	8-K	5/21/2020	4.3	
10.1	Gossamer Bio, Inc. Non-Employee Director Compensation Program.	10-K	3/17/2023	10.7	
10.2	Fourth Amendment to Credit, Guarantee and Security Agreement, dated February 14, 2023, by and among the Registrant, GB001, Inc., GB002, Inc. and GB004, Inc., as co-borrowers, the other guarantors from time to time party thereto and MidCap Financial Trust, as Agent and as a Lender and the additional lenders from time to time party thereto.	10-K	3/17/2023	10.24	
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.

Date: May 9, 2023

GOSSAMER BIO, INC.

By: /s/ Faheem Hasnain

Faheem Hasnain
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2023

By: /s/ Bryan Giraud

Bryan Giraud
Chief Operating Officer and Chief Financial Officer
(Principal Financial and Accounting Officer)

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

I, Faheem Hasnain, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any 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: May 9, 2023

/s/ Faheem Hasnain

Faheem Hasnain

President and Chief Executive Officer

(Principal Executive Officer)

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

I, Bryan Giraud, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any 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: May 9, 2023

/s/ Bryan Giraud

Bryan Giraud

Chief Operating Officer and 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, Faheem Hasnain, 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 March 31, 2023 (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: May 9, 2023

/s/ Faheem Hasnain

Faheem Hasnain

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 Girardo, Chief Operating Officer and 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 March 31, 2023 (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: May 9, 2023

/s/ Bryan Girardo

Bryan Girardo

Chief Operating Officer and Chief Financial Officer

(Principal Financial and Accounting Officer)