
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission File No. 001-38359

resTORbio, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

500 Boylston Street, 12th Floor
Boston, MA
(Address of principal executive offices)

81-3305277
(I.R.S. Employer
Identification No.)

02116
(Zip Code)

(857) 315-5521
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Small reporting company
Emerging growth Company

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

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

As of November 12, 2018, the registrant had 28,055,344 shares of common stock, \$0.0001 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management and expected market growth are forward-looking statements. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

These forward-looking statements include, among other things, statements about:

- our plans to develop and commercialize RTB101 alone or in combination with rapalogs, such as everolimus or sirolimus, and other product candidates for the targeted indications and patient populations, including the therapeutic potential and clinical benefits thereof;
- our ongoing and future clinical trials for RTB101 alone or in combination with rapalogs, such as everolimus or sirolimus, whether conducted by us or by any future collaborators, including the timing of initiation of these trials and of the anticipated results;
- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;
- the rate and degree of market acceptance and clinical utility of any products for which we receive regulatory approval;
- our commercialization, marketing and manufacturing capabilities and strategy;
- our intellectual property position and strategy;
- our ability to identify additional product candidates with significant commercial potential;
- our plans to enter into collaborations for the development and commercialization of product candidates;
- the potential benefits of any future collaboration;
- our expectations related to the use of cash, cash equivalents and marketable securities;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- developments relating to our competitors and our industry; and
- the impact of government laws and regulations.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Quarterly Report on Form 10-Q, particularly in the “Risk Factors” section, that could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, collaborations, joint ventures or investments that we may make or enter into.

You should read this Quarterly Report on Form 10-Q and the documents that we reference herein and have filed or incorporated by reference as exhibits hereto completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

resTORbio, Inc.
Condensed Consolidated Balance Sheets
(unaudited)
(In thousands, except share and per share data)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,856	\$ 53,349
Marketable securities	92,522	—
Prepaid expenses	1,621	792
Deferred offering costs	—	929
Other current assets	24	84
Total current assets	117,023	55,154
Restricted cash	84	—
Property and equipment, net	319	39
Total assets	<u>\$ 117,426</u>	<u>\$ 55,193</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable (including related party amounts of \$37 and \$32 as of September 30, 2018 and December 31, 2017, respectively)	\$ 4,201	\$ 1,515
Accrued liabilities	3,363	3,987
Funding advance	500	—
Total current liabilities	8,064	5,502
Other liabilities	22	—
Total liabilities	<u>8,086</u>	<u>5,502</u>
Commitments and contingencies (see Note 10)		
Redeemable convertible preferred stock:		
Redeemable convertible preferred stock, Series A, \$0.0001 par value, no and 15,527,951 shares authorized, issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	—	41,674
Redeemable convertible preferred stock, Series B, \$0.0001 par value, no and 4,792,716 shares authorized, issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	—	39,946
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value, 10,000,000 and no shares authorized as of September 30, 2018 and December 31, 2017, respectively; no shares issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Common stock, \$0.0001 par value, 150,000,000 and 30,000,000 shares authorized as of September 30, 2018 and December 31, 2017, respectively; 28,048,315 and 5,659,089 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively; 28,046,815 and 4,562,640 shares vested as of September 30, 2018 and December 31, 2017, respectively	3	1
Additional paid-in capital	175,049	1,849
Accumulated deficit	(65,636)	(33,779)
Accumulated other comprehensive loss	(76)	—
Total stockholders' equity (deficit)	<u>109,340</u>	<u>(31,929)</u>
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	<u>\$ 117,426</u>	<u>\$ 55,193</u>

See accompanying notes to these condensed consolidated financial statements.

resTORbio, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(unaudited)
(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating expenses:				
Research and development	\$ 6,765	\$ 3,333	\$ 26,716	\$ 10,047
General and administrative	2,267	612	6,629	1,312
Total operating expenses	<u>9,032</u>	<u>3,945</u>	<u>33,345</u>	<u>11,359</u>
Loss from operations	(9,032)	(3,945)	(33,345)	(11,359)
Other income, net	625	635	1,488	635
Loss before income taxes	(8,407)	(3,310)	(31,857)	(10,724)
Income tax expense	—	—	—	—
Net loss	<u>\$ (8,407)</u>	<u>\$ (3,310)</u>	<u>\$ (31,857)</u>	<u>\$ (10,724)</u>
Net loss per share, basic and diluted	<u>\$ (0.30)</u>	<u>\$ (0.75)</u>	<u>\$ (1.23)</u>	<u>\$ (2.79)</u>
Weighted-average common shares used in computing net loss per share, basic and diluted	<u>28,046,723</u>	<u>4,408,094</u>	<u>25,895,933</u>	<u>3,839,306</u>
<i>Other comprehensive loss:</i>				
Net loss	\$ (8,407)	\$ (3,310)	\$ (31,857)	\$ (10,724)
Unrealized losses on marketable securities, net of income tax expense	(46)	—	(76)	—
Comprehensive loss	<u>\$ (8,453)</u>	<u>\$ (3,310)</u>	<u>\$ (31,933)</u>	<u>\$ (10,724)</u>

See accompanying notes to these condensed consolidated financial statements.

resTORbio, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net loss	\$ (31,857)	\$ (10,724)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion on marketable securities	(305)	—
Depreciation and amortization expense	55	3
Stock-based compensation expense	2,212	301
Change in fair value of tranche liability	—	(635)
Expense related to acquisition of intellectual property (see Note 6)	—	3,157
Changes in operating assets and liabilities:		
Restricted cash	(84)	—
Prepaid expenses and other current assets	(769)	(214)
Accounts payable	2,807	1,094
Accrued liabilities	(386)	1,022
Funding advance	500	—
Other liabilities	22	—
Net cash used in operating activities	<u>(27,805)</u>	<u>(5,996)</u>
Investing activities:		
Purchases of property and equipment	(333)	(39)
Purchases of marketable securities	(92,293)	—
Net cash used in investing activities	<u>(92,626)</u>	<u>(39)</u>
Financing activities:		
Proceeds from issuance of Series A redeemable convertible preferred stock	—	10,000
Proceeds from initial public offering, net of issuance costs	89,938	—
Net cash provided by financing activities	<u>89,938</u>	<u>10,000</u>
Net (decrease) increase in cash and cash equivalents	(30,493)	3,965
Cash and cash equivalents at beginning of period	53,349	—
Cash and cash equivalents at end of period	<u>\$ 22,856</u>	<u>\$ 3,965</u>
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable	\$ 2	\$ —
Conversion of redeemable convertible preferred stock into common stock	\$ 81,620	\$ —

See accompanying notes to these condensed consolidated financial statements.

resTORbio, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization

resTORbio, Inc. (collectively referred to with its wholly-owned, controlled subsidiary, resTORbio Securities Corp. as “resTORbio” or the “Company”) was incorporated in the State of Delaware on July 5, 2016. The Company is a clinical-stage biopharmaceutical company focused on the development and commercialization of novel therapeutics for the treatment of aging-related diseases and conditions. The Company’s principal operations are located in Boston, Massachusetts.

Since inception, the Company has been primarily involved in research and development activities. The Company devotes substantially all of its efforts to product research and development, initial market development and raising capital. The Company has not generated any product revenue related to its primary business purpose to date and is subject to a number of risks similar to those of other early stage companies, including dependence on key individuals, competition from other companies, the need for development of commercially viable products and the need to obtain adequate additional financing to fund the development of its product candidates. The Company is also subject to a number of risks similar to other companies in the life sciences industry, including regulatory approval of products, uncertainty of market acceptance of products, competition from substitute products and larger companies, the need to obtain additional financing, compliance with government regulations, protection of proprietary technology, dependence on third parties, product liability and dependence on key individuals.

Reverse Stock Split

On January 12, 2018, the Company effected a one-for-1.2804 reverse stock split of its issued and outstanding shares of common stock and a proportional adjustment to the existing conversion ratios for each series of the Company’s redeemable convertible preferred stock (see Note 8). Accordingly, all share and per share amounts for all periods presented in the accompanying condensed consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratios.

Initial Public Offering

On January 30, 2018, the Company completed its initial public offering (“IPO”), whereby the Company sold 6,516,667 shares of its common stock (inclusive of 850,000 shares of common stock sold by the Company pursuant to the full exercise of an overallotment option granted to the underwriters in connection with the offering) at a price of \$15.00 per share. The shares began trading on The Nasdaq Global Select Market on January 26, 2018. The aggregate net proceeds received by the Company from the offering were approximately \$89.4 million, after deducting underwriting discounts and commissions and other offering expenses payable by the Company of \$8.4 million. Upon the closing of the IPO, all outstanding shares of redeemable convertible preferred stock converted into 15,870,559 shares of common stock and all unvested shares of restricted stock automatically vested. Additionally, the Company is now authorized to issue 150,000,000 shares of common stock and 10,000,000 shares of preferred stock.

Liquidity

In the course of its development activities, the Company has sustained operating losses and expects such losses to continue over the next several years. The Company’s ultimate success depends on the outcome of its research and development activities. The Company has incurred net losses from operations since inception and has an accumulated deficit of \$65.6 million as of September 30, 2018. On January 30, 2018, the Company completed its IPO whereby the Company sold 6,516,667 shares of its common stock for aggregate net proceeds of approximately \$89.4 million. As of September 30, 2018, the Company had \$115.4 million of cash, cash equivalents, and marketable securities, which the Company believes will be sufficient to fund the Company’s current operating plan through at least the next twelve months.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. The unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the Company’s financial position as of September 30, 2018 and the results of operations and cash flows for the interim periods ended September 30, 2018 and 2017. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 that was filed with the Securities and Exchange Commission (“SEC”) on March 29, 2018 (the “2017 Form 10-K”). Interim results are not necessarily indicative of results for a full year or for any other interim period.

The condensed consolidated financial statements include the accounts of resTORbio, Inc. and its wholly owned subsidiary, resTORbio Securities Corp. All inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, as of the date of the condensed consolidated financial statements, and the reported amounts of any expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to accrued liabilities, income taxes, and stock-based compensation expense. Management bases its estimates on historical experience, and on various other market-specific relevant assumptions that management believes to be reasonable, under the circumstances. Actual results may differ from those estimates or assumptions.

Summary of Significant Accounting Policies

The significant accounting policies and estimates used in the preparation of the condensed consolidated financial statements are described in the Company's audited financial statements as of and for the year ended December 31, 2017, and the notes thereto, which are included in the 2017 Form 10-K. There have been no material changes in the Company's significant accounting policies during the three and nine months ended September 30, 2018, except as noted below.

Marketable securities

The Company classifies marketable securities with remaining maturities when purchased of greater than three months as available-for-sale. Marketable securities with a remaining maturity date greater than one year are classified as non-current. Available-for-sale securities are maintained by investment managers and consist of U.S. treasury securities and U.S. government agency securities. Available-for-sale securities are carried at fair value with the unrealized gains and losses included in other comprehensive income (loss) as a component of stockholders' equity until realized. Any premium or discount arising at purchase is amortized and/or accreted to interest income and/or expensed over the life of the instrument.

If any adjustment to fair value reflects a decline in the value of the investment, the Company considers all available evidence to evaluate the extent to which the decline is "other-than-temporary" and, if so, marks the investment to market through a change to the Company's statement of operations and comprehensive loss.

Restricted Cash

The Company maintains a letter of credit for the benefit of the landlord in connection with the Company's office lease. As of September 30, 2018 and December 31, 2017, restricted cash (non-current) related to this letter of credit consisted of \$84,000 and \$0, respectively.

Fair Value Measurements

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. The authoritative accounting guidance describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value, of which the first two are considered observable and the last is considered unobservable. These levels of inputs are as follows:

Level 1—Observable inputs such as unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2—Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table summarizes assets measured at fair value on a recurring basis at September 30, 2018 (in thousands):

Description	September 30, 2018	Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds (included in cash and cash equivalents)	\$ 14,791	\$ 14,791	\$ —	\$ —
U.S. treasury securities (included in cash and cash equivalents)	8,065	8,065	—	—
U.S. treasury securities (included in marketable securities)	92,522	92,522	—	—
Total	<u>\$ 115,378</u>	<u>\$ 115,378</u>	<u>\$ —</u>	<u>\$ —</u>

The following table summarizes assets measured at fair value on a recurring basis at December 31, 2017 (in thousands):

Description	December 31, 2017	Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds (included in cash and cash equivalents)	\$ 53,349	\$ 53,349	\$ —	\$ —
Total	<u>\$ 53,349</u>	<u>\$ 53,349</u>	<u>\$ —</u>	<u>\$ —</u>

Deferred Offering Costs

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded in stockholders' equity (deficit) as a reduction of proceeds generated as a result of the offering. Should the planned equity financing be abandoned, the deferred offering costs will be expensed immediately as a charge to operating expenses in the consolidated statements of operations. The Company recorded deferred offering costs of \$0 and \$0.9 million as of September 30, 2018 and December 31, 2017, respectively.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Depreciation begins at the time the asset is placed in service. Maintenance and repairs that do not improve or extend the lives of the respective assets are expensed to operations as incurred. Upon sale or retirement of assets, the cost and related accumulated depreciation are removed from the consolidated balance sheet and the resulting gain or loss is reflected in the consolidated statements of operations.

The estimated useful lives of property and equipment are as follows:

	Useful Life (in years)
Leasehold improvements	Lesser of useful life or remaining lease term
Laboratory and manufacturing equipment	2-8 years
Computer equipment	1-5 years
Furniture and fixtures	3-5 years
Office equipment	3-5 years
Software	3-5 years

Recently Adopted Accounting Pronouncements

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation* (Topic 718): Scope of Modification Accounting (“ASU 2017-09”). ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance is effective for annual periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company adopted the provisions of ASU 2017-09 on January 1, 2018. No modifications of share-based payment awards have occurred as of September 30, 2018.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”), which requires a lessee to recognize a right-of-use asset and a lease liability for operating leases, initially measured at the present value of the future lease payments, in the balance sheet. ASU 2016-02 also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the potential effects of adopting the provisions of ASU 2016-02 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (“ASU 2016-18”), which requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 and interim periods in fiscal years beginning after December 15, 2019 and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Company does not expect the impact of ASU 2016-18 to be material to its consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Accounting for Certain Financial Instruments with Down Round Features* (“ASU 2017-11”), which updates the guidance related to the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. Under ASU 2017-11, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (“EPS”) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. ASU 2017-11 is effective for public entities for all annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Company does not expect the impact of ASU 2017-11 to be material to its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”), which intends to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. For public entities, ASU 2018-07 is required to be adopted for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. For non-public entities and emerging growth companies that choose to take advantage of the extended transition period, ASU 2018-07 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted for all entities but no earlier than the Company’s adoption of ASU 2018-07. The Company is currently evaluating the impact that the adoption of ASU 2018-07 will have on its financial statements.

3. Marketable Securities

As of September 30, 2018, the fair value of marketable securities by type of security was as follows (in thousands):

Description	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency securities and treasuries	\$ 92,598	\$ —	\$ 76	\$ 92,522
Total	\$ 92,598	\$ —	\$ 76	\$ 92,522

The Company did not have any marketable securities as of December 31, 2017.

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

	September 30, 2018	
	Amortized Cost	Fair Value
Due in one year or less	\$ 92,598	\$ 92,522
Total	\$ 92,598	\$ 92,522

4. Property and equipment, net

Property and equipment, net consists of the following:

	September 30, 2018	December 31, 2017
	(In thousands)	
Leasehold improvements	\$ 65	\$ —
Machinery and equipment	38	38
Furniture and fixtures	176	—
Computers	69	6
Office equipment	9	—
Software	22	—
Total property and equipment	379	44
Less: accumulated depreciation	(60)	(5)
Property and equipment, net	<u>\$ 319</u>	<u>\$ 39</u>

Depreciation expense was \$24,000 and \$3,000 for the three months ended September 30, 2018 and 2017, respectively, and \$55,000 and \$3,000 for the nine months ended September 30, 2018 and 2017, respectively.

5. Accrued Liabilities

Accrued liabilities consist of the following:

	September 30, 2018	December 31, 2017
	(In thousands)	
Accrued payroll and related expenses	\$ 789	\$ 394
Accrued research and development expenses	2,214	3,250
Deferred offering costs	—	238
Other	360	105
Total accrued liabilities	<u>\$ 3,363</u>	<u>\$ 3,987</u>

6. License Agreements

Novartis License Agreement

On March 23, 2017, the Company entered into an exclusive license agreement with Novartis International Pharmaceutical Ltd. (“Novartis”). Under the agreement, Novartis granted the Company an exclusive, field-restricted, worldwide license, to certain intellectual property rights owned or controlled by Novartis, to develop, commercialize and sell one or more therapeutic products comprising RTB101 or RTB101 in combination with everolimus in a fixed dose combination. The exclusive field under the license agreement is for the treatment, prevention and diagnosis of disease and other conditions in all indications in humans and animals.

As initial consideration for the licensed rights, the Company issued Novartis Institutes for Biomedical Research (“NIBR”) 2,587,992 shares of the Company’s Series A Preferred Stock. The fair value of the Novartis license was \$3.2 million based on the fair value of the Series A Preferred Stock which was determined to be \$1.22 per share based on an independent third-party valuation, and is recorded as research and development expenses in the consolidated statements of operations.

The agreement may be terminated by either party upon a material breach by the other party that is not cured within 60 days after written notice. The Company may terminate the agreement in its entirety or on a product-by-product or country-by-country basis with or without cause with 60 days’ prior written notice.

Novartis may terminate the portion of the agreement related to everolimus if the Company fails to use commercially reasonable efforts to research, develop and commercialize a product utilizing everolimus for a period of three years. Novartis may terminate the license agreement upon the Company’s bankruptcy, insolvency, dissolution or winding up.

As additional consideration for the license, the Company is required to pay up to an aggregate of \$4.3 million upon the satisfaction of clinical milestones, up to an aggregate of \$24 million upon the satisfaction of regulatory milestones for the first

indication approved, and up to an aggregate of \$18 million upon the satisfaction of regulatory milestones for the second indication approved. In addition, the Company is required to pay up to an aggregate of \$125 million upon the satisfaction of commercial milestones, based on the amount of annual net sales. The Company is also required to pay tiered royalties ranging from a mid single-digit percentage to a low teen-digit percentage on annual net sales of products. These royalty obligations last on a product-by-product and country-by-country basis until the latest of (i) the expiration of the last valid claim of a Novartis patent covering a subject product, (ii) the expiration of any regulatory exclusivity for the subject product in a country, or (iii) the 10th anniversary of the first commercial sale in the country, and are subject to a reduction after the expiration of the last valid claim of a Novartis patent or the introduction of a generic equivalent of a product in a country. Following the last visit of the 400th subject in the Company's Phase 2b clinical trial, Novartis is no longer entitled to sublicense revenue.

Milestone payments to Novartis will be recorded as research and development expenses in the consolidated statements of operations once achievement of each associated milestone has occurred or the achievement is considered probable. In May 2017, the Company initiated a Phase 2b clinical trial for a first indication, triggering the first milestone payment under the agreement. Accordingly, the Company paid the related \$0.3 million milestone in May 2017. As of September 30, 2018, none of the remaining development milestones, regulatory milestones, sales milestones, or royalties had been reached or were probable of achievement.

7. Research Funding Agreement

On March 6, 2018, the Company and the Silverstein Foundation for Parkinson's with GBA (the "Silverstein Foundation") entered into a research funding agreement (the "Funding Agreement"). One of the Company's directors is a co-founder and current trustee of the Silverstein Foundation. Under the terms of the Funding Agreement, the Silverstein Foundation will partially fund the preclinical research, development work, and Phase 2 clinical trial expenses (the "Research") to be conducted and borne by the Company in connection with the development of RTB101, alone or in combination with other products (the "Product").

Upon execution of the Funding Agreement, the Silverstein Foundation paid the Company an upfront sum of \$0.5 million (the "Funding Amount"). The Company is entitled to use the Funding Amount solely to conduct the Research and is obligated to repay the Funding Amount in full to the Silverstein Foundation if it successfully conducts a positive Phase 3 clinical trial of the Product for Parkinson's Disease. The Company is solely responsible for commencing and conducting the Research and will furnish periodic progress updates to the Silverstein Foundation throughout the term of the Funding Agreement. After completing the Research, the Company must provide the Silverstein Foundation with a formal report describing the work performed and the results of the Research.

The Company recognizes proceeds received from the Silverstein Foundation as a reduction to research and development expenses, rather than as revenue, in the condensed consolidated statements of operations because the corresponding Funding Agreement does not contain specified performance obligations other than to conduct research on a particular program or in a particular field and contain no obligations to deliver specified products or technology.

For funds received under the Funding Agreement, the Company recognizes a reduction in research and development expenses in an amount equal to the qualifying expenses incurred in each period up to the amount funded by the Silverstein Foundation. Funding that has been received by the Company in advance of incurring qualifying expenses is recorded in the condensed consolidated balance sheet as funding advance. As of September 30, 2018, no qualifying expenses have been incurred.

8. Redeemable Convertible Preferred Stock and Common Stock

As of September 30, 2018, the Company had 10,000,000 shares of preferred stock authorized and none issued and outstanding. As of December 31, 2017, the Company had 20,320,667 shares of preferred stock authorized, of which 15,527,951 shares were issued and outstanding and were designated as \$0.0001 par value Series A Preferred Stock and 4,792,716 shares were issued and outstanding and were designated as \$0.0001 par value Series B Preferred Stock.

Upon completion of the Company's initial public offering in January 2018, all the outstanding preferred stock of the Company automatically converted into 15,870,559 shares of the Company's common stock. As of September 30, 2018, no shares of preferred stock were outstanding.

Reserve for future issuance

The Company has reserved the following number of shares of common stock for future issuance upon the conversion of preferred stock, exercise of options or grant of equity awards:

	September 30, 2018	December 31, 2017
Redeemable convertible preferred stock, on an as-converted basis	—	15,870,559
Options issued and outstanding	1,066,678	195,668
Unvested restricted stock units	24,960	—
Options available for future grants	1,413,610	1,670,341
Shares available for issuance under the 2018 ESPP	275,030	—
Total	<u>2,780,278</u>	<u>17,736,568</u>

9. Stock-based Compensation

In 2017, the Company adopted the 2017 Stock Incentive Plan (the “2017 Plan”). Under the 2017 Plan, a total of 537,914 shares of the Company’s common stock were reserved for the issuance of stock options to employees, directors, and consultants under terms and provisions established by the Board of Directors (the “Board”). Under the terms of the 2017 Plan, options were granted at an exercise price not less than fair market value. The terms of options granted under the 2017 Plan may not exceed ten years. The Board determined the terms and conditions of a Restricted Stock Award, including the conditions for vesting and repurchase (or forfeiture) and the issue price, if any. On October 11, 2017, the Company increased the number of shares of common stock available for issuance under the 2017 Plan from 537,914 shares to 630,662 shares. On November 29, 2017, the Company increased the number of shares of common stock available for issuance under the 2017 Plan from 630,662 shares to 1,866,009 shares.

In connection with the Company’s IPO, the Board adopted and the Company’s stockholders approved the 2018 Stock Incentive Plan (“2018 Plan”), which became effective on the date immediately preceding the date on which the Company’s registration statement became effective. The 2018 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards, restricted stock units, stock appreciation rights, and other stock-based awards. The Company’s employees, officers, directors, consultants and advisors are eligible to receive awards under the 2018 Plan. The number of shares of common stock that are reserved for issuance under the 2018 Plan are 2,200,260 shares. The 2018 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2019, by 4% of the outstanding number of shares of the Company’s common stock on the immediately preceding December 31 or such lesser number of shares as determined by the Board.

Since the date of effectiveness of the 2018 Plan, the Company has not and will not grant any further awards under the 2017 Plan. However, any shares of common stock subject to awards under the 2017 Plan that expire, terminate, or otherwise are surrendered, canceled, forfeited or repurchased without having been fully exercised or resulting in any common stock being issued will become available for issuance under the 2018 Plan.

Stock-based Compensation Expense

Total stock-based compensation expense is recognized for stock options granted to employees and non-employees and has been reported in the Company’s consolidated statements of operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development	\$ 229	\$ 47	\$ 955	\$ 152
General and administrative	400	44	1,257	149
Total stock-based compensation expense	<u>\$ 629</u>	<u>\$ 91</u>	<u>\$ 2,212</u>	<u>\$ 301</u>

Stock Options

The following table summarizes stock option activity under the Plans:

	Shares Available for Grant	Number of Options Outstanding	Weighted- Average Exercise Price per Option	Weighted- Average Remaining Contract Term	Aggregate Intrinsic Value (In thousands)
Outstanding, December 31, 2017	1,670,341	195,668	\$ 4.49	9.67	
Shares reserved for issuance	641,239				
Options granted ⁽¹⁾	(871,010)	871,010	13.09		
Restricted stock granted	(2,000)				
Restricted stock units granted	(24,960)				
Outstanding, September 30, 2018	<u>1,413,610</u>	<u>1,066,678</u>	11.52	9.43	\$ 3,901
Exercisable, September 30, 2018		25,487	0.79	8.70	366
Vested and expected to vest, September 30, 2018		1,066,678	11.52	9.43	3,901

(1) The Company granted 7,200 stock options to non-employees during the nine months ended September 30, 2018.

The aggregate intrinsic values of options outstanding, exercisable, vested and expected to vest were calculated as the difference between the exercise price of the options and the fair value of the Company's common stock as of September 30, 2018. No options were exercised, cancelled or forfeited during the nine months ended September 30, 2018.

During the nine months ended September 30, 2018, the Company granted options to employees and directors to purchase an aggregate of 863,810 common shares with a weighted-average grant date fair value of \$9.20 per share. During the nine months ended September 30, 2018, the Company granted options to non-employees to purchase an aggregate of 7,200 common shares with a weighted-average grant date fair value of \$12.51 per share. The expense related to options granted to employees and directors for the three and nine months ended September 30, 2018 was \$0.6 million and \$1.2 million, respectively. The expense related to options granted to non-employees for the three and nine months ended September 30, 2018 was \$37,000 and \$64,000, respectively. During the nine months ended September 30, 2017, the Company granted options to employees to purchase an aggregate of 64,460 common shares at a weighted-average grant date fair value of \$0.53 per share. During the nine months ended September 30, 2017, the Company granted options to non-employees to purchase an aggregate of 46,860 common shares at a weighted-average grant date fair value of \$0.67 per share. The expense related to options granted to employees and non-employees was \$3,000 and \$2,000, respectively, for the three and nine months ended September 30, 2017, respectively.

As of September 30, 2018, the total unrecognized compensation expense related to unvested options granted to employees and directors was \$7.4 million, which the Company expects to recognize over an estimated weighted-average period of 3.40 years. As of September 30, 2018, the total unrecognized compensation expense related to unvested non-employee options was \$0.4 million, which the Company expects to recognize over an estimated weighted-average period of 2.87 years.

The fair value of stock options for employees and non-employees was estimated using a Black-Scholes option pricing model with the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Employees:				
Fair value of common stock	\$9.03 - \$13.94	\$0.79	\$8.57 - \$15.45	\$0.79
Expected term (in years)	5.9 - 6.1	6.1	5.8 - 6.6	6.1
Expected volatility	89.8% - 90.6%	74.4%	75.9% - 90.6%	74.4%
Risk-free interest rate	2.8% - 2.9%	1.9%	2.4% - 2.9%	1.9%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Non-employees:				
Fair value of common stock	—	\$1.00	\$15.45	\$0.79 - \$1.00
Expected term (in years)	—	10.0	10.0	10.0
Expected volatility	—	76.9%	77.9%	74.6% - 76.9%
Risk-free interest rate	—	2.3%	2.7%	2.3%
Expected dividend yield	—	0.0%	0.0%	0.0%

Restricted Stock

On July 11, 2016, certain founders purchased 3,772,726 common shares that were subject to a repurchase right upon termination or cessation of services at the original purchase price of \$0.0001 per share, or \$483. The repurchase right lapsed as vesting occurred. Compensation expense of such unvested shares was remeasured at fair value until vested at each reporting date. On April 4, 2017, the non-employee directors became employees of the Company and as a result, compensation expense of the unvested shares was remeasured at fair value and fixed and was being recognized over the remaining vesting period. Upon the closing of the Series A preferred financing, a portion of the unvested shares accelerated and vested in full. Upon the Company's IPO, the remaining unvested shares accelerated and vested in full.

On April 17, 2018, the Company granted 2,000 shares of restricted stock to a consultant. The restrictions will lapse in four equal quarterly installments and will be fully vested on the first anniversary of such grant. Compensation expenses of such unvested shares will be remeasured at fair value until vested at each reporting date.

The summary of restricted stock activity and related information follows:

	Number of Restricted Shares Outstanding
Unvested shares — December 31, 2017	1,096,449
Granted	2,000
Vested	(1,096,949)
Unvested shares — September 30, 2018	<u>1,500</u>

The Company recognized \$11,000, \$86,000, \$0.9 million and \$0.3 million of stock-based compensation expense related to restricted shares during the three and nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was \$12,000 of unrecognized stock-based compensation expense related to unvested restricted stock. This amount is expected to be recognized over a remaining weighted-average period of 0.55 years.

Restricted Stock Units

During the nine months ended September 30, 2018, the Company granted 24,960 restricted stock units to an employee with a weighted-average grant date fair value of \$9.03 per share.

The summary of restricted stock unit activity and related information follows:

	Number of Restricted Stock Units Outstanding
Unvested shares — December 31, 2017	—
Granted	24,960
Unvested shares — September 30, 2018	<u>24,960</u>

The Company recognized \$14,000 and \$20,000 of stock-based compensation expense related to restricted stock units during the three and nine months ended September 30, 2018, respectively. As of September 30, 2018, there was \$0.2 million of unrecognized stock-based compensation expense related to unvested restricted stock units. This amount is expected to be recognized over a remaining weighted-average period of 3.64 years. There were no restricted stock units granted to employees or non-employees during the three and nine months ended September 30, 2017.

2018 Employee Stock Purchase Plan

The Board adopted and the Company's stockholders approved the 2018 Employee Stock Purchase Plan ("2018 ESPP"), which became effective on the date immediately preceding the date on which the Company's registration statement became effective. The 2018 ESPP enables eligible employees to purchase shares of the Company's Common Stock at a discount. The number of shares of common stock that are reserved for issuance under the 2018 ESPP are 275,030 shares. The 2018 ESPP provides that the number of shares reserved and available for issuance will automatically increase each January 1, beginning on January 1, 2019 and increasing each January 1 thereafter through January 1, 2028, by the least of (i) 1% of the outstanding number of shares of the Company's common stock on the immediately preceding December 31; (ii) 543,926 shares or (iii) such number of shares as determined by the ESPP administrator.

10. Commitments and Contingences

Litigation

The Company is not a party to any litigation and does not have contingency reserves established for any litigation liabilities as of September 30, 2018 and December 31, 2017.

11. Net Loss per Share

The Company computes basic and diluted earnings (losses) per share using a methodology that gives effect to the impact of outstanding participating securities (the "two-class" method). Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period and excludes any dilutive effects of share-based awards. Diluted net loss per share is computed giving effect to all potential dilutive common shares, including common stock issuable upon exercise of stock options, convertible preferred stock, and unvested restricted common stock. As the Company had net losses for the three and nine months ended September 30, 2018 and 2017, there is no income allocation required under the two-class method or dilution attributed to weighted average shares outstanding in the calculation of diluted loss per share.

The following potentially dilutive securities have been excluded from the calculation of diluted net loss per share because including them would have had an anti-dilutive effect (in common stock equivalent shares):

	As of September 30,	
	2018	2017
Redeemable convertible preferred stock	—	6,063,711
Options issued and outstanding	1,066,678	111,320
Total	<u>1,066,678</u>	<u>6,175,031</u>

12. Related Party Transactions

Since the Company's incorporation in July 2016, the Company has engaged in transactions with related parties.

The Company is a party to an intellectual property license agreement with Novartis. In addition, NIBR, an affiliate of Novartis, is a shareholder of the Company (See Note 6). No payments have been made to Novartis during the three and nine months ended September 30, 2018. During the three and nine months ended September 30, 2017, the Company made payments to Novartis for milestones achieved pursuant to the license agreement.

The Company is a party to a Funding Agreement with the Silverstein Foundation, an entity in which one of the Company's directors is a co-founder and current trustee (See Note 7). The Company received \$0 and \$0.5 million from the Silverstein Foundation during the three and nine months ended September 30, 2018, respectively. No funds were received during the three and nine months ended September 30, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our condensed consolidated financial statements and accompanying footnotes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2017. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q includes forward-looking statements that involve risks and uncertainties. Actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those set forth in Item 1A, "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2017, as supplemented by our subsequent filings with the SEC. Unless the context indicated otherwise, all references herein to our company include our wholly-owned subsidiary, resTORbio Securities Corp.

Overview

We are a clinical-stage biopharmaceutical company focused on the development and commercialization of novel therapeutics for the treatment of aging-related diseases. Our lead program has demonstrated in several clinical trials, including a randomized, placebo-controlled trial, the potential to treat multiple diseases of aging for which there are no approved therapies. The decline in immune function that occurs during aging, or immunosenescence, increases susceptibility to a variety of diseases, including respiratory tract infections, or RTIs, that significantly contribute to morbidity and mortality in the elderly. Our approach focuses on the mechanistic target of rapamycin, or mTOR, pathway, an evolutionarily conserved pathway that regulates aging, and specifically on selective inhibition of the target of rapamycin complex 1, or TORC1. Our initial focus is on the development of RTB101, an orally administered, small molecule, potent TORC1 inhibitor, alone and in combination with rapalogs, such as everolimus or sirolimus—as a first-in-class immunotherapy program designed to improve immune function and thereby reduce the incidence of RTIs in the elderly, regardless of the causative pathogen. We licensed the worldwide rights to our TORC1 program, including RTB101 alone or in combination with everolimus, from Novartis International Pharmaceutical Ltd., or Novartis, in March 2017. We are evaluating RTB101 alone and in combination with everolimus in a Phase 2b clinical trial for the reduction of RTI incidence in the elderly and reported top-line data from this trial in July 2018. In this trial, RTB101 demonstrated a statistically significant and clinically meaningful reduction in the percentage of patients with one or more laboratory-confirmed RTIs during the 16-week treatment period compared to placebo, the primary endpoint of the study, with the 10 mg once daily dose. Greater TORC1 inhibition with RTB101 10 mg in combination with everolimus 0.1 mg did not meet the primary endpoint, suggesting that less TORC1 inhibition with RTB101 10 mg once daily may have greater benefit in high-risk elderly patients. In addition, RTB101 demonstrated a statistically significant reduction in the incidence of laboratory-confirmed RTIs in the pre-specified analysis of asthma patients 65 years and older treated with RTB101 10mg once daily as well as in laboratory-confirmed RTIs in the pre-specified analysis of patients 85 years and older treated with RTB101 10mg once daily.

Since our inception in July 2016, we have devoted substantially all of our resources to: identifying, acquiring, and developing our product candidate portfolio; organizing and staffing our company; raising capital; developing manufacturing capabilities; conducting clinical trials; and providing general and administrative support for these operations. To date, we have primarily financed our operations through the issuance and sale of our redeemable convertible preferred stock and our initial public offering of our common stock, or IPO. Upon the closing of our IPO in January 2018, we received aggregate net proceeds of approximately \$89.4 million, after deducting underwriting discounts and commissions and other offering expenses payable by us.

We have never generated revenue and have incurred significant net losses since inception. Our net losses were \$1,000, \$33.8 million and \$31.9 million, for the period from July 5, 2016 (inception) through December 31, 2016, for the year ended December 31, 2017 and for the nine months ended September 30, 2018, respectively. As of September 30, 2018, we had an accumulated deficit of \$65.6 million. Our net losses may fluctuate significantly from quarter to quarter and year to year. We expect to incur significant expenses and increasing operating losses for the foreseeable future. We anticipate that our expenses will increase substantially as we:

- invest significantly to further develop and seek regulatory approval for RTB101 alone or in combination with rapalogs, such as everolimus or sirolimus, including to advance our product candidate into a Phase 3 program;
- expand our pipeline of potential product candidates, including the initiation of at least one additional proof of concept trial in at least one additional indication;
- require the manufacture of larger quantities of our product candidates for clinical development and potential commercialization;
- hire additional clinical, scientific, management and administrative personnel;

- ultimately establish a sales, marketing and distribution infrastructure or collaborate with third parties to commercialize any drugs for which we may obtain regulatory approval;
- maintain, expand and protect our intellectual property portfolio;
- acquire or in-license other assets and technologies; and
- add additional operational, financial and management information systems and processes to support our ongoing development efforts, any future manufacturing or commercialization efforts and our transition to operating as a public company.

We believe that our cash, cash equivalents and marketable securities as of September 30, 2018 will be sufficient to fund our operations through 2020. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. We do not expect to generate revenue from product sales unless and until we successfully complete development and obtain regulatory approval for a product candidate or enter into collaborative agreements with third parties, which we expect will take a number of years and the outcome of which is subject to significant uncertainty. Additionally, we currently use third parties such as contract research organizations, or CROs, and contract manufacturing organizations, or CMOs, to carry out our preclinical and clinical development activities and we do not yet have a sales organization. If we obtain regulatory approval for our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. To fund our current and future operating plans, we will need additional capital, which we may obtain through one or more equity offerings, debt financings or other third-party funding, including potential strategic alliances and licensing or collaboration arrangements. We may, however, 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 as and when needed would have a negative impact on our financial condition and our ability to develop our current product candidates, or any additional product candidates, if developed. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our preclinical and clinical development efforts. We cannot assure you that we will ever be profitable or generate positive cash flow from operating activities.

Novartis License Agreement

On March 23, 2017, we entered into a license agreement with Novartis, pursuant to which we were granted an exclusive, field-restricted, worldwide license to certain intellectual property rights owned or controlled by Novartis, including patents, patent applications, proprietary information, know-how and other intellectual property, to develop, commercialize and sell one or more therapeutic products comprising RTB101 or RTB101 and everolimus in a fixed dose combination. Under the license agreement, we have been licensed a patent portfolio of ten patent families directed to composition of matter of RTB101 and its salts, formulations of everolimus and methods of using RTB101 and everolimus to enhance the immune response among others. The exclusive field under the license agreement is for the treatment, prevention and diagnosis of diseases and other conditions in all indications in humans and animals.

As initial consideration for the license, we issued Novartis Institutes for Biomedical Research, Inc., or NIBR, 2,587,992 shares of our Series A Preferred Stock.

The agreement may be terminated by either party upon a material breach of obligation by the other party that is not cured within 60 days after written notice. We may terminate the agreement in its entirety or on a product-by-product or country-by-country basis with or without cause with 60 days' prior written notice.

Novartis may terminate the portion of the agreement related to everolimus if we fail to use commercially reasonable efforts to research, develop and commercialize a product utilizing everolimus for a period of three years. Novartis may terminate the license agreement upon our bankruptcy, insolvency, dissolution or winding up.

As additional consideration for the license, we are required to pay up to an aggregate of \$4.3 million upon the satisfaction of clinical milestones, up to an aggregate of \$24 million upon the satisfaction of regulatory milestones for the first indication approved, and up to an aggregate of \$18 million upon the satisfaction of regulatory milestones for the second indication approved. In addition, we are required to pay up to an aggregate of \$125 million upon the satisfaction of commercial milestones, based on the amount of annual net sales. We are also required to pay tiered royalties ranging from a mid-single digit percentage to a low-teen digit percentage on annual net sales of products. These royalty obligations last on a product-by-product and country-by-country basis until the latest of (i) the expiration of the last valid claim of a Novartis patent covering a subject product, (ii) the expiration of any regulatory exclusivity for the subject product in a country, or (iii) the 10th anniversary of the first commercial sale in the country, and are subject to a reduction after the expiration of the last valid claim of a Novartis patent or the introduction of a generic equivalent of a product in a country. Following the last visit of the 400th subject in our Phase 2b clinical trial, Novartis is no longer entitled to sublicense revenue.

Milestone payments to Novartis will be recorded as research and development expenses in our consolidated statements of operations once achievement of each associated milestone has occurred or the achievement is considered probable. In May 2017, we initiated a Phase 2b clinical trial for a first indication, triggering the first milestone payment under the agreement. Accordingly, we paid the related \$0.3 million payment in May 2017. As of September 30, 2018, none of the remaining development milestones, regulatory milestones, sales milestones, or royalties had been reached or were probable of achievement. We also enter into contracts in the normal course of business with various third parties for preclinical research studies, clinical trials, testing and other services. These contracts generally provide for termination upon notice, and therefore we believe that our noncancelable obligations under these agreements are not material.

Financial Operations Overview

Revenue

We have not generated any revenue from the sale of our products, and we do not expect to generate any revenue unless and until we obtain regulatory approval of and commercialize RTB101, alone or in combination with rapalogs, such as everolimus or sirolimus, or enter into collaboration arrangements.

Operating Expenses

Research and Development

Research and development expenses consist primarily of costs incurred for the development of our product candidates, which include:

- personnel costs, which include salaries, benefits and stock-based compensation expense;
- expenses incurred under agreements with consultants, third-party contract organizations and investigative clinical trial sites that conduct research and development activities on our behalf;
- costs related to production of preclinical and clinical materials, including fees paid to contract manufacturers;
- laboratory and vendor expenses related to the execution of preclinical studies and clinical trials; and
- lab supplies and equipment used for internal research and development activities.

We have not provided program costs since inception because historically we have not tracked or recorded our research and development expenses on a program-by-program basis. We use our personnel and infrastructure resources across multiple research and development programs directed toward developing our TORC1 program and for identifying and developing product candidates. We manage certain activities such as contract research and manufacturing of RTB101 alone or in combination with rapalogs, such as everolimus or sirolimus, and our discovery programs through our third-party vendors, and do not track the costs of these activities on a program-by-program basis.

We expense all research and development costs in the periods in which they are incurred. Costs for certain development activities are recognized based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors and third-party service providers.

We expect our research and development expenses to increase substantially for the foreseeable future as we continue to invest in research and development activities related to developing our product candidates, including investments in developing a sustainable and scalable manufacturing process for our product candidates, as our programs advance into later stages of development and we continue to conduct clinical trials. The process of conducting the necessary clinical research to obtain regulatory approval is costly and time-consuming, and the successful development of our product candidates is highly uncertain. As a result, we are unable to determine the duration and completion costs of our research and development projects or when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates.

Because of the numerous risks and uncertainties associated with product development, we cannot determine with certainty the duration and completion costs of the current or future preclinical studies and clinical trials or if, when, or to what extent we will generate revenues from the commercialization and sale of our product candidates. We may never succeed in achieving regulatory approval for our product candidates. The duration, costs and timing of preclinical studies and clinical trials and development of our product candidates will depend on a variety of factors, including:

- successful completion of preclinical studies and Investigational New Drug-enabling, or IND, studies;

- successful enrollment in, and completion of, clinical trials;
- receipt of regulatory approvals from applicable regulatory authorities;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and non-patent exclusivity;
- launching commercial sales of our product candidates, if and when approved, whether alone or in collaboration with others;
- acceptance of our product candidates, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies and treatment options;
- a continued acceptable safety profile following approval;
- enforcing and defending intellectual property and proprietary rights and claims; and
- achieving desirable medicinal properties for the intended indications.

A change in the outcome of any of these factors could mean a significant change in the costs and timing associated with the development of our current and future preclinical and clinical product candidates. For example, if the U.S. Food and Drug Administration, or FDA, or another regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of clinical development, or if we experience significant delays in execution of or enrollment in any of our preclinical studies or clinical trials, we could be required to expend significant additional financial resources and time on the completion of preclinical and clinical development. We expect our research and development expenses to increase for the foreseeable future as we continue the development of product candidates.

General and Administrative

General and administrative expenses consist primarily of personnel costs, costs related to maintenance and filing of intellectual property, depreciation expense and other expenses for outside professional services, including legal, human resources, audit and accounting services. Personnel costs consist of salaries, benefits and stock-based compensation expense. We expect our general and administrative expenses to increase for the foreseeable future due to anticipated increases in headcount to advance our product candidates and as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the Securities and Exchange Commission, or the SEC, The Nasdaq Global Select Market, additional insurance expenses, investor relations activities and other administration and professional services.

Other Income, Net

Other income, net, consists primarily of interest income earned on cash, cash equivalents and marketable securities.

Results of Operations

Comparison of the Three Months Ended September 30, 2018 and 2017

	Three Months Ended September 30,	
	2018	2017
Operating expenses:		
Research and development	\$ 6,765	\$ 3,333
General and administrative	2,267	612
Total operating expenses	9,032	3,945
Loss from operations	(9,032)	(3,945)
Other income, net	625	635
Net loss	<u>\$ (8,407)</u>	<u>\$ (3,310)</u>

Research and Development

Research and development expenses increased to \$6.8 million for the three months ended September 30, 2018, and were primarily attributable to \$2.6 million of costs from third-party contract organizations and investigative clinical trial sites related to clinical trials, including the ongoing Phase 2b clinical trial, \$2.7 million of costs related to preclinical studies and the production of preclinical and clinical materials, \$0.4 million of costs related to external consulting incurred to supplement our research and development personnel, and \$1.1 million of personnel costs, including stock-based compensation. Research and development expenses were \$3.3 million for the three months ended September 30, 2017, and were primarily attributable to \$1.6 million of costs related to clinical trials, including the ongoing Phase 2b clinical trial, \$0.7 million of costs related to contract research and supplies, \$0.3 million of costs related to external consulting incurred to supplement our research and development personnel, \$0.3 million of personnel costs, including stock-based compensation, and \$0.4 million of costs associated with our license agreement.

General and Administrative

General and administrative expenses increased to \$2.3 million for the three months ended September 30, 2018, and were primarily attributable to \$1.3 million of personnel, including stock-based compensation, and \$1.0 million of professional services fees, including costs related to intellectual property, legal and filing costs, accounting costs, insurance, and external consulting costs incurred to supplement our personnel. General and administrative expenses were \$0.6 million for three months ended September 30, 2017, and were primarily attributable to \$0.3 million of personnel, including stock-based compensation, and \$0.3 million of professional services fees, including costs related to intellectual property, legal and filing costs, accounting costs, insurance, and external consulting costs incurred to supplement our personnel.

Other Income, Net

Other income, net was \$0.6 million for the three months ended September 30, 2018, and primarily consisted of interest income. Other income, net was \$0.6 for the three months ended September 30, 2017, and entirely consisted of the change in the fair value of our tranche right liability related to our redeemable convertible preferred stock.

Comparison of the Nine Months Ended September 30, 2018 and 2017

	Nine Months Ended September 30,	
	2018	2017
Operating expenses:		
Research and development	\$ 26,716	\$ 10,047
General and administrative	6,629	1,312
Total operating expenses	33,345	11,359
Loss from operations	(33,345)	(11,359)
Other income, net	1,488	635
Net loss	<u>\$ (31,857)</u>	<u>\$ (10,724)</u>

Research and Development

Research and development expenses increased to \$26.7 million for the nine months ended September 30, 2018, and were primarily attributable to \$17.3 million of costs from third-party contract organizations and investigative clinical trial sites related to clinical trials, including the ongoing Phase 2b clinical trial, \$5.6 million of costs related to preclinical studies and the production of preclinical and clinical materials, \$0.7 million of costs related to external consulting incurred to supplement our research and development personnel, and \$3.0 million of personnel costs, including stock-based compensation. Research and development expenses were \$10.0 million for the nine months ended September 30, 2017, and were primarily attributable to \$3.9 million of costs associated with our license agreement with Novartis, including the license of the intellectual property in exchange for Series A preferred stock, \$4.0 million of costs related to clinical trials, including the ongoing Phase 2b clinical trial, \$1.0 million of costs related to contract research and supplies, \$0.5 million of costs related to external consulting incurred to supplement our research and development personnel, and \$0.6 million of personnel costs, including stock-based compensation.

General and Administrative

General and administrative expenses increased to \$6.6 million for the nine months ended September 30, 2018, and were primarily attributable to \$4.0 million of personnel, including stock-based compensation, and \$2.6 million of professional services fees, including costs related to intellectual property, legal and filing costs, accounting costs, insurance, and external consulting costs incurred to supplement our personnel. General and administrative expenses were \$1.3 million for nine months ended September 30, 2017, and were primarily attributable to \$0.5 million of personnel, including stock-based compensation, and \$0.8 million of professional services fees, including costs related to intellectual property, legal and filing costs, accounting costs, and external consulting costs incurred to supplement our personnel.

Other Income, Net

Other income, net was \$1.5 million for the nine months ended September 30, 2018, and primarily consisted of interest income. Other income, net was \$0.6 million for the nine months ended September 30, 2017, and entirely consisted of the change in the fair value of our tranche right liability related to our redeemable convertible preferred stock.

Liquidity, Capital Resources and Plan of Operations

In January 2018, we closed our IPO and received aggregate net proceeds of approximately \$89.4 million, after deducting underwriting discounts and commissions and other offering expenses payable by us.

Since inception, we have not generated any revenue from any sources, including from product sales, and have incurred significant operating losses and negative cash flows from our operations. We have funded our operations to date primarily with proceeds from our IPO and the sale of shares of our redeemable convertible preferred stock. As of September 30, 2018, we had \$115.4 million in cash, cash equivalents, and marketable securities and an accumulated deficit of \$65.6 million.

Our primary use of cash has been to fund operating expenses, which consist of research and development and 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.

Based upon our current operating plan, we believe that our existing cash, cash equivalents and marketable securities will enable us to fund our operating expenses and capital expenditure requirements through 2020, including the completion of a pivotal Phase 3 clinical program for RTB101, and the filing of a New Drug Application, or NDA, with the FDA, assuming a successful outcome in our Phase 3 clinical program. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. We will continue to require additional financing to advance our current product candidate through clinical development, to develop, acquire or in-license other potential product candidates and to fund operations for the foreseeable future. Furthermore, with the closing of our IPO, we have begun to incur additional costs associated with operating as a public company. Accordingly, we will continue to seek funds through equity or debt financings, collaborative or other arrangements, or through other sources of financing. Adequate additional funding may not be available to us on acceptable terms, or at all. Any failure to raise capital as and when needed could have a negative impact on our financial condition and on our ability to pursue our business plans and strategies.

Further, our operating plans may change, and we may need additional funds to meet operational needs and capital requirements for clinical trials and other research and development activities. We currently have no credit facility or committed sources of capital. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated product development programs.

If we need to raise additional capital to fund our operations, funding may not be available to us on acceptable terms, or at all. If we are unable to obtain adequate financing when needed, we may have to delay, reduce the scope of or suspend one or more of our clinical trials, research and development programs or commercialization efforts. We may seek to raise any necessary additional capital through a combination of public or private equity offerings, debt financings, and collaborations or licensing arrangements. If we do raise additional capital through public or private equity offerings, the ownership interest of our existing stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our stockholders' rights. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If additional funding is required, there can be no assurance that additional funds will be available to us on acceptable terms on a timely basis, if at all. If we are unable to raise capital, we will need to curtail planned activities to reduce costs. Doing so will likely have an unfavorable effect on our ability to execute our business plans.

The following table summarizes our cash flows for the periods indicated:

	<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Net cash used in operating activities	\$ (27,805)	\$ (5,996)
Net cash used in investing activities	(92,626)	(39)
Net cash provided by financing activities	89,938	10,000
Net (decrease) increase in cash and cash equivalents	<u>\$ (30,493)</u>	<u>\$ 3,965</u>

Cash Flows from Operating Activities

Cash used in operating activities for the nine months ended September 30, 2018 was \$27.8 million, consisting of a net loss of \$31.9 million adjusted for noncash items including stock-based compensation expense of \$2.2 million and accretion on marketable securities of \$0.3 million. The change in our net operating assets and liabilities for the nine months ended September 30, 2018 were due primarily to an increase in accounts payable and accrued liabilities of \$2.4 million primarily due to increased clinical activities and \$0.5 million received from the Silverstein Foundation, which were partially offset by an increase in prepaid expenses and other current assets of \$0.8 million due to prepayments for our research and development activities. Cash used in operating activities for the nine months ended September 30, 2017 was \$6.0 million, consisting of a net loss of \$10.7 million adjusted for noncash items primarily including stock-based compensation expense of \$0.3 million and expense related to the acquisition of intellectual property of \$3.2 million partially offset by gains resulting from the change in fair value of the tranche liability of \$0.6 million. The change in our net operating assets and liabilities for the nine months ended September 30, 2017 were due primarily to an increase in accounts payable of \$1.1 million as a result of payment timing and an increase in accrued liabilities of \$1.0 million primarily due to increased clinical activities, which were partially offset by an increase in prepaid expenses and other current assets of \$0.2 million due to prepayments for our research and development activities.

Cash Flows from Investing Activities

Cash used in investing activities for the nine months ended September 30, 2018 was \$92.6 million and consisted of \$92.3 million for the purchases of marketable securities and \$0.3 million for the purchases of property and equipment. Cash used in investing activities for the nine months ended September 30, 2017 was \$39,000 and consisted of the purchases of property and equipment.

Cash Flows from Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2018 was \$89.9 million from the proceeds from the IPO, net of issuance costs paid in 2018. Cash provided by financing activities for the nine months ended September 30, 2017 was \$10.0 million from the issuance of redeemable convertible preferred stock.

Contractual Obligations and Other Commitments

The disclosure of our contractual obligations and commitments was reported in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes from the contractual commitments and obligations previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, as updated by our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.

Off-Balance Sheet Arrangements

We did not have during the previous periods, and we do not currently have, any off-balance sheet arrangements as defined under the rules and regulations of the Securities and Exchange Commission and do not have any holdings in variable interest entities.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments

about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Accrued Research and Development Costs

We accrue for estimated costs of research and development activities conducted by third-party service providers, which include the conduct of preclinical studies, clinical trials, and contract manufacturing activities. We record the estimated costs of research and development activities based upon the estimated amount of services provided, and include these costs in accrued liabilities in our consolidated balance sheets and within research and development expenses in our condensed consolidated statements of operations. These costs are a significant component of our research and development expenses. We estimate the amount of work completed through discussions with internal personnel and external service providers as to the progress or stage of completion of the services and the agreed-upon fee to be paid for such services. We make significant judgments and estimates in determining the accrued balance in each reporting period. As actual costs become known, we adjust our accrued estimates. Although we do not expect our estimates to be materially different from amounts actually incurred, our understanding of the status and timing of services performed, the number of patients enrolled and the rate of patient enrollment may vary from our estimates and could result in us reporting amounts that are too high or too low in any particular period. Our accrued expenses are dependent, in part, upon the receipt of timely and accurate reporting from CROs, CMOs and other third-party service providers. To date, there have been no material differences from our accrued expenses to actual expenses.

Research and Development Costs

Research and development costs are expensed as incurred and consist of personnel costs, lab supplies and other costs, as well as fees paid to third parties to conduct research and development activities on our behalf.

Amounts incurred in connection with license agreements are also included in research and development expenses. We record payments made to outside vendors for services performed or goods being delivered for use in research and development activities as either prepaid expenses or accrued expenses, depending on the timing of when services are performed or goods are delivered.

Recently Issued and Adopted Accounting Pronouncements

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation* (Topic 718): Scope of Modification Accounting, or ASU 2017-09. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance is effective for annual periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. We adopted the provisions of ASU 2017-09 on January 1, 2018. No modifications of share-based payment awards have occurred as of September 30, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which requires a lessee to recognize a right-of-use asset and a lease liability for operating leases, initially measured at the present value of the future lease payments, in the balance sheet. ASU 2016-02 also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the potential effects of adopting the provisions of ASU 2016-02 on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*, or ASU 2016-18, which requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. We do not expect the impact of ASU 2016-18 to be material to our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Accounting for Certain Financial Instruments with Down Round Features*, or ASU 2017-11, which updates the guidance related to the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. Under ASU 2017-11, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share, or EPS, in accordance with Topic 260 to recognize the effect of the down round feature when it is

triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. ASU 2017-11 is effective for public entities for all annual and interim periods beginning after December 15, 2019. Early adoption is permitted. We do not expect the impact of ASU 2017-11 will be material to our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”), which intends to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. For public entities, ASU 2018-07 is required to be adopted for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. For non-public entities and emerging growth companies that choose to take advantage of the extended transition period, ASU 2018-07 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted for all entities but no earlier than the Company’s adoption of ASU 2018-07. We are currently evaluating the impact that the adoption of ASU 2018-07 will have on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to changes in interest rates. As of September 30, 2018, we had cash, cash equivalents and marketable securities of \$115.4 million, primarily comprised of money market mutual funds consisting of U.S. government-backed securities. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments are in short-term marketable securities. Our available for sale securities are subject to interest rate risk and will fall in value if market interest rates increase. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our portfolio.

We contract with contract research organizations and contract manufacturers globally. We may be subject to fluctuations in foreign currency rates in connection with certain of these agreements. Transactions denominated in currencies other than the United States dollar are recorded based on exchange rates at the time such transactions arise. We have not engaged in the hedging of our foreign currency transactions to date. As of September 30, 2018, substantially all of our total liabilities were denominated in the U.S. dollar.

Inflation generally affects us by increasing our cost of labor. We do not believe that inflation had a material effect on our business, financial condition or results of operations during the three and nine months ended September 30, 2018.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company has established disclosure controls and procedures (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, or Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to management, including the principal executive officer (our Chief Executive Officer) and principal financial officer (our Vice President, Finance), to allow timely decisions regarding required disclosure.

The Company’s management, with the participation of the Company’s Chief Executive Officer and Vice President, Finance, evaluated the effectiveness of the Company’s 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 on Form 10-Q. Management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives. Based on such evaluation, the Company’s Chief Executive Officer and Vice President, Finance concluded that the Company’s disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2018.

Changes in Internal Control over Financial Reporting

There was no other change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters which arise in the ordinary course of business. While the outcome of any such proceedings cannot be predicted with certainty, as of September 30, 2018, we were not party to any legal proceedings that we would expect to have a material adverse impact on our financial position, results of operations or cash flow.

Item 1A. Risk Factors.

The matters discussed in this Quarterly Report on Form 10-Q include forward looking statements that involve risks and uncertainties. These statements are neither promises nor guarantees, but are based on various assumptions by management regarding future circumstances, over many of which resTORbio has little or no control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, careful consideration should be given to the risk factors in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, as updated by our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, and in all of the other information included or incorporated in this report. There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2017, other than those as updated by our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.

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

Use of Proceeds from Initial Public Offering of Common Stock

On January 30, 2018, we closed our initial public offering, in which we issued and sold 5,666,667 shares of common stock at a public offering price of \$15.00 per share, and issued an additional 850,000 shares of common stock at a price of \$15.00 per share pursuant to the exercise of the underwriters' over-allotment option. All of the shares of common stock issued and sold in our initial public offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (Registration No. 333-222373), which was declared effective by the SEC on January 25, 2018. BofA Merrill Lynch, Leerink Partners, and Evercore ISI acted as joint book-running managers for the offering. Wedbush PacGrow acted as a co-manager for the offering. The aggregate gross proceeds to us from our initial public offering, inclusive of the over-allotment exercise, were \$97.8 million. The offering commenced on January 25, 2018, and did not terminate until the sale of all shares offered.

The aggregate net proceeds to us from the public offering, inclusive of the over-allotment exercise, were approximately \$89.4 million, after deducting underwriting discounts and commissions and offering expenses payable by us of approximately \$8.4 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning 10% or more of any class of our equity securities or to any other affiliates.

As of September 30, 2018, we estimate that we have used approximately \$21.6 million of cash and cash equivalents since our initial public offering to advance our product candidates through clinical trial programs and for working capital and general corporate purposes.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

EXHIBIT INDEX

Exhibit Number	Description
10.1*	Employment Agreement by and between the Company and Meredith S. Manning, dated August 30, 2018
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended
32.1+	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

+ The certifications furnished in Exhibit 32.1 hereto are deemed to be furnished with this Quarterly Report on Form 10-Q and will not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

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.

RESTORBIO, INC.

Date: November 13, 2018

By: _____
/s/ Chen Schor
Chen Schor
President and Chief Executive Officer
(Principal executive officer)

Date: November 13, 2018

By: _____
/s/ John J. McCabe
John J. McCabe
Vice President, Finance
(Principal financial and accounting officer)

RESTORBIO, INC.**EMPLOYMENT AGREEMENT**

This Employment Agreement (“**Agreement**”) is made as of the 30th day of August, 2018, between resTORbio, Inc., a Delaware corporation (the “**Company**”), and Meredith S. Manning (the “**Executive**”) and is effective as of September 17, 2018 (the “**Effective Date**”).

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment.

(a) Term. The term of this Agreement shall commence on the Effective Date and continue until terminated in accordance with the provisions hereof (the “**Term**”). The Executive’s employment with the Company will continue to be “at will,” meaning that the Executive’s employment may be terminated by the Company or the Executive at any time and for any reason subject to the terms of this Agreement.

(b) Position and Duties. During the Term, the Executive shall serve as the Chief Commercial Officer of the Company, and shall have supervision and control over and responsibility for the day-to-day business and affairs of the Company and shall have such other powers and duties as may from time to time be prescribed by the Board of Directors of the Company (the “**Board**”), the Chief Executive Officer of the Company (the “**CEO**”), or other authorized executive. The Executive shall devote her full working time and efforts to the business and affairs of the Company. Notwithstanding the foregoing, the Executive may serve on other boards of directors, with the approval of the Board, or engage in religious, charitable or other community activities as long as such services and activities are disclosed to the Board and do not materially interfere with the Executive’s performance of her duties to the Company as provided in this Agreement.

2. Compensation and Related Matters.

(a) Base Salary. During the Term, the Executive’s annual base salary shall be \$345,000. The Executive’s base salary shall be reviewed annually by the Board or the Compensation Committee of the Board (the “**Compensation Committee**”). The base salary in effect at any given time is referred to herein as “**Base Salary**.” The Base Salary shall be payable in a manner that is consistent with the Company’s usual payroll practices for executive officers.

(b) Incentive Compensation. During the Term, the Executive shall be eligible to receive cash incentive compensation as determined by the Board or the Compensation Committee from time to time. The Executive’s initial target annual incentive compensation shall be 40% percent of her Base Salary (the “**Target Annual Incentive Compensation**”). To earn incentive compensation, the Executive must be employed by the Company on the day such incentive compensation is paid.

(c) Equity. As soon as practicable following the execution of this Agreement, and subject to the approval of the Company's Board of Directors the Executive shall be granted an incentive stock option (the "**Option**") under resTORbio's Stock Incentive Plan (the "**Plan**") to purchase 175,000 of shares of Common Stock. The Option shall vest over four years from the Effective Date, with 1/4 of the shares underlying such option vesting on the first anniversary of the Effective Date and the remaining 3/4 of such shares vesting in 12 equal quarterly installments following such first anniversary, provided that the Executive is engaged by the Company on each such vesting date. The Option shall have an exercise price equal to the fair market value of the Common Stock on the date of grant and shall be subject to the provisions set forth in the Plan and the Form of Incentive Stock Option Agreement previously approved by the Board.

(d) Expenses. The Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by her during the Term in performing services hereunder, in accordance with the policies and procedures then in effect and established by the Company for its executive officers.

(e) Other Benefits. During the Term, the Executive shall be eligible to participate in or receive benefits under the Company's employee benefit plans in effect from time to time, subject to the terms of such plans. In addition, the Company shall promptly reimburse the Executive for up to \$35,000 of documented expenses incurred by the Executive in connection with relocation to the Boston, MA area for her employment with the Company. If on or before the first anniversary of the Effective Date, the Executive voluntarily terminates her employment with the Company without Good Reason or if the Executive's employment is terminated for Cause pursuant to Section 3, the Executive shall promptly repay the Company in full for the amount of such relocation expenses actually paid by the Company.

(f) Vacations. During the Term, the Executive shall be entitled to paid vacation in accordance with the Company's policies and procedures. The Executive shall also be entitled to all paid holidays given by the Company to its executive officers.

3. Termination. During the Term, the Executive's employment hereunder may be terminated without any breach of this Agreement under the following circumstances:

(a) Death. The Executive's employment hereunder shall terminate upon her death.

(b) Disability. The Company may terminate the Executive's employment if she is disabled and unable to perform the essential functions of the Executive's then existing position or positions under this Agreement with or without reasonable accommodation for a period of 180 days (which need not be consecutive) in any 12-month period. If any question shall arise as to whether during any period the Executive is disabled so as to be unable to perform the essential functions of the Executive's then existing position or positions with or without reasonable accommodation, the Executive may, and at the request of the Company shall, submit to the Company a certification in reasonable detail by a physician selected by the Company to whom the Executive or the Executive's guardian has no reasonable objection as to whether the Executive is so disabled or how long such disability is expected to continue, and such certification shall for the purposes of this Agreement be conclusive of the issue. The

Executive shall cooperate with any reasonable request of the physician in connection with such certification. If such question shall arise and the Executive shall fail to submit such certification, the Company's determination of such issue shall be binding on the Executive. Nothing in this Section 3(b) shall be construed to waive the Executive's rights, if any, under existing law including, without limitation, the Family and Medical Leave Act of 1993, 29 U.S.C. §2601 *et seq.* and the Americans with Disabilities Act, 42 U.S.C. §12101 *et seq.*

(c) Termination by Company for Cause. The Company may terminate the Executive's employment hereunder for Cause. For purposes of this Agreement, "Cause" shall mean: (i) conduct by the Executive constituting a material act of misconduct in connection with the performance of her duties, including, without limitation, misappropriation of funds or property of the Company or any of its subsidiaries or affiliates other than the occasional, customary and de minimis use of Company property for personal purposes; (ii) the commission by the Executive of any felony or a misdemeanor involving moral turpitude, deceit, dishonesty or fraud, or any conduct by the Executive that would reasonably be expected to result in material injury or reputational harm to the Company or any of its subsidiaries or affiliates if she were retained in her position; (iii) continued non-performance by the Executive of her duties hereunder (other than by reason of the Executive's physical or mental illness, incapacity or disability) which has continued for more than 30 days following written notice of such non-performance from the CEO; (iv) a breach by the Executive of any of the provisions contained in Section 7 of this Agreement; (v) a material violation by the Executive of the Company's written employment policies; or (vi) failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the Company to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation.

(d) Termination Without Cause. The Company may terminate the Executive's employment hereunder at any time without Cause. Any termination by the Company of the Executive's employment under this Agreement which does not constitute a termination for Cause under Section 3(c) and does not result from the death or disability of the Executive under Section 3(a) or (b) shall be deemed a termination without Cause.

(e) Termination by the Executive. The Executive may terminate her employment hereunder at any time for any reason, including but not limited to Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean that the Executive has complied with the "**Good Reason Process**" (hereinafter defined) following the occurrence of any of the following events: (i) a material diminution in the Executive's responsibilities, authority or duties; (ii) a material diminution in the Executive's Base Salary except for across-the-board salary reductions based on the Company's financial performance similarly affecting all or substantially all senior management employees of the Company; (iii) a material change in the geographic location at which the Executive provides services to the Company; or (iv) the material breach of this Agreement by the Company. "**Good Reason Process**" shall mean that (i) the Executive reasonably determines in good faith that a Good Reason condition has occurred; (ii) the Executive notifies the Company in writing of the first occurrence of the Good Reason condition within 60 days of the first occurrence of such condition; (iii) the Executive cooperates in good faith with the Company's efforts, for a period not less than 30 days following such notice (the

“**Cure Period**”), to remedy the condition; (iv) notwithstanding such efforts, the Good Reason condition continues to exist; and (v) the Executive terminates her employment within 60 days after the end of the Cure Period. If the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.

(f) Notice of Termination. Except for termination as specified in Section 3(a), any termination of the Executive’s employment by the Company or any such termination by the Executive shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a “**Notice of Termination**” shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(g) Date of Termination. “**Date of Termination**” shall mean: (i) if the Executive’s employment is terminated by her death, the date of her death; (ii) if the Executive’s employment is terminated on account of disability under Section 3(b) or by the Company for Cause under Section 3(c), the date on which Notice of Termination is given; (iii) if the Executive’s employment is terminated by the Company under Section 3(d), the date on which a Notice of Termination is given; (iv) if the Executive’s employment is terminated by the Executive under Section 3(e) without Good Reason, 30 days after the date on which a Notice of Termination is given, and (v) if the Executive’s employment is terminated by the Executive under Section 3(e) with Good Reason, the date on which a Notice of Termination is given after the end of the Cure Period. Notwithstanding the foregoing, in the event that the Executive gives a Notice of Termination to the Company, the Company may unilaterally accelerate the Date of Termination and such acceleration shall not result in a termination by the Company for purposes of this Agreement.

4. Compensation Upon Termination.

(a) Termination Generally. If the Executive’s employment with the Company is terminated for any reason, the Company shall pay or provide to the Executive (or to her authorized representative or estate) (i) any Base Salary earned through the Date of Termination, unpaid expense reimbursements (subject to, and in accordance with, Section 2(c) of this Agreement) and unused vacation that accrued through the Date of Termination on or before the time required by law but in no event more than 30 days after the Executive’s Date of Termination; and (ii) any vested benefits the Executive may have under any employee benefit plan of the Company through the Date of Termination, which vested benefits shall be paid and/or provided in accordance with the terms of such employee benefit plans (collectively, the “**Accrued Benefit**”).

(b) Termination by the Company Without Cause or by the Executive with Good Reason. During the Term, if the Executive's employment is terminated by the Company without Cause as provided in Section 3(d), or the Executive terminates her employment for Good Reason as provided in Section 3(e), then the Company shall pay the Executive her Accrued Benefit. In addition, subject to the Executive signing a separation agreement containing, among other provisions, a general release of claims in favor of the Company and related persons and entities, confidentiality, return of property and non-disparagement, in a form and manner satisfactory to the Company (the "**Separation Agreement and Release**") and the Separation Agreement and Release becoming irrevocable and fully effective, all within 60 days after the Date of Termination (or such shorter time period provided in the Separation Agreement and Release):

(i) the Company shall pay the Executive an amount equal to the sum of 0.5 times the Executive's Base Salary. Notwithstanding the foregoing, if the Executive breaches any of the provisions contained in Section 7 of this Agreement, all payments of the Severance Amount shall immediately cease;

(ii) if the Executive was participating in the Company's group health plan immediately prior to the Date of Termination and elects COBRA health continuation, then the Company shall pay to the Executive a monthly cash payment for 6 months or the Executive's COBRA health continuation period, whichever ends earlier, in an amount equal to the monthly employer contribution that the Company would have made to provide health insurance to the Executive if the Executive had remained employed by the Company; and

(iii) the amounts payable under Section 4(b)(i) and (ii) shall be paid out in substantially equal installments in accordance with the Company's payroll practice over 6 months commencing within 60 days after the Date of Termination; provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, the Severance Amount shall begin to be paid in the second calendar year by the last day of such 60-day period; provided, further, that the initial payment shall include a catch-up payment to cover amounts retroactive to the day immediately following the Date of Termination. Each payment pursuant to this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2).

5. Change in Control Payment. The provisions of this Section 5 set forth certain terms of an agreement reached between the Executive and the Company regarding the Executive's rights and obligations upon the occurrence of a Change in Control of the Company. These provisions are intended to assure and encourage in advance the Executive's continued attention and dedication to her assigned duties and her objectivity during the pendency and after the occurrence of any such event. These provisions shall apply in lieu of, and expressly supersede, the provisions of Section 4(b) regarding severance pay and benefits upon a termination of employment, if such termination of employment occurs within 12 months after the occurrence of the first event constituting a Change in Control. These provisions shall terminate and be of no further force or effect beginning 12 months after the occurrence of a Change in Control.

(a) Change in Control. During the Term, if within 12 months after a Change in Control, the Executive's employment is terminated by the Company without Cause as provided in Section 3(d) or the Executive terminates her employment for Good Reason as provided in Section 3(e), then, subject to the signing of the Separation Agreement and Release by the Executive and the Separation Agreement and Release becoming irrevocable and fully effective, all within 60 days after the Date of Termination (or such shorter time period provided in the Separation Agreement and Release):

(i) the Company shall pay the Executive a lump sum in cash in an amount equal to one (1.0) times the sum of (A) the Executive's current Base Salary (or the Executive's Base Salary in effect immediately prior to the Change in Control, if higher) plus (B) the Executive's Average Incentive Compensation. For purposes of this Agreement, "Average Incentive Compensation" shall mean the average of the Target Annual Incentive Compensation received by the Executive for the three immediately preceding fiscal years. In no event shall "Average Incentive Compensation" include any sign-on bonus, retention bonus or any other special bonus.

(ii) notwithstanding anything to the contrary in any applicable option agreement or stock-based award agreement, all time-based stock options and other time-based stock-based awards held by the Executive shall immediately accelerate and become fully exercisable or nonforfeitable as of the Date of Termination;

(iii) if the Executive was participating in the Company's group health plan immediately prior to the Date of Termination and elects COBRA health continuation, then the Company shall pay to the Executive a monthly cash payment for 18 months or the Executive's COBRA health continuation period, whichever ends earlier, in an amount equal to the monthly employer contribution that the Company would have made to provide health insurance to the Executive if the Executive had remained employed by the Company; and

(iv) The amounts payable under Section 5(a)(i) and (iii) shall be paid or commence to be paid within 60 days after the Date of Termination; provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, such payment shall be paid or commence to be paid in the second calendar year by the last day of such 60-day period.

(b) Additional Limitation.

(i) Anything in this Agreement to the contrary notwithstanding, in the event that the amount of any compensation, payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, calculated in a manner consistent with Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**") and the applicable regulations thereunder (the "**Aggregate Payments**"), would be subject to the excise tax imposed by Section 4999 of the Code, then the Aggregate Payments shall be reduced (but not below zero) so that the sum of all of the Aggregate Payments shall be \$1.00 less than the amount at which the Executive becomes subject to the excise tax imposed by Section 4999 of the Code; provided that such reduction shall only occur if it

would result in the Executive receiving a higher After Tax Amount (as defined below) than the Executive would receive if the Aggregate Payments were not subject to such reduction. In such event, the Aggregate Payments shall be reduced in the following order, in each case, in reverse chronological order beginning with the Aggregate Payments that are to be paid the furthest in time from consummation of the transaction that is subject to Section 280G of the Code: (1) cash payments not subject to Section 409A of the Code; (2) cash payments subject to Section 409A of the Code; (3) equity-based payments and acceleration; and (4) non-cash forms of benefits; provided that in the case of all the foregoing Aggregate Payments all amounts or payments that are not subject to calculation under Treas. Reg. §1.280G-1, Q&A-24(b) or (c) shall be reduced before any amounts that are subject to calculation under Treas. Reg. §1.280G-1, Q&A-24(b) or (c).

(ii) For purposes of this Section 5(b), the “**After Tax Amount**” means the amount of the Aggregate Payments less all federal, state, and local income, excise and employment taxes imposed on the Executive as a result of the Executive’s receipt of the Aggregate Payments. For purposes of determining the After Tax Amount, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes at the highest marginal rates of individual taxation in each applicable state and locality, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

(iii) The determination as to whether a reduction in the Aggregate Payments shall be made pursuant to Section 5(b)(i) shall be made by a nationally recognized accounting firm selected by the Company (the “**Accounting Firm**”), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Company or the Executive. Any determination by the Accounting Firm shall be binding upon the Company and the Executive.

(c) Definitions. For purposes of this Section 5, the following terms shall have the following meanings:

“**Change in Control**” shall mean any of the following:

(i) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Act”) (other than the Company, any of its subsidiaries, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its subsidiaries), together with all “affiliates” and “associates” (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 50 percent or more of the combined voting power of the Company’s then outstanding securities having the right to vote in an election of the Board (“**Voting Securities**”) (in such case other than as a result of an acquisition of securities directly from the Company); or

(ii) the date a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or

(iii) the consummation of (A) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate more than 50 percent of the voting shares of the Company issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), or (B) any sale or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of Voting Securities beneficially owned by any person to 50 percent or more of the combined voting power of all of the then outstanding Voting Securities; provided, however, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company) and immediately thereafter beneficially owns 50 percent or more of the combined voting power of all of the then outstanding Voting Securities, then a Change in Control shall be deemed to have occurred for purposes of the foregoing clause (i). In addition, a “Change in Control” must also constitute a “change in control event” as defined in Treasury Regulation Section 1.409A-3(i)(5), to the extent required by Section 409A of the Code.

6. Section 409A.

(a) Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive’s separation from service within the meaning of Section 409A of the Code, the Company determines that the Executive is a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive’s separation from service would be considered deferred compensation otherwise subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive’s separation from service, or (B) the Executive’s death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule.

(b) All in-kind benefits provided and expenses eligible for reimbursement under this Agreement shall be provided by the Company or incurred by the Executive during the time periods set forth in this Agreement. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of in-kind benefits provided or reimbursable expenses incurred in one taxable year shall not affect the in-kind benefits to be provided or the expenses eligible for reimbursement in any other taxable year (except for any lifetime or other aggregate limitation applicable to medical expenses). Such right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(c) To the extent that any payment or benefit described in this Agreement constitutes “non-qualified deferred compensation” under Section 409A of the Code, and to the extent that such payment or benefit is payable upon the Executive’s termination of employment, then such payments or benefits shall be payable only upon the Executive’s “separation from service.” The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

(d) The parties intend that this Agreement will be administered in accordance with Section 409A of the Code. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner so that all payments hereunder comply with Section 409A of the Code. Each payment pursuant to this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b) (2). The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party.

(e) The Company makes no representation or warranty and shall have no liability to the Executive or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

7. Confidential Information, Noncompetition and Cooperation.

(a) Confidential Information. As used in this Agreement, “**Confidential Information**” means information belonging to the Company which is of value to the Company in the course of conducting its business and the disclosure of which could result in a competitive or other disadvantage to the Company. Confidential Information includes, without limitation, financial information, reports, and forecasts; inventions, improvements and other intellectual property; trade secrets; know-how; designs, processes or formulae; software; market or sales information or plans; customer lists; and business plans, prospects and opportunities (such as possible acquisitions or dispositions of businesses or facilities) which have been discussed or considered by the management of the Company. Confidential Information includes information developed by the Executive in the course of the Executive’s employment by the Company, as well as other information to which the Executive may have access in connection with the

Executive's employment. Confidential Information also includes the confidential information of others with which the Company has a business relationship. Notwithstanding the foregoing, Confidential Information does not include information in the public domain, unless due to breach of the Executive's duties under Section 7(b).

(b) Confidentiality. The Executive understands and agrees that the Executive's employment creates a relationship of confidence and trust between the Executive and the Company with respect to all Confidential Information. At all times, both during the Executive's employment with the Company and after its termination, the Executive will keep in confidence and trust all such Confidential Information and will not use or disclose any such Confidential Information without the written consent of the Company, except as may be necessary in the ordinary course of performing the Executive's duties to the Company. For avoidance of doubt, nothing in this Agreement shall be interpreted or applied to prohibit the Executive from making any good faith report to any governmental agency or other governmental entity concerning any act or omission that the Executive reasonably believes constitutes a possible violation of federal or state law or making other disclosures that are protected under the anti-retaliation or whistleblower provisions of applicable federal or state law or regulation. In addition, for the avoidance of doubt, pursuant to the federal Defend Trade Secrets Act of 2016, the Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made (A) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(c) Documents, Records, etc. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, which are furnished to the Executive by the Company or are produced by the Executive in connection with the Executive's employment will be and remain the sole property of the Company. The Executive will return to the Company all such materials and property as and when requested by the Company. In any event, the Executive will return all such materials and property immediately upon termination of the Executive's employment for any reason. The Executive will not retain with the Executive any such material or property or any copies thereof after such termination.

(d) Noncompetition and Nonsolicitation. During the Executive's employment with the Company and for 12 months months thereafter, regardless of the reason for the termination, the Executive (i) will not, directly or indirectly, whether as owner, partner, shareholder, consultant, agent, employee, co-venturer or otherwise, engage, participate, assist or invest in any Competing Business (as hereinafter defined); (ii) will refrain from directly or indirectly employing, attempting to employ, recruiting or otherwise soliciting, inducing or influencing any person to leave employment with the Company (other than terminations of employment of subordinate employees undertaken in the course of the Executive's employment with the Company); and (iii) will refrain from soliciting or encouraging any customer or supplier to terminate or otherwise modify adversely its business relationship with the Company. The Executive understands that the restrictions set forth in this Section 7(d) are intended to protect the Company's interest in its Confidential Information and established employee, customer and supplier relationships and goodwill, and agrees that such restrictions are reasonable and

appropriate for this purpose. For purposes of this Agreement, the term “**Competing Business**” shall mean a business conducted anywhere in North America or the five major European countries (UK, Germany, France, Italy and Spain) which is competitive with any business which the Company or any of its affiliates conducts or proposes to conduct at any time during the employment of the Executive. Notwithstanding the foregoing, the Executive may own up to one percent (1%) of the outstanding stock of a publicly held corporation which constitutes or is affiliated with a Competing Business.

(e) Third-Party Agreements and Rights. The Executive hereby confirms that the Executive is not bound by the terms of any agreement with any previous employer or other party which restricts in any way the Executive’s use or disclosure of information or the Executive’s engagement in any business. The Executive represents to the Company that the Executive’s execution of this Agreement, the Executive’s employment with the Company and the performance of the Executive’s proposed duties for the Company will not violate any obligations the Executive may have to any such previous employer or other party. In the Executive’s work for the Company, the Executive will not disclose or make use of any information in violation of any agreements with or rights of any such previous employer or other party, and the Executive will not bring to the premises of the Company any copies or other tangible embodiments of non-public information belonging to or obtained from any such previous employment or other party.

(f) Litigation and Regulatory Cooperation. During and after the Executive’s employment, the Executive shall cooperate fully with the Company in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company which relate to events or occurrences that transpired while the Executive was employed by the Company. The Executive’s full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. During and after the Executive’s employment, the Executive also shall cooperate fully with the Company in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while the Executive was employed by the Company. The Company shall reimburse the Executive for any reasonable out-of-pocket expenses incurred in connection with the Executive’s performance of obligations pursuant to this Section 7(f).

(g) Relief. The Executive agrees that it would be difficult to measure any damages caused to the Company which might result from any breach by the Executive of the promises set forth in this Section 7, and that in any event money damages would be an inadequate remedy for any such breach. Accordingly, subject to Section 8 of this Agreement, the Executive agrees that if the Executive breaches, or proposes to breach, any portion of this Agreement, the Company shall be entitled, in addition to all other remedies that it may have, to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to the Company. In addition, in the event the Executive breaches this Section 7 during a period when she is receiving severance payments pursuant to Section 4 or Section 5 hereof, the Company shall have the right to suspend or terminate such severance payments. Such suspension or termination shall not limit the Company’s other options with respect to relief for such breach and shall not relieve the Executive of her duties under this Agreement.

(h) Protected Disclosures and Other Protected Action. Nothing contained in this Agreement limits the Executive's ability to communicate with any federal, state or local governmental agency or commission, including to provide documents or other information, without notice to the Company.

8. Arbitration of Disputes. Any controversy or claim arising out of or relating to this Agreement or the breach thereof or otherwise arising out of the Executive's employment or the termination of that employment (including, without limitation, any claims of unlawful employment discrimination whether based on age or otherwise) shall, to the fullest extent permitted by law, be settled by arbitration in any forum and form agreed upon by the parties or, in the absence of such an agreement, under the auspices of the American Arbitration Association ("AAA") in Boston, Massachusetts in accordance with the Employment Dispute Resolution Rules of the AAA, including, but not limited to, the rules and procedures applicable to the selection of arbitrators. In the event that any person or entity other than the Executive or the Company may be a party with regard to any such controversy or claim, such controversy or claim shall be submitted to arbitration subject to such other person or entity's agreement. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This Section 8 shall be specifically enforceable. Notwithstanding the foregoing, this Section 8 shall not preclude either party from pursuing a court action for the sole purpose of obtaining a temporary restraining order or a preliminary injunction in circumstances in which such relief is appropriate; provided that any other relief shall be pursued through an arbitration proceeding pursuant to this Section 8.

9. Consent to Jurisdiction. To the extent that any court action is permitted consistent with or to enforce Section 8 of this Agreement, the parties hereby consent to the jurisdiction of the Superior Court of the Commonwealth of Massachusetts and the United States District Court for the District of Massachusetts. Accordingly, with respect to any such court action, the Executive (a) submits to the personal jurisdiction of such courts; (b) consents to service of process; and (c) waives any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction or service of process.

10. Integration. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements between the parties concerning such subject matter, including the Prior Agreement.

11. Withholding. All payments made by the Company to the Executive under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under applicable law.

12. Successor to the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal representatives, executors, administrators, heirs, distributees, devisees and legatees. In the event of the Executive's death after her termination of employment but prior to the completion by the Company of all payments due to her under this Agreement, the Company shall continue such payments to the Executive's beneficiary designated in writing to the Company prior to her death (or to her estate, if the Executive fails to make such designation).

13. Enforceability. If any portion or provision of this Agreement (including, without limitation, any portion or provision of any section of this Agreement) shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

14. Survival. The provisions of this Agreement shall survive the termination of this Agreement and/or the termination of the Executive's employment to the extent necessary to effectuate the terms contained herein.

15. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

16. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by a nationally recognized overnight courier service or by registered or certified mail, postage prepaid, return receipt requested, to the Executive at the last address the Executive has filed in writing with the Company or, in the case of the Company, at its main offices, attention of the Board.

17. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by a duly authorized representative of the Company.

18. Governing Law. This is a Massachusetts contract and shall be construed under and be governed in all respects by the laws of the Commonwealth of Massachusetts, without giving effect to the conflict of laws principles thereof.

19. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be taken to be an original; but such counterparts shall together constitute one and the same document.

20. Successor to Company. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement to the same extent that the Company would be required to perform it if no succession had taken place. Failure of the Company to obtain an assumption of this Agreement at or prior to the effectiveness of any succession shall be a material breach of this Agreement.

21. Gender Neutral. Wherever used herein, a pronoun in the masculine gender shall be considered as including the feminine gender unless the context clearly indicates otherwise.

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the date and year first above written.

RESTORBIO, INC.

/s/ Chen Schor

By: Chen Schor

Its: CEO

EXECUTIVE

/s/ Meredith S. Manning

Meredith S. Manning

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) / RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Chen Schor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of resTORbio, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Chen Schor

Chen Schor
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 13, 2018

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) / RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, John J. McCabe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of resTORbio, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John J. McCabe

John J. McCabe

Vice President, Finance

(Principal Financial and Accounting Officer)

Dated: November 13, 2018

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of resTORbio, Inc. (the "Company") for the quarter ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, that, to the best of their knowledge:

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

/s/ Chen Schor

Chen Schor
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 13, 2018

/s/ John J. McCabe

John J. McCabe
Vice President, Finance
(Principal Financial and Accounting Officer)

Dated: November 13, 2018

