

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2020

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, 13<sup>th</sup> Floor**  
**Boston, MA**  
(Address of principal executive offices)

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

**02116**

(Zip Code)

**(857) 315-5528**

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	TORC	The Nasdaq Global Select Market

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth Company	<input checked="" type="checkbox"/>

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

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

As of July 29, 2020, the registrant had 36,453,882 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:

- the ability to satisfy the conditions to the merger transaction with Adicet Bio, Inc., including the ability to obtain shareholder approval, on the proposed terms and timeframe;
- the ability to realize the anticipated benefits of transactions related to the merger transaction with Adicet Bio, Inc. and other restructuring activities, including in connection with the merger transaction, or other initiatives in a timely manner or at all;
- the risk of unanticipated costs, liabilities or delays relating to the merger transaction with Adicet Bio, Inc., including the outcome of any legal proceedings relating to the merger transaction;
- the occurrence of any change, effect, event, development, matter, state of facts, series of events or circumstances that could give rise to the termination of the agreement with Adicet Bio, Inc. related to the merger transaction, including a termination of such agreement under circumstances that could require us to pay a termination fee to Adicet Bio, Inc.;
- our plans to develop and commercialize RTB101 alone or in combination with a rapalog, 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 future clinical trials for RTB101 alone or in combination with a rapalog, such as everolimus or sirolimus, whether conducted by us or by any future collaborators
- the timing of initiation and the anticipated results of our ongoing and future clinical trials of RTB101 alone or in combination with rapalogs, such as everolimus or sirolimus;
- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;
- the impact of any business interruptions to our operations or to those of our clinical sites, manufacturers, suppliers, or other vendors resulting from the coronavirus disease (COVID-19) outbreak or similar public health crisis;
- 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 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.

## Item 1. Condensed Consolidated Financial Statements.

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

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 70,889	\$ 33,774
Marketable securities	—	57,699
Prepaid expenses and other current assets	2,860	1,780
Total current assets	73,749	93,253
Restricted cash	245	245
Property and equipment, net	348	414
Total assets	<u>\$ 74,342</u>	<u>\$ 93,912</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 2,467	\$ 6,716
Accrued liabilities	1,097	5,483
Total current liabilities	3,564	12,199
Other liabilities	34	15
Total liabilities	3,598	12,214
Commitments and contingencies (see Note 10)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized as of June 30, 2020 and December 31, 2019; none issued and outstanding as of June 30, 2020 and December 31, 2019	—	—
Common stock, \$0.0001 par value, 150,000,000 shares authorized as of June 30, 2020 and December 31, 2019; 36,446,853 and 36,444,732 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	4	4
Additional paid-in capital	237,509	235,777
Accumulated deficit	(166,769)	(154,132)
Accumulated other comprehensive income	—	49
Total stockholders' equity	70,744	81,698
Total liabilities and stockholders' equity	<u>\$ 74,342</u>	<u>\$ 93,912</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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating expenses:				
Research and development	\$ 1,788	\$ 16,553	\$ 6,629	\$ 25,405
General and administrative	3,864	2,616	6,403	5,455
Total operating expenses	5,652	19,169	13,032	30,860
Loss from operations	(5,652)	(19,169)	(13,032)	(30,860)
Other income, net	54	847	403	1,478
Loss before income taxes	(5,598)	(18,322)	(12,629)	(29,382)
Income tax expense	1	10	8	19
Net loss	\$ (5,599)	\$ (18,332)	\$ (12,637)	\$ (29,401)
Net loss per share, basic and diluted	\$ (0.15)	\$ (0.51)	\$ (0.35)	\$ (0.91)
Weighted-average common shares used in computing net loss per share, basic and diluted	36,446,235	35,684,368	36,445,460	32,248,646
<i>Other comprehensive gain (loss):</i>				
Net loss	\$ (5,599)	\$ (18,332)	\$ (12,637)	\$ (29,401)
Net unrealized (losses) gains on marketable securities	(32)	138	(49)	211
Comprehensive loss	\$ (5,631)	\$ (18,194)	\$ (12,686)	\$ (29,190)

See accompanying notes to these condensed consolidated financial statements.

**resTORbio, Inc.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(Unaudited)**  
**(In thousands, except share data)**

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Compressive Income (Loss)	Shareholders' Equity
	Shares	Amount				
<b>Balance at December 31, 2019</b>	36,444,732	\$ 4	\$ 235,777	\$ (154,132)	\$ 49	\$ 81,698
Vesting of restricted stock units, net of shares withheld for taxes	1,019	—	(1)	—	—	(1)
Stock-based compensation expense	—	—	975	—	—	975
Net loss	—	—	—	(7,038)	—	(7,038)
Net unrealized losses on marketable securities	—	—	—	—	(17)	(17)
<b>Balance at March 31, 2020</b>	<u>36,445,751</u>	<u>\$ 4</u>	<u>\$ 236,751</u>	<u>\$ (161,170)</u>	<u>\$ 32</u>	<u>\$ 75,617</u>
Vesting of restricted stock units, net of shares withheld for taxes	1,102	—	(1)	—	—	(1)
Stock-based compensation expense	—	—	759	—	—	759
Net loss	—	—	—	(5,599)	—	(5,599)
Net unrealized losses on marketable securities	—	—	—	—	(32)	(32)
<b>Balance at June 30, 2020</b>	<u>36,446,853</u>	<u>\$ 4</u>	<u>\$ 237,509</u>	<u>\$ (166,769)</u>	<u>\$ —</u>	<u>\$ 70,744</u>

**resTORbio, Inc.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(Unaudited)**  
**(In thousands, except share data)**

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Compressive (Loss) Income	Shareholders' Equity
	Shares	Amount				
<b>Balance at December 31, 2018</b>	28,054,344	\$ 3	\$ 175,635	\$ (71,393)	\$ (41)	\$ 104,204
Issuance of common stock upon closing of public offering, net of						
issuance costs of \$3,455	7,200,000	1	46,584	—	—	46,585
Vesting of restricted shares	500	—	1	—	—	1
Stock-based compensation expense	—	—	662	—	—	662
Net loss	—	—	—	(11,069)	—	(11,069)
Net unrealized gains on marketable securities	—	—	—	—	73	73
<b>Balance at March 31, 2019</b>	<u>35,254,844</u>	<u>\$ 4</u>	<u>\$ 222,882</u>	<u>\$ (82,462)</u>	<u>\$ 32</u>	<u>\$ 140,456</u>
Issuance of common stock upon closing of public offering, net of						
issuance costs of \$228	487,934	—	3,163	—	—	3,163
Issuance of common stock pursuant to the at-the-market offering,						
net of issuance costs of \$64	62,663	—	582	—	—	582
Vesting of restricted shares	500	—	—	—	—	—
Vesting of restricted stock units	4,423	—	(15)	—	—	(15)
Exercise of stock options	7,029	—	6	—	—	6
Stock-based compensation expense	—	—	944	—	—	944
Net loss	—	—	—	(18,332)	—	(18,332)
Unrealized gain on marketable securities	—	—	—	—	138	138
<b>Balance at June 30, 2019</b>	<u>35,817,393</u>	<u>\$ 4</u>	<u>\$ 227,562</u>	<u>\$ (100,794)</u>	<u>\$ 170</u>	<u>\$ 126,942</u>

See accompanying notes to these condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2020	2019
<b>Operating activities:</b>		
Net loss	\$ (12,637)	\$ (29,401)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion on marketable securities	150	(625)
Depreciation and amortization expense	68	55
Stock-based compensation expense	1,734	1,607
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,080)	(1,786)
Accounts payable	(4,251)	5,197
Accrued liabilities	(4,386)	(1,263)
Other liabilities	19	(8)
Net cash used in operating activities	<u>(20,383)</u>	<u>(26,224)</u>
<b>Investing activities:</b>		
Purchases of property and equipment	—	(48)
Maturities of marketable securities	57,500	67,500
Purchases of marketable securities	—	(77,104)
Net cash provided by (used in) investing activities	<u>57,500</u>	<u>(9,652)</u>
<b>Financing activities:</b>		
Proceeds from public offering, net of issuance costs	—	49,748
Proceeds from at-the-market offering, net of issuance costs	—	627
Taxes paid related to net share settlement of restricted stock units	(2)	(9)
Net cash (used in) provided by financing activities	<u>(2)</u>	<u>50,366</u>
Net increase in cash, cash equivalents and restricted cash	37,115	14,490
Cash, cash equivalents and restricted cash at beginning of period	34,019	6,881
Cash, cash equivalents and restricted cash at end of period	<u>\$ 71,134</u>	<u>\$ 21,371</u>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Purchases of property and equipment included in accounts payable	\$ 2	\$ 11
Issuance costs associated with at-the-market offering included in accounts payable	\$ —	\$ 45

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 subsidiaries, resTORbio Securities Corp. and Project Oasis Merger Sub, Inc. ("Merger Sub") as "resTORbio" or the "Company") was incorporated in the State of Delaware on July 5, 2016. The Company is a clinical-stage biopharmaceutical company developing innovative medicines that target the biology of aging to prevent or treat aging-related diseases with the potential to extend healthy lifespan. The Company's principal operations are located in Boston, Massachusetts.

In November 2019, the Company announced that top line data from the PROTECTOR 1 Phase 3 study, evaluating the safety and efficacy of RTB101 in preventing clinically symptomatic respiratory illness in adults age 65 and older, did not meet its primary endpoint and the Company has stopped the development of RTB101 for clinically symptomatic respiratory illness.

In February 2020, the Company retained JMP Securities LLC ("JMP") as a financial advisor to assist it in its evaluation of a broad range of strategic alternatives to enhance stockholder value, including additional capital raising transactions, an acquisition, merger, business combination, licensing and/or other strategic transaction involving the Company.

On April 28, 2020, the Company entered into an agreement and plan of merger (the "Merger Agreement") with Adicet Bio, Inc. ("Adicet") and Merger Sub pursuant to which, subject to the satisfaction or waiver of the conditions therein, The Merger Sub will merge with and into Adicet (the "Merger"), with Adicet continuing as the surviving company and a wholly-owned subsidiary of resTORbio. The Merger Agreement was approved by the members of the Company's board of directors (the "Board"), and the Board resolved to recommend approval of the Merger Agreement to the Company's shareholders. The closing of the Merger is subject to approval of the Company shareholders and the satisfaction of customary closing conditions.

From the Company's inception, it has devoted substantially all of its efforts to business planning, engaging regulatory, manufacturing and other technical consultants, planning and executing clinical trials and raising capital. The Company's future operations are highly dependent on the success of the merger with Adicet.

## **2. Summary of Significant Accounting Policies**

### ***Basis of Presentation***

The accompanying condensed consolidated financial statements are unaudited. The unaudited condensed consolidated 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 June 30, 2020 and the results of operations and cash flows for the interim periods ended June 30, 2020 and 2019. 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, 2019 that was filed with the Securities and Exchange Commission ("SEC") on March 12, 2020 (the "2019 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 subsidiaries, resTORbio Securities Corp. and Project Oasis Merger Sub, Inc. 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, 2019, and the notes thereto, which are included in the 2019 Form 10-K. There have been no material changes in the Company's significant accounting policies during the three and six months ended June 30, 2020.

### 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 June 30, 2020 (in thousands):

Description	June 30, 2020	Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds (included in cash and cash equivalents)	\$ 70,889	\$ 70,889	\$ —	\$ —
Total	<u>\$ 70,889</u>	<u>\$ 70,889</u>	<u>\$ —</u>	<u>\$ —</u>

The following table summarizes assets measured at fair value on a recurring basis at December 31, 2019 (in thousands):

Description	December 31, 2019	Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds (included in cash and cash equivalents)	\$ 33,774	\$ 33,774	\$ —	\$ —
U.S. treasury securities (included in marketable securities)	57,699	57,699	—	—
Total	<u>\$ 91,473</u>	<u>\$ 91,473</u>	<u>\$ —</u>	<u>\$ —</u>

### Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820). ASU 2018-13 modifies fair value disclosure requirements, specifically around level transfers and valuation of Level 3 assets and liabilities. ASU 2018-13 is effective for financial statements issued for annual and interim periods beginning after December 15, 2019 for all entities. Early adoption of all or part of ASU 2018-13 is permitted. Effective January 1, 2020, the Company adopted the standard. The adoption did not have a material impact on the Company's consolidated financial statements.

### 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. For public entities, the guidance was effective for annual reporting periods beginning after December 15, 2018 and for interim periods within those fiscal years. For non-public entities and emerging growth companies that choose to take advantage of the extended transition period, the guidance was effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities. In June 2020, the FASB issued ASU No. 2020-05, which deferred the effective date for nonpublic entities and emerging growth companies that choose to take advantage of the extended transition period to annual reporting periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application continues to be allowed. The adoption of this standard is expected to have an impact on the amount of the Company's assets and liabilities presented. The Company expects to utilize the new transition method described in ASU No. 2018-11 and use the effective date as the Company's date of initial application for the new standard. The Company expects to elect the available package of practical expedients in transition which would allow it to not re-assess whether existing or expired arrangements contain a lease, the lease classification of existing or expired leases, or whether previous initial direct costs would qualify for capitalization under the new lease standard. As of December 31, 2019, the Company has not elected to early adopt the guidance.

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, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities but no earlier than the Company's adoption of ASC 606. The Company does not expect the impact of ASU 2018-07 to be material to its consolidated financial statements.

### 3. Marketable Securities

As of June 30, 2020, the Company did not have any marketable securities.

As of December 31, 2019, 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 treasuries and securities	\$ 57,650	\$ 49	\$ —	\$ 57,699
Total	<u>\$ 57,650</u>	<u>\$ 49</u>	<u>\$ —</u>	<u>\$ 57,699</u>

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

	December 31, 2019	
	Amortized Cost	Fair Value
Due in one year or less	\$ 57,650	\$ 57,699
Total	<u>\$ 57,650</u>	<u>\$ 57,699</u>

#### 4. Property and equipment, net

Property and equipment, net consists of the following:

	June 30, 2020	December 31, 2019
	(In thousands)	
Leasehold improvements	\$ 17	\$ 17
Furniture and fixtures	397	397
Computers	127	125
Office equipment	11	11
Software	22	22
Total property and equipment	574	572
Less: accumulated depreciation	(226)	(158)
Property and equipment, net	\$ 348	\$ 414

Depreciation and amortization expense was \$34,000 and \$68,000 for the three and six months ended June 30, 2020, respectively. Depreciation and amortization expense was \$28,000 and \$55,000 for the three and six months ended June 30, 2019

#### 5. Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2020	December 31, 2019
	(In thousands)	
Accrued payroll and related expenses	\$ 509	\$ 1,643
Accrued restructuring costs (See Note 13)	—	516
Accrued research and development expenses	230	3,171
Other	358	153
Total accrued liabilities	\$ 1,097	\$ 5,483

#### 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.

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 10<sup>th</sup> 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.

Milestone payments to Novartis will be recorded as research and development expenses in the condensed consolidated statements of operations once achievement of each associated milestone has occurred. 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 payment in May 2017. In May 2019, the Company initiated a Phase 3 clinical trial for the first indication, triggering a milestone payment of \$2.5 million under the agreement. As of June 30, 2020, none of the remaining development milestones, regulatory milestones, sales milestones, or royalties had been reached or were probable of achievement.

## 7. Research Funding Agreement

### *National Institute of Health*

In May 2019, the Company was awarded a 5-year grant for up to \$1.5 million from the National Institutes of Health (the “NIH”) to study RTB101 and the regulation of antiviral immunity in the elderly. The Company is entitled to use the award solely to conduct the research. The Company is solely responsible for commencing and conducting the research and will furnish periodic progress updates to the NIH throughout the term of the award. After completing the research, the Company must provide the NIH with a formal report describing the work performed and the results of the research.

For funds received under the NIH 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 NIH. Qualifying expenses incurred by the Company in advance of funding by the NIH are recorded in the consolidated balance sheets as other current assets. As of June 30, 2020, \$0.5 million qualifying expenses have been incurred and \$0.3 million have been funded by the NIH. Therefore, \$0.2 million is included in other current assets on the accompanying balance sheet as of June 30, 2020.

## 8. Preferred Stock and Common Stock

As of June 30, 2020, the Company had 10,000,000 shares of preferred stock authorized and none issued and outstanding.

### *Reserve for future issuance*

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

	June 30, 2020	December 31, 2019
Options issued and outstanding	2,140,012	2,562,800
Unvested restricted stock units	661,778	828,935
Options available for future grants	2,260,656	215,043
Shares available for issuance under the 2018 ESPP	920,030	555,583
Total	<u>5,982,476</u>	<u>4,162,361</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 initial public offering completed in January 2018, 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 were reserved for issuance under the 2018 Plan were 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. On January 1, 2019, as a result of the foregoing evergreen provision, the number of shares of common stock available for issuance under the 2018 Plan automatically increased from 2,200,260 to 3,322,473 shares. On January 1, 2020, as a result of the foregoing evergreen provision, the number of shares of common stock available for issuance under the 2018 Plan automatically increased from 3,322,473 to 4,780,262 shares.

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 condensed consolidated condensed statements of operations and comprehensive loss as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Research and development	\$ 289	\$ 499	\$ 689	\$ 776
General and administrative	470	444	1,045	831
Total stock-based compensation expense	\$ 759	\$ 943	\$ 1,734	\$ 1,607

### 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)
<b>Outstanding, December 31, 2019</b>	215,043	2,562,800	\$ 7.85	8.84	
Shares reserved for issuance	1,457,789				
Options granted	(86,484)	86,484	2.23		
Options cancelled	509,272	(509,272)	7.44		
Restricted stock units cancelled	165,036				
<b>Outstanding, June 30, 2020</b>	<u>2,260,656</u>	<u>2,140,012</u>	7.54	8.59	\$ 567
Exercisable, June 30, 2020		771,444	10.02	8.04	91
Vested and expected to vest, June 30, 2020		2,140,012	7.54	8.59	567

The aggregate intrinsic values of options outstanding, exercisable, vested and expected to vest were calculated as the difference between the exercise price of the in-the-money options and the fair value of the Company's common stock as of June 30, 2020. No options were exercised during the six months ended June 30, 2020.

During the six months ended June 30, 2020, the Company granted options to directors to purchase an aggregate of 86,484 common shares with a grant date fair value of \$1.80 per share. During the six months ended June 30, 2020, the Company did not grant any options to employees and nonemployees to purchase common shares. The expense related to options granted to employees and directors for the three and six months ended June 30, 2020 was \$0.7 million and \$1.6 million, respectively. The expense related to options granted to non-employees for the three and six months ended June 30, 2020 was \$7,000 and \$ 8,000, respectively. The expense related to options granted to employees and directors was \$0.9 million and \$1.5 million for the three and six months ended June 30, 2019, respectively. The expense related to options granted to non-employees was \$40,000 and \$48,000 for the three and six months ended June 30, 2019, respectively.

As of June 30, 2020, the total unrecognized compensation expense related to unvested options granted to employees and directors was \$5.9 million, which the Company expects to recognize over an estimated weighted-average period of 2.36 years. As of June 30, 2020, the total unrecognized compensation expense related to unvested non-employee options was \$28,000, which the Company expects to recognize over an estimated weighted-average period of 1.74 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Employees:</b>				
Fair value of common stock	\$2.23	\$6.97 - \$8.08	\$2.23	\$6.97 - \$8.90
Expected term (in years)	5.5	5.5 - 6.1	5.5	5.5 - 6.1
Expected volatility	110.2%	94.5% - 104.8%	110.2%	93.7% - 104.8%
Risk-free interest rate	0.4%	1.9% - 2.4%	0.4%	1.9% - 2.6%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
<b>Non-employees:</b>				
Fair value of common stock	\$2.09 - \$2.18	\$8.90 - \$10.20	\$0.96 - \$2.18	\$6.82 - \$10.20
Expected term (in years)	7.0 - 8.8	8.0 - 9.7	7.0 - 9.0	8.0 - 10.0
Expected volatility	100.8% - 103.5%	93.4% - 94.2%	99.6% - 103.5%	90.0% - 94.9%
Risk-free interest rate	0.5% - 0.6%	1.9% - 2.1%	0.5% - 0.9%	1.9% - 2.6%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

#### **Restricted Stock Units**

In May 2018, the Company granted 24,960 restricted stock units to an employee with a grant date fair value of \$9.03 per share. In December 2019, the Company granted 813,335 restricted stock units to employees with a grant date fair value of \$1.27 per share.

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

	Number of Restricted Stock Units Outstanding
Unvested shares — December 31, 2019	828,935
Vested, net of shares withheld for taxes	(2,121)
Cancelled	(165,036)
Unvested shares — June 30, 2020	661,778

The Company recognized \$52,000 and \$0.1 million of stock-based compensation expense related to restricted stock units during the three and six months ended June 30, 2020, respectively. As of June 30, 2020, there was \$0.7 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 3.44 years. There were no restricted stock units granted to employees or non-employees during the three and six months ended June 30, 2020 and 2019.

## 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 originally reserved for issuance under the 2018 ESPP were 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. On January 1, 2019, as a result of the foregoing evergreen provision, the number of shares of common stock available for issuance under the 2018 ESPP automatically increased from 275,030 to 555,583 shares. On January 1, 2020, as a result of the foregoing evergreen provision, the number of shares of common stock available for issuance under the 2018 ESPP automatically increased from 555,583 to 920,030 shares. No shares have been issued under the 2018 ESPP during the three and six months ended June 30, 2020.

## 10. Commitments and Contingences

### Litigation

In connection with the Merger, seven putative class action lawsuits have been filed against the Company, its directors, Adicet, and Merger Sub, of which one has already been dismissed. The lawsuits generally allege that the Company's proxy statement/prospectus/information statement filed with the SEC on June 23, 2020 misrepresents and/or omits certain purportedly material information relating to financial projections, analysis performed by JMP, past engagements of JMP, and the process leading up to the execution of the Merger Agreement. The lawsuits seek, among other things: an injunction enjoining consummation of the Merger, costs of the action, including plaintiff's attorneys' fees and experts' fees, declaratory relief, and any other relief the court may deem just and proper. The Company believes the lawsuits to be without merit and plans to seek dismissal.

## 11. Net Loss per Share

The Company computes basic and diluted 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 six months ended June 30, 2020 and 2019, 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 June 30,	
	2020	2019
Options issued and outstanding	2,140,012	1,706,317
Unvested restricted stock	—	500
Unvested restricted stock units	661,778	24,960
Total	2,801,790	1,731,777

## 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 six months ended June 30, 2020 and 2019.

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. The Company did not receive any funding from the Silverstein Foundation during the three and six months ended June 30, 2020 and 2019.

### 13. Reduction in Workforce

In December 2019, the Company's Board of Directors approved a restructuring plan to reduce operating costs and better align the Company's workforce with its business needs following the Company's November 2019 announcement regarding that top line data from the PROTECTOR 1 Phase 3 study, evaluating the safety and efficacy of RTB101 in preventing clinically symptomatic respiratory illness in adults age 65 and older, did not meet its primary endpoint, and that the Company has stopped the development of RTB101 in this indication.

Under the restructuring plan, the Company reduced its workforce by 8 employees (approximately 22% of total employees) in 2019. Affected employees are eligible to receive severance payments and outplacement services in connection with the reduction. In January 2020, the Company further reduced its workforce by 2 employees. No additional reductions were made during the six months ended June 30, 2020. The Company recorded additional restructuring charges of approximately \$0 and \$0.1 million related to severance payments and other employee-related costs, during the three and six months ended June 30, 2020, respectively. As of June 30, 2020, all of the restructuring charges had been paid.

The following table shows the total amount expected to be incurred and the liability related to the 2019 restructuring as of June 30, 2020:

	<b>One-time Employee Termination Benefits</b>	
	(In thousands)	
Accrued restructuring costs as of December 31, 2019	\$	516
Restructuring charges incurred during the year		112
Amounts paid during the year		(628)
Accrued restructuring costs as of June 30, 2020	\$	—

No other restructuring costs are expected to be incurred.

The following table summarizes the restructuring charges reported in the consolidated statements of operations and comprehensive loss for the six months ended June 30, 2020:

	Cash	Non-cash	Total Expenses
	(In thousands)		
Research and development	\$ 112	\$ —	\$ 112
General and administrative	—	—	—
Total	\$ 112	\$ —	\$ 112

### 14. Subsequent Event

On July 21, 2020, the Company's Board approved an amendment to the 2018 Plan, subject to stockholder approval, to increase the aggregate number of shares authorized for issuance under the 2018 Plan by 14,855,157 with a corresponding increase to the maximum number of shares that may be issued in the form of incentive stock options.

On July 28, 2020, the Company announced it received a grant award from the National Institute on Aging to fund a clinical trial to obtain preliminary data on the feasibility of studying RTB101 as compared to placebo for COVID-19 post-exposure prophylaxis in adults age 65 years and older. Approximately, sixty (60) subjects are expected to enroll in the clinical trial, which will be fully funded by the grant. The clinical trial is anticipated to start in the second half of 2020.

## 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, 2019. 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, 2019, as supplemented by our subsequent filings with the SEC. Unless the context indicated otherwise, all references herein to our company include our wholly-owned subsidiaries, resTORbio Securities Corp and Project Oasis Merger Sub, Inc.*

### Overview

We are a clinical-stage biopharmaceutical company developing innovative medicines that target the biology of aging to prevent or treat age-related diseases with the potential to extend healthy lifespan. Our lead program selectively inhibits the target of rapamycin complex 1, or TORC1, an evolutionarily conserved pathway that contributes to the age-related decline in function of multiple organ systems. Our lead product candidate, RTB101, is an oral, selective, and potent inhibitor of TORC1. RTB101 inhibits the phosphorylation of multiple targets downstream of TORC1. Inhibition of TORC1 has been observed to extend lifespan and healthspan in aging preclinical species and to enhance immune, neurologic and cardiac functions, suggesting potential benefits in several aging-related diseases. In May 2020, we initiated a randomized, double-blind, placebo-controlled trial to determine if prophylaxis with RTB101 as compared to placebo reduces the severity of laboratory-confirmed novel coronavirus disease (referred to as "COVID-19") in adults age 65 years and older who reside in a nursing home with one or more residents or staff who have laboratory-confirmed COVID-19. The primary endpoint for the study is the percentage of subjects who develop laboratory-confirmed COVID-19 with protocol-defined progressive symptoms or are hospitalized or die beginning at randomization through Week 4. Approximately 550 subjects are expected to enroll in the study. Subjects will be randomized 1:1 to RTB101 10 mg once daily or matching placebo once daily. As of July 21, 2020, fifteen (15) subjects have been randomized to receive RTB101 10 mg once daily or matching placebo. The study is conducted in collaboration with investigators at Brown University's Schools of Medicine and Public Health. On July 28, 2020, we announced we received a grant award from the National Institute on Aging to fund a clinical trial to obtain preliminary data on the feasibility of studying RTB101 as compared to placebo for COVID-19 post-exposure prophylaxis in adults aged 65 years and older. Approximately, sixty (60) subjects are expected to enroll in the clinical trial, which will be fully funded by the grant. The clinical trial is anticipated to start in the second half of 2020.

In November 2019, we announced that top line data from the PROTECTOR 1 Phase 3 study, evaluating the safety and efficacy of RTB101 in preventing clinically symptomatic respiratory illness in adults age 65 and older, did not meet its primary endpoint and that we have stopped the development of RTB101 for clinically symptomatic respiratory illness. In May 2020, we terminated our Phase 1b/2a with RTB101 alone or RTB101 in combination with sirolimus in Parkinson's disease. Except for the studies described above for COVID-19, there are no additional clinical studies ongoing with RTB101.

RTB101 was previously in development for preventing clinically symptomatic respiratory illness in adults age 65 and older. We previously completed Phase 2b and Phase 3 studies that were randomized, double-blind, placebo-controlled clinical trials that assessed whether 16 weeks of once daily RTB101 treatment reduced the incidence of laboratory-confirmed respiratory tract infections (the Phase 2b primary endpoint) or the incidence of clinically symptomatic respiratory illness (the Phase 3 primary endpoint) in older adults during winter cold and flu season. The Phase 2b study enrolled 652 adults, 65 years of age and older, at increased risk of respiratory tract infection-related morbidity and mortality. The Phase 3 study enrolled 1,024 adults 65 years of age and older, who did not smoke and did not have chronic obstructive pulmonary disease. Although the Phase 2b and Phase 3 trials of RTB101 to reduce the incidence of illness associated with respiratory tract infections (RTIs) in older adults were not designed or powered to assess the incidence and severity of coronavirus infections specifically, a trend toward a decrease in the incidence and severity of coronavirus infections was observed in both trials in older adults who were given RTB101 10 mg once daily as compared to placebo. Specifically, there were seven coronavirus infections observed in subjects who received RTB101 10 mg daily in the Phase 2b study, compared to 15 in the placebo group, and 18 coronavirus infections in the RTB101 group in the Phase 3 study compared to 23 in the placebo group. Trends were also observed toward a decrease in the percentage of subjects with severe coronavirus RTI symptoms and the time to alleviation of moderate and severe coronavirus RTI symptoms in the RTB101 group compared to placebo.

In February 2020, we retained JMP Securities LLC as a financial advisor to assist in our evaluation of a broad range of strategic alternatives to enhance stockholder value, including additional capital raising transactions, an acquisition, merger, business combination, licensing and/or other strategic transaction involving us.

After a comprehensive review of strategic alternatives, on April 28, 2020, we entered into the Merger Agreement with Adicet Bio, Inc. (“Adicet”), pursuant to which, if all of the conditions to closing are satisfied or waived, Adicet will become a wholly-owned subsidiary of ours (the “Merger”). The Merger Agreement was unanimously approved by the members of our Board and the Board resolved to recommend approval of the Merger Agreement to our stockholders. Consummation of the Merger is subject to certain closing conditions, a number of which are not within our control. Certain of our stockholders who collectively own approximately 24% of the outstanding shares of our common stock have entered into voting agreements, pursuant to which they have agreed, among other things, and subject to the terms and conditions of the agreements, to vote in favor of the Merger.

Subject to the terms of the Merger Agreement, at the Effective Time each share of our common stock issued and outstanding immediately prior to the Effective Time shall be entitled to one contractual contingent value right issued by us subject to and in accordance with the terms and conditions of a Contingent Value Rights Agreement. The transaction is expected to close in the second half of 2020. Refer to Note 1, Organization, to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

From our inception, we have devoted substantially all of our efforts to business planning, engaging regulatory, manufacturing and other technical consultants, planning and executing clinical trials and raising capital. Our future operations are highly dependent on the success of the merger with Adicet.

## **Recent Developments**

The recent outbreak of COVID-19 was labeled a global pandemic by the World Health Organization in March 2020 and has led to material and adverse impacts on the U.S. and global economies and created widespread uncertainty. In response to the COVID-19 pandemic, in the first quarter of 2020, we transitioned our workforce to a remote working model and restricted employee travel. Although we have not experienced significant disruption in our operations as a result of the COVID-19 pandemic, in April 2020, we announced that we postponed enrollment in the fifth cohort of our RTB101 trial as a consequence of the COVID-19 level 4 alert in New Zealand, where all non-essential services were closed and people were instructed to stay home. Notwithstanding the foregoing, we elected to terminate this trial in April 2020. We can provide no assurance that our ability to conduct successful trials on the timing and scale previously anticipated will begin to resolve in the near term, nor can we provide any assurance that delays in timing will not result in permanent loss. Further, we can provide no assurance as to the timing of the peak of the pandemic and its ultimate impact on the U.S. and global economy and on our business. In addition, the COVID-19 pandemic has had and is likely to continue to have adverse effects on our third-party business partners. We expect that the effect of the COVID-19 pandemic will not be fully reflected in our results of operations and overall financial performance until future periods. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, partners, and stockholders.

## ***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 for RTB101 under the license agreement is for the treatment, prevention and diagnosis of diseases and other conditions in all indications in humans and animals.

As 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 with 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.

Milestone payments to Novartis are recorded as research and development expenses in our consolidated statements of operations and comprehensive loss 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. In May 2019, we initiated a Phase 3 clinical trial for the first indication, triggering a milestone payment of \$2.5 million under the agreement. As of June 30, 2020, none of the remaining development milestones, regulatory milestones, sales milestones, or royalties had been reached or were probable of achievement. The remaining clinical milestones are the initiation of the Phase 2 and Phase 3 clinical trials for the second indication. 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 a rapalog, such as everolimus or sirolimus, or until we enter into a collaboration arrangement for RTB101.

### ***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 expenses;
- 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 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 decrease substantially for the foreseeable future as we are no longer developing RTB101 for the prevention of clinically symptomatic respiratory illness in adults age 65 and older and for the treatment of Parkinson's disease. We will continue to invest in research and development activities related to developing

our product candidates, however at a much lower expense rate. 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 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;
- the impact of any business interruptions to our operations or to those of our clinical sites, manufacturers, suppliers, or other vendors resulting from the coronavirus disease (COVID-19) outbreak or similar public health crisis; 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 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.

#### *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 related to our potential Merger with Adicet 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, The Nasdaq Global Select Market, additional insurance expenses, investor relations activities, and other administrative 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 June 30, 2020 and 2019

	Three Months Ended June 30,	
	2020	2019
Operating expenses:		
Research and development	\$ 1,788	\$ 16,553
General and administrative	3,864	2,615
Total operating expenses	5,652	19,169
Loss from operations	(5,652)	(19,169)
Other income, net	54	847
Loss before income taxes	(5,598)	(18,322)
Income tax expense	1	10
Net loss	<u>\$ (5,599)</u>	<u>\$ (18,332)</u>

### Research and Development

Research and development expenses decreased to \$1.8 million for the three months ended June 30, 2020, and were primarily attributable to \$0.3 million of costs from third-party contract organizations and investigative clinical trial sites related to clinical trials, \$0.5 million of costs related to preclinical studies and ongoing costs related to clinical materials, \$0.1 million of costs related to external consulting incurred to supplement our research and development personnel, and \$0.9 million of personnel costs, including stock-based compensation. Research and development expenses were \$16.6 million for the three months ended June 30, 2019, and were primarily attributable to \$9.1 million of costs from third-party contract organizations and investigative clinical trial sites related to clinical trials, \$2.6 million of costs related to preclinical studies and the production of preclinical and clinical materials, \$0.3 million of costs related to external consulting incurred to supplement our research and development personnel, and \$2.0 million of personnel costs, including stock-based compensation. In addition, in May 2019, we initiated a Phase 3 clinical trial for the first indication, triggering a milestone payment of \$2.5 million under our license agreement with NIBR.

### General and Administrative

General and administrative expenses increased to \$3.9 million for the three months ended June 30, 2020, and were primarily attributable to \$1.2 million of personnel, including stock-based compensation, and \$2.7 million of professional services fees, including \$1.8 million related to the Merger. General and administrative expenses were \$2.6 million for the three months ended June 30, 2019, and were primarily attributable to \$1.5 million of personnel, including stock-based compensation, and \$1.1 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 \$54,000 for the three months ended June 30, 2020, and primarily consisted of interest income. Other income, net was \$0.8 million for the three months ended June 30, 2019, and primarily consisted of interest income. The decrease was primarily driven by a decrease in cash, cash equivalents and marketable securities balances as well as a decrease in interest rate.

## Comparison of the six months ended June 30, 2020 and 2019

	Six Months Ended June 30,	
	2020	2019
Operating expenses:		
Research and development	\$ 6,629	\$ 25,405
General and administrative	6,403	5,455
Total operating expenses	13,032	30,860
Loss from operations	(13,032)	(30,860)
Other income, net	403	1,478
Loss before income taxes	(12,629)	(29,382)
Income tax expense	8	19
Net loss	\$ (12,637)	\$ (29,401)

### Research and Development

Research and development expenses decreased to \$6.6 million for the six months ended June 30, 2020, and were primarily attributable to \$0.7 million of costs from third-party contract organizations and investigative clinical trial sites related to clinical trials, \$2.6 million of costs related to preclinical studies and the production of preclinical and clinical materials, \$0.5 million of costs related to external consulting incurred to supplement our research and development personnel, and \$2.8 million of personnel costs, including stock-based compensation. Research and development expenses were \$25.4 million for the six months ended June 30, 2019, and were primarily attributable to \$13.6 million of costs from third-party contract organizations and investigative clinical trial sites related to clinical trials, \$4.9 million of costs related to preclinical studies and the production of preclinical and clinical materials, \$0.6 million of costs related to external consulting incurred to supplement our research and development personnel, and \$3.8 million of personnel costs, including stock-based compensation. In addition, in May 2019, we initiated a Phase 3 clinical trial for the first indication, triggering a milestone payment of \$2.5 million under our license agreement with NIBR.

### General and Administrative

General and administrative expenses increased to \$6.4 million for the six months ended June 30, 2020, and were primarily attributable to \$2.6 million of personnel, including stock-based compensation, and \$3.8 million of professional services fees, including \$2.0 million related to the Merger. General and administrative expenses increased to \$5.5 million for the six months ended June 30, 2019, and were primarily attributable to \$2.9 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.

### Other Income, Net

Other income, net was \$0.4 million for the six months ended June 30, 2020, and primarily consisted of interest income. Other income, net was \$1.5 million for the six months ended June 30, 2019, and primarily consisted of interest income. The decrease was primarily driven by a decrease in cash, cash equivalents and marketable securities balances as well as a decrease in interest rate.

### Liquidity, Capital Resources and Plan of Operations

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 the sale of shares of common stock and the sale of shares of our redeemable convertible preferred stock. As of June 30, 2020, we had \$70.9 million in cash and cash equivalents and an accumulated deficit of \$166.8 million.

In November 2019, we announced that top-line data from the PROTECTOR 1 Phase 3 study, evaluating the safety and efficacy of RTB101 in preventing clinically symptomatic respiratory illness in adults age 65 and older, did not meet its primary endpoint and the Company has stopped the development of RTB101 for clinically symptomatic respiratory illness.

In February 2020, we retained JMP as a financial advisor to assist in our evaluation of a broad range of strategic alternatives to enhance stockholder value, including additional capital raising transactions, an acquisition, merger, business combination, licensing and/or other strategic transaction involving us.

On April 28, 2020, we entered into a Merger Agreement with Adicet and Merger Sub pursuant to which, subject to the satisfaction or waiver of the conditions therein, Adicet will merge with and into Merger Sub, with Adicet continuing as the surviving company and a wholly owned subsidiary of ours. The Merger Agreement was unanimously approved by the members of the Company's Board, and the Board resolved to recommend approval of the Merger Agreement to the Company's shareholders.

The Company's future operations are highly dependent on the success of the merger with Adicet.

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

	<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Net cash used in operating activities	\$ (20,383)	\$ (26,224)
Net cash provided by (used in) investing activities	57,500	(9,652)
Net cash (used in) provided by financing activities	(2)	50,366
Net increase in cash, cash equivalents and restricted cash	<u>\$ 37,115</u>	<u>\$ 14,490</u>

### ***Cash Flows from Operating Activities***

Cash used in operating activities for the six months ended June 30, 2020, was \$20.4 million, consisting of a net loss of \$12.6 million adjusted for noncash items including stock-based compensation expense of \$1.7 million and accretion on marketable securities of \$0.2 million. The change in our net operating assets and liabilities for the six months ended June 30, 2020 was primarily due to a decrease in accounts payable and accrued liabilities of \$8.6 million due to decreased clinical activities and an increase in prepaid expenses and other current assets of \$1.1 million due to an increase in prepayments for our research and development activities, some of which is expected to be refunded to us. Cash used in operating activities for the six months ended June 30, 2019 was \$26.4 million, consisting of a net loss of \$29.4 million adjusted for noncash items including stock-based compensation expense of \$1.6 million and accretion on marketable securities of \$0.6 million. The change in our net operating assets and liabilities for the six months ended June 30, 2019 was due primarily to an increase in accounts payable and accrued liabilities of \$4.0 million and an increase in prepaid expenses and other current assets of \$1.8 million primarily due to an increase in clinical activities.

### ***Cash Flows from Investing Activities***

Cash provided by investing activities for the six months ended June 30, 2020 was \$57.5 million and consisted of maturities of marketable securities. Cash used in investing activities for the six months ended June 30, 2019 was \$9.7 million and consisted of \$77.1 million for the purchases of marketable securities, partially offset by \$67.5 million from maturities of marketable securities.

### ***Cash Flows from Financing Activities***

Cash used by financing activities for the six months ended June 30, 2020 was \$2,000. Cash provided by financing activities for the six months ended June 30, 2019 was \$50.4 million, which consists of \$49.7 million, net of issuance costs, from the proceeds from the public offering completed in March and April 2019 and \$0.6 million, net of issuance costs, from the proceeds from the at-the-market sales completed in June 2019.

### **Contractual Obligations and Other Commitments**

Tabular disclosure of contractual obligations is not applicable as we are electing scaled disclosure requirements available to Smaller Reporting Companies with respect to this Item 303(a)(5) under Item 303(d).

## **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 condensed consolidated financial statements, which have been prepared in accordance with the United States generally accepted accounting principles, or U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed 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. There have been no significant changes to our existing critical accounting policies discussed in our Annual Report on Form 10-K for the year ended December 31, 2019.

## **Recently Issued and Adopted Accounting Pronouncements**

For additional information, please read Recently Issued Accounting Pronouncements in Note 2, Summary of Significant Accounting Policies of the unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

We are exposed to market risk related to changes in interest rates. As of June 30, 2020, we had cash and cash equivalents of \$70.9 million, primarily invested in money market mutual funds.

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 June 30, 2020, 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 months ended June 30, 2020 and 2019.

## **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 June 30, 2020.

**Changes in Internal Control over Financial Reporting**

There was no changes 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 June 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**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.

In connection with the Merger, a putative class action lawsuit, *Plumley v. resTORbio Inc., et al.*, 1:20-cv-00858, was filed on June 26, 2020 by purported Company stockholder Patrick Plumley against the Company, its directors, Adicet, and Merger Sub in the U.S. District Court for the District of Delaware. On July 2, 2020, in connection with the Merger, a complaint, *Azzara v. resTORbio, Inc., et al.*, 1:20-cv-05088, was filed as an individual action by purported Company stockholder Salvatore Azzara against the Company and its directors in the U.S. District Court for the Southern District of New York. On July 6, 2020, in connection with the Merger, a complaint, *Miller v. resTORbio, Inc., et al.*, 1:20-cv-05170, was filed as an individual action by purported Company stockholder Megan Miller against the Company and its directors in the U.S. District Court for the Southern District of New York. On July 9, 2020, in connection with the Merger, a complaint, *Feagan v. resTORbio, Inc., et al.*, 1:20-cv-03063, was filed as an individual action by purported Company stockholder Douglas Feagan against the Company and its directors in the U.S. District Court for the Eastern District of New York. On July 10, 2020, in connection with the Merger, a complaint, *Lowen v. resTORbio, Inc. et al.*, 1:20-cv-11305, was filed as an individual action by purported Company stockholder Robert Lowen against the Company and its directors in the U.S. District Court for the District Massachusetts. On July 19, 2020, in connection with the merger, a complaint, *Mercier v. resTORbio, Inc. et al.*, 1:20-cv-05556, was filed as an individual action by purported resTORbio stockholder Ronald Mercier against resTORbio and its directors in the U.S. District Court for the Southern District of New York. The *Plumley*, *Azzara*, *Miller*, *Feagan*, *Lowen* and *Mercier* cases are collectively referred to as the “**Merger Actions**.” The Merger Actions generally allege that the Company’s proxy statement/prospectus/information statement filed with the SEC on June 23, 2020 misrepresents and/or omits certain purportedly material information relating to financial projections, analysis performed by JMP, past engagements of JMP, and the process leading up to the execution of the Merger Agreement. The Merger Actions assert violations of Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder against the Company and its directors and violations of Section 20(a) of the Exchange Act against the Company’s directors. The *Plumley* Merger Action also asserts violations of Section 20(a) of the Exchange Act against Adicet and Merger Sub. The *Azzara* Merger Action also asserts claims for breach of fiduciary duty against the Company’s directors. The Merger Actions seek, among other things: an injunction enjoining consummation of the Merger, costs of the action, including plaintiff’s attorneys’ fees and experts’ fees, declaratory relief, and any other relief the court may deem just and proper. It is possible that additional similar cases may also be filed in connection with the Merger.

**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, 2019, and in all of the other information included or incorporated in this report. Other than the risk factors set forth below, 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, 2019.*

**Risks Related to our Merger with Adicet Bio, Inc.**

***Failure to complete, or delays in completing, the potential merger with Adicet Bio, Inc. (“Adicet”) announced on April 29, 2020 could materially and adversely affect our results of operations, business, financial results and/or stock price.***

On April 28, 2020, we entered into an agreement with Adicet and Project Oasis Merger Sub, Inc. (“Merger Sub”) pursuant to which, if all of the conditions to closing are satisfied or waived, Adicet will merge with and into Merger Sub, with Adicet continuing as the surviving company and a wholly-owned subsidiary of ours (the “Merger”). Consummation of the Merger is subject to certain closing conditions, a number of which are not within our control. Any failure to satisfy these required conditions to closing may prevent, delay or otherwise materially adversely affect the completion of the transaction. We cannot predict with certainty whether or when any of the required closing conditions will be satisfied or if another uncertainty may arise and cannot assure you that we will be able to successfully consummate the proposed merger as currently contemplated under the Merger Agreement or at all.

Our efforts to complete the Merger could cause substantial disruptions in, and create uncertainty surrounding, our business, which may materially adversely affect our results of operation and our business. Uncertainty as to whether the Merger will be completed may affect our ability to recruit prospective employees or to retain and motivate existing employees. Employee retention may be particularly challenging while the transaction is pending because employees may experience uncertainties about their roles following the transaction. Uncertainty as to our future could adversely affect our business and our relationship with collaborators, suppliers, vendors, regulators, and other business partners. For example, vendors, collaborators, and other counterparties may defer decisions about working with us or seek to change existing business relationships with us. Changes to, or termination of, existing business relationships could adversely affect our results of operations and financial condition, as well as the market price of our common stock. The adverse effects of the pendency of the transaction could be exacerbated by any delays in the completion of the transaction or termination of the Merger Agreement.

Risks related to the failure of the proposed merger to be consummated include, but are not limited to, the following:

- we would not realize any or all of the potential benefits of the Merger, including any synergies that could result from combining our financial and proprietary resources with those of Adicet, which could have a negative effect on our stock price;
- we would not realize any or all of the potential benefits of the Merger, including any synergies that could result from combining our financial and proprietary resources with those of Adicet, which could have a negative effect on our stock price;
- under some circumstances, we may be required to pay a termination fee to Adicet of \$6.1 million;
- we will remain liable for significant transaction costs, including legal, accounting, financial advisory and other costs relating to the Merger regardless of whether the Merger is consummated;
- the trading price of our common stock may decline to the extent that the current market price for our stock reflects a market assumption that the Merger will be completed;
- the attention of our management and employees may have been diverted to the Merger rather than to our own operations and the pursuit of other opportunities that could have been beneficial to us;
- we could be subject to litigation related to any failure to complete the Merger;
- the potential loss of key personnel during the pendency of the Merger as employees and other service providers may experience uncertainty about their future roles with us following completion of the Merger; and
- under the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the Merger, which restrictions could adversely affect our ability to conduct our business as we otherwise would have done if we were not subject to these restrictions.

The occurrence of any of these events individually or in combination could materially and adversely affect our results of operations, business, and our stock price.

***We cannot be sure if or when the Merger will be completed.***

The consummation of the Merger is subject to the satisfaction or waiver of various conditions, including the authorization of the Merger by our shareholders and Adicet's shareholders. We cannot guarantee that the closing conditions set forth in the Merger Agreement will be satisfied. If we are unable to satisfy the closing conditions in Adicet's favor or if other mutual closing conditions are not satisfied, Adicet will not be obligated to complete the Merger. Under certain circumstances, we would be required to pay Adicet a termination fee of \$6.1 million.

If the Merger is not completed, our board of directors, in discharging its fiduciary obligations to our shareholders, will evaluate other strategic alternatives or financing options that may be available, which alternatives may not be as favorable to our shareholders as the Merger. Any future sale or merger, financing or other transaction may be subject to

further shareholder approval. We may also be unable to find, evaluate or complete other strategic alternatives, which may have a materially adverse effect on our business.

Our efforts to complete the Merger could cause substantial disruptions in, and create uncertainty surrounding, our business, which may materially adversely affect our results of operation and our business. Uncertainty as to whether the Merger will be completed may affect our ability to recruit prospective employees or to retain and motivate existing employees. Employee retention may be particularly challenging while the transaction is pending because employees may experience uncertainty about their roles following the transaction. A substantial amount of our management's and employees' attention is being directed toward the completion of the transaction and thus is being diverted from our day-to-day operations. Uncertainty as to our future could adversely affect our business and our relationship with collaborators, suppliers, vendors, regulators, and other business partners. For example, vendors, collaborators, and other counterparties may defer decisions concerning working with us or seek to change existing business relationships with us. Changes to, or termination of, existing business relationships could adversely affect our results of operations and financial condition, as well as the market price of our common stock. The adverse effects of the pendency of the transaction could be exacerbated by any delays in the completion of the transaction or termination of the Merger Agreement.

Until the Merger is completed, the Merger Agreement restricts Adicet and us from taking specified actions without the consent of the other party, and, in regards to us, requires us to operate in the ordinary course of business consistent with past practice. These restrictions may prevent Adicet and us from making appropriate changes to our respective businesses or pursuing attractive business opportunities that may arise prior to the completion of the Merger.

***Because the Merger Agreement provides for a fixed exchange ratio for the number of shares of Adicet common stock that will be issued for each outstanding share of our common stock, the consideration received at the time of the Merger may be lower than the public trading value of shares of our common stock when we entered into the Merger Agreement.***

The Merger Agreement provides for a fixed exchange ratio for the number of shares of Adicet common stock that will be issued for each outstanding share of our common stock in the Merger. If the public trading value of shares of our common stock declines over the period of time required to satisfy the Merger's closing conditions, the consideration received at the time of the Merger may be lower than the public trading value of shares of our common stock when we entered into the Merger Agreement.

***The Merger Agreement contains provisions that limits our ability to pursue alternatives to the Merger, could discourage a potential competing acquiror of us from making an alternative transaction proposal and, in specified circumstances, could require us to pay a termination fee to Adicet.***

The Merger Agreement provides that we shall not, and requires us to refrain from permitting our representatives to, among other things, solicit, participate in negotiations with respect to or approve or recommend any third party proposal for an alternative transaction, subject to exceptions set forth in the Merger Agreement relating to the receipt of certain unsolicited proposals. Further, while our board of directors is permitted to make a recommendation change to our stockholders with respect to the Merger under certain circumstances unless Adicet terminates the Merger Agreement, we nonetheless will be required to submit the proposals to a stockholder vote at a special meeting. This requirement, which is often called a "force the vote" provision, means that we do not have the right before the stockholder vote to terminate the Merger Agreement to accept a superior proposal. If the Merger Agreement is terminated, in certain circumstances, we may be required to pay Adicet a termination fee of \$6.1 million.

These provisions could discourage a potential third-party acquirer or merger partner that might have an interest in acquiring all or a significant portion of us or pursuing an alternative transaction from considering or proposing such a transaction, even if it were prepared to pay consideration with a higher per share cash or market value than the consideration in the Merger, or might result in a potential third-party acquirer or merger partner proposing to pay a lower price to our stockholders than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances.

If the Merger Agreement is terminated and we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the Merger.

***Lawsuits may be filed against us and the members of our board of directors arising out of the proposed merger, which may delay or prevent the proposed merger.***

Putative stockholder complaints, including stockholder class action complaints, and other complaints may be filed against us, our board of directors, Adicet, Adicet's board of directors and others in connection with the transactions contemplated by the Merger Agreement. The outcome of litigation is uncertain, and we may not be successful in defending against any such future claims. Lawsuits that may be filed against us, our board of directors, Adicet, or Adicet's board of directors could delay or prevent the Merger, divert the attention of our management and employees from our day-to-day business and otherwise adversely affect us financially.

In connection with the Merger, a putative class action lawsuit, *Plumley v. resTORbio Inc., et al.*, 1:20-cv-00858, was filed on June 26, 2020 by purported Company stockholder Patrick Plumley against the Company, its directors, Adicet, and Merger Sub in the U.S. District Court for the District of Delaware. On July 2, 2020, in connection with the Merger, a complaint, *Azzara v. resTORbio, Inc., et al.*, 1:20-cv-05088, was filed as an individual action by purported Company stockholder Salvatore Azzara against the Company and its directors in the U.S. District Court for the Southern District of New York. On July 6, 2020, in connection with the Merger, a complaint, *Miller v. resTORbio, Inc., et al.*, 1:20-cv-05170, was filed as an individual action by purported Company stockholder Megan Miller against the Company and its directors in the U.S. District Court for the Southern District of New York. On July 9, 2020, in connection with the Merger, a complaint, *Feagan v. resTORbio, Inc., et al.*, 1:20-cv-03063, was filed as an individual action by purported Company stockholder Douglas Feagan against the Company and its directors in the U.S. District Court for the Eastern District of New York. On July 10, 2020, in connection with the Merger, a complaint, *Lowen v. resTORbio, Inc. et al.*, 1:20-cv-11305, was filed as an individual action by purported Company stockholder Robert Lowen against the Company and its directors in the U.S. District Court for the District Massachusetts. On July 19, 2020, in connection with the merger, a complaint, *Mercier v. resTORbio, Inc, et al.*, 1:20-cv-05556, was filed as an individual action by purported resTORbio stockholder Ronald Mercier against resTORbio and its directors in the U.S. District Court for the Southern District of New York. The *Plumley*, *Azzara*, *Miller*, *Feagan*, *Lowen* and *Mercier* cases are collectively referred to as the "Merger Actions." The Merger Actions generally allege that the Company's proxy statement/prospectus/information statement/ filed with the SEC on June 23, 2020 misrepresents and/or omits certain purportedly material information relating to financial projections, analysis performed by JMP, past engagements of JMP, and the process leading up to the execution of the Merger Agreement. The Merger Actions assert violations of Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder against the Company and its directors and violations of Section 20(a) of the Exchange Act against the Company's directors. The *Plumley* Merger Action also asserts violations of Section 20(a) of the Exchange Act against Adicet and Merger Sub. The *Azzara* Merger Action also asserts claims for breach of fiduciary duty against the Company's directors. The Merger Actions seek, among other things: an injunction enjoining consummation of the Merger, costs of the action, including plaintiff's attorneys' fees and experts' fees, declaratory relief, and any other relief the court may deem just and proper.

It is possible that additional similar cases could be filed in connection with the proposed merger.

***Our stockholders may not receive any payment on the CVRs and the CVRs may otherwise expire without value.***

The Merger Agreement contemplates that, at or prior to the Effective Time, the Holder's Representative (as defined in the Merger Agreement) and the Rights Representative (as defined in the Merger Agreement) will execute and deliver a contingent value rights agreement (the "CVR Agreement"), pursuant to which each holder of our common stock as of immediately prior to the Effective Time shall be entitled to one contractual contingent value right ("CVR") issued by us, subject to and in accordance with the terms and conditions of the CVR Agreement, for each share of our common stock held by such holder. Each CVR will entitle the holder of the CVR to receive net proceeds of the commercialization, if any, received from a third-party commercial partner of RTB101 for a COVID-19-related indication, with clinical data expected by the first quarter of 2021. The right of our stockholders to derive any value from the CVRs will be contingent solely upon the commercialization of RTB101 for a COVID-19-related indication within the time periods specified in the CVR Agreement.

We may not be able to achieve successful results from studies of RTB101 for a COVID-19-related indication or the commercialization of the RTB101 for a COVID-19-indication. If this is not achieved for any reason within the time periods specified in the CVR Agreement or the consideration received is not greater than the amounts permitted to be retained or deducted by us, no payments will be made under the CVRs, and the CVRs will expire valueless.

*We are substantially dependent on our remaining employees to facilitate the consummation of the merger.*

As of July 29, 2020, we had only 10 full-time employees. Our ability to successfully complete the Merger depends in large part on our ability to retain certain remaining personnel. Despite our efforts to retain these employees, one or more may terminate their employment with us on short notice. The loss of the services of certain employees could potentially harm our ability to consummate the Merger, to run our day-to-day business operations, as well as to fulfill our reporting obligations as a public company.

### **Risks Related to Ownership of Our Common Stock**

***Business interruptions resulting from the coronavirus disease (COVID-19) outbreak or similar public health crises could cause a disruption of the development of our product candidates and adversely impact our business.***

Public health crises such as pandemics or similar outbreaks could adversely impact our business. In December 2019, a novel strain of a virus named SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2), or coronavirus, which causes coronavirus disease, or COVID-19, surfaced in Wuhan, China and has reached multiple other regions and countries, including Boston, Massachusetts where our primary office and laboratory space are located. The coronavirus pandemic is evolving, and to date has led to the implementation of various responses, including government-imposed quarantines, travel restrictions and other public health safety measures. The extent to which the coronavirus impacts our operations or those of our third party partners will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that will emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

Additionally, timely enrollment in planned clinical trials is dependent upon clinical trial sites which will be adversely affected by global health matters, such as pandemics. We plan to conduct clinical trials for our product candidates in geographies which are currently being affected by the coronavirus. Some factors from the coronavirus outbreak that will delay or otherwise adversely affect enrollment in the clinical trials of our product candidates, as well as our business generally, include:

- the potential diversion of healthcare resources away from the conduct of clinical trials to focus on pandemic concerns, including the attention of physicians serving as our clinical trial investigators, hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our prospective clinical trials;
- limitations on travel that could interrupt key trial and business activities, such as clinical trial site initiations and monitoring, domestic and international travel by employees, contractors or patients to clinical trial sites, including any government-imposed travel restrictions or quarantines that will impact the ability or willingness of patients, employees or contractors to travel to our clinical trial sites or secure visas or entry permissions, a loss of face-to-face meetings and other interactions with potential partners, any of which could delay or adversely impact the conduct or progress of our prospective clinical trials;
- interruption in global shipping affecting the transport of clinical trial materials, such as patient samples, investigational drug product and conditioning drugs and other supplies used in our prospective clinical trials; and
- business disruptions caused by potential workplace, laboratory and office closures and an increased reliance on employees working from home, disruptions to or delays in ongoing laboratory experiments and operations, product manufacturing and supply, staffing shortages, travel limitations or mass transit disruptions, any of which could adversely impact our business operations or delay necessary interactions with local regulators, ethics committees and other important agencies and contractors.

These and other factors arising from the coronavirus could worsen in countries that are already afflicted with the coronavirus or could continue to spread to additional countries. Any of these factors, and other factors related to any such disruptions that are unforeseen, could have a material adverse effect on our business and our results of operation and financial condition. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the United States and other economies, which could impact our ability to raise the necessary capital needed to develop and commercialize our product candidates.

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

Not applicable.

**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

<u>Exhibit Number</u>	<u>Description</u>
2.1	<a href="#"><u>Agreement and Plan of Merger, dated April 28, 2020, by and among the registrant, Adicet Bio, Inc. and Project Oasis Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-38359) filed with the SEC on April 29, 2020)</u></a>
31.1*	<a href="#"><u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
31.2*	<a href="#"><u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
32.1+	<a href="#"><u>Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File

\* 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.+



**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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

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

Dated: July 30, 2020

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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

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**John J. McCabe**

**Senior Vice President, Finance**

**(Principal Financial and Accounting Officer)**

Dated: July 30, 2020

**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 June 30, 2020 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

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

Dated: July 30, 2020

/s/ John J. McCabe

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

Dated: July 30, 2020