UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 2021

OR

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

For the transition period from to

Commission File Number: 001-38692

EQUILLIUM, INC.

(Exact name of registrant as specified in its charter)

Delaware	**82-1554746**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
2223 Avenida de la Playa, Suite 105, La Jolla, CA	**92037**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (858) 412-5302

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	EQ	The Nasdaq Global Market

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

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

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

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

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

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

As of August 9, 2021, the registrant had 29,382,806 shares of common stock, par value $0.0001 per share, outstanding.

EQUILLIUM, INC.
TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Equillium, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and par value data)

	June 30, 2021 (Unaudited)	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 73,525	$ 23,982
Short-term investments	24,118	58,181
Prepaid expenses and other current assets	1,923	3,011
Total current assets	99,566	85,174
Property and equipment, net	254	239
Other assets	17	15
Total assets	$ 99,837	$ 85,428
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,816	$ 2,766
Accrued expenses	3,164	2,813
Current portion of long-term notes payable	-	1,666
Total current liabilities	4,980	7,245
Long-term notes payable	10,067	8,275
Other non-current liabilities	17	54
Total liabilities	15,064	15,574
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.0001 par value; 200,000,000 shares authorized; 29,382,806 and 24,753,102 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	2	2
Additional paid-in capital	174,054	141,074
Accumulated other comprehensive loss	(209)	(297)
Accumulated deficit	(89,074)	(70,925)
Total stockholders' equity	84,773	69,854
Total liabilities and stockholders' equity	$ 99,837	$ 85,428

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating expenses:				
Research and development	$ 5,985	$ 3,893	$ 11,865	$ 8,599
General and administrative	2,858	2,717	5,673	5,463
Total operating expenses	8,843	6,610	17,538	14,062
Loss from operations	(8,843)	(6,610)	(17,538)	(14,062)
Other (expense) income, net:				
Interest expense	(270)	(274)	(541)	(547)
Interest income	13	122	39	342
Other (expense) income, net	(58)	301	(109)	(31)
Total other (expense) income, net	(315)	149	(611)	(236)
Net loss	$ (9,158)	$ (6,461)	$ (18,149)	$ (14,298)
Other comprehensive income (loss), net:				
Unrealized (loss) gain on available-for-sale securities, net	(5)	(69)	(8)	69
Foreign currency translation gain (loss)	51	(308)	96	7
Total other comprehensive income (loss), net	46	(377)	88	76
Comprehensive loss	$ (9,112)	$ (6,838)	$ (18,061)	$ (14,222)
Net loss per share, basic and diluted	$ (0.31)	$ (0.37)	$ (0.64)	$ (0.81)
Weighted-average common shares outstanding, basic and diluted	29,076,562	17,692,731	28,205,805	17,627,641

See accompanying notes.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2019	17,425,654	$ 1	$ 82,938	$ 21	$ (41,112)	$ 41,848
Issuance of common stock under ATM, net of issuance costs	174,649	-	825	-	-	825
Issuance of common stock	83,662	-	252	-	-	252
Vesting of restricted stock liability	-	-	18	-	-	18
Stock-based compensation expense	-	-	787	-	-	787
Other comprehensive income	-	-	-	453	-	453
Net loss	-	-	-	-	(7,837)	(7,837)
Balance at March 31, 2020	17,683,965	$ 1	$ 84,820	$ 474	$ (48,949)	$ 36,346
Issuance of common stock under employee stock purchase plan	39,885		$ 96			96
Vesting of restricted stock liability	-	-	18	-	-	18
Stock-based compensation expense	-	-	1,350	-	-	1,350
Other comprehensive loss	-	-	-	(377)	-	(377)
Net loss	-	-	-	-	(6,461)	(6,461)
Balance at June 30, 2020	17,723,850	$ 1	$ 86,284	$ 97	$ (55,410)	$ 30,972

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2020	24,753,102	$ 2	$ 141,074	$ (297)	$ (70,925)	$ 69,854
Issuance of common stock under registered direct offering, net of offering costs	4,285,710	-	29,909	-	-	29,909
Exercise of stock options	1,458	-	4	-	-	4
Vesting of restricted stock liability	-	-	18	-	-	18
Stock-based compensation expense	-	-	1,044	-	-	1,044
Other comprehensive income	-	-	-	42	-	42
Net loss	-	-	-	-	(8,991)	(8,991)
Balance at March 31, 2021	29,040,270	$ 2	$ 172,049	$ (255)	$ (79,916)	$ 91,880
Issuance of common stock under employee stock purchase plan	48,966	-	127	-	-	127
Exercise of stock options	293,570	-	796	-	-	796
Vesting of restricted stock liability	-	-	18	-	-	18
Stock-based compensation expense	-	-	1,064	-	-	1,064
Other comprehensive income	-	-	-	46	-	46
Net loss	-	-	-	-	(9,158)	(9,158)
Balance at June 30, 2021	29,382,806	$ 2	$ 174,054	$ (209)	$ (89,074)	$ 84,773

See accompanying notes.

Equillium, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2021	**2020**
Operating activities:		
Net loss	$ (18,149)	$ (14,298)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	34	15
Stock-based compensation	2,108	2,137
Net unrealized loss on foreign currency transactions	107	34
Non-cash consulting expense	-	81
Amortization of term loan discount and issuance costs	126	130
Realized gain on investments	-	(13)
Amortization of discount on investments, net	205	8
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	1,252	890
Accounts payable	(971)	(100)
Accrued expenses	350	(334)
Net cash used in operating activities	(14,938)	(11,450)
Investing activities:		
Purchases of property and equipment	(23)	(15)
Purchases of short-term investments	(7,605)	(2,225)
Maturities of short-term investments	41,455	23,700
Net cash provided by investing activities	33,827	21,460
Financing activities:		
Proceeds from registered direct offering, net of offering costs	29,909	-
Proceeds from issuance of common stock under ATM facility, net of issuance costs	-	775
Proceeds from exercise of stock options	626	-
Proceeds from ESPP purchase	127	96
Net cash provided by financing activities	30,662	871
Effect of exchange rate changes on cash and cash equivalents	(8)	(17)
Net increase in cash and cash equivalents	49,543	10,864
Cash and cash equivalents at beginning of period	23,982	13,219
Cash and cash equivalents at end of period	$ 73,525	$ 24,083
Supplemental disclosures of non-cash activities:		
Unsettled stock option exercises	$ 174	$ -
Amounts included in accounts payable for purchases of property and equipment	$ 25	$ -
Issuance of commitment shares to Lincoln Park pursuant to agreement	$ -	$ 171

See accompanying notes.

1. Organization and Accounting Pronouncements

Description of Business

Equillium, Inc. (the Company) was incorporated in the state of Delaware on March 16, 2017. The Company is a clinical-stage biotechnology company leveraging deep understanding of immunology to develop novel products to treat severe autoimmune and inflammatory disorders with high unmet medical need.

From inception through June 30, 2021, the Company has devoted substantially all of its efforts to organizing and staffing the Company, business planning, raising capital, in-licensing rights to itolizumab (EQ001), conducting non-clinical research, filing three initial Investigational New Drug applications (INDs), conducting clinical development of the Company's initial product candidate, itolizumab (EQ001), conducting business development activities, and the general and administrative activities associated with operating a public company. In addition, the Company has a limited operating history, has not generated revenues from its principal operations, and the sales and income potential of its business is unproven.

Liquidity and Business Risks

As of June 30, 2021, the Company had $97.6 million in cash, cash equivalents and short-term investments. The Company has incurred significant operating losses and negative cash flows from operations. The Company expects to use its cash, cash equivalents, and short-term investments to fund research and development of itolizumab (EQ001) and for working capital and other general corporate purposes. The Company does not expect to generate any revenues from product sales unless and until the Company successfully completes development and obtains regulatory approval of itolizumab (EQ001) or any future product candidate, which is unlikely to happen within the next 12 months, if ever. Accordingly, until such time as the Company can generate significant revenue from sales of its product candidates, if ever, the Company expects to finance its cash needs through a combination of equity offerings, debt financings, and collaboration and license agreements. However, the Company may not be able to secure additional financing or enter into such other arrangements in a timely manner or on favorable terms, if at all. As a result of the COVID-19 pandemic and actions taken to slow its spread, the global credit and financial markets have experienced extreme volatility, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that further deterioration in credit and financial markets and confidence in economic conditions will not occur. If equity and credit markets deteriorate, it may make any necessary debt or equity financing more difficult to obtain, more costly and/or more dilutive. The Company's failure to raise capital or enter into such other arrangements when needed would have a negative impact on the Company's financial condition and could force the Company to delay, reduce or terminate its research and development programs or other operations, or grant rights to develop and market product candidates that the Company would otherwise prefer to develop and market itself. Management believes that the Company's cash, cash equivalents and short-term investments as of June 30, 2021 will be sufficient to fund operations for at least the next 12 months from the date this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission (SEC).

The COVID-19 outbreak in the United States and the rest of the world has caused disruptions to the Company's business, which has delayed results of the Company's clinical trials and adversely impacted the Company's business. The Company cannot predict how legal and regulatory responses to concerns about COVID-19 or other major public health issues will impact the Company's business, nor can it predict potential adverse impacts related to the availability of capital to fund the Company's operations. Additionally, the Company's workforce and outside consultants may also be affected, which could result in an adverse impact on the Company's ability to conduct business. Any of these factors, alone or in combination with others, could harm the Company's business, results of operations, financial condition or liquidity. However, the magnitude, timing, and duration of any such potential financial impacts cannot be reasonably estimated at this time.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the SEC related to a quarterly report on Form 10-Q. Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Updates (ASU) promulgated by the Financial Accounting Standards Board (FASB). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations. The condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the periods presented. All such adjustments are of a normal and recurring nature. The operating results presented in these condensed consolidated financial statements are not necessarily indicative of the results that may be expected for any future periods. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2020 included in the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2021.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany transactions and balances have been eliminated in consolidation.

Foreign Currency Translation

The Company's wholly-owned subsidiary in Australia uses their local currency as its functional currency. Assets and liabilities are translated into U.S. dollars at quarter-end exchange rates and revenues and expenses are translated at average exchange rates during the quarter and year-to-date periods. Foreign currency translation adjustments for the reported periods are included in accumulated other comprehensive income in the Company's condensed consolidated statements of comprehensive loss, and the cumulative effect is included in the stockholders' equity section of the Company's condensed consolidated balance sheets. Realized and unrealized gains and losses denominated in foreign currencies are recorded in operating expenses in the Company's condensed consolidated statements of operations. For the three and six months ended June 30, 2021, net realized and unrealized losses totaled $0.1 million, respectively. For the three months ended June 30, 2020, net realized and unrealized gains totaled $0.3 million. For the six months ended June 30, 2020, net realized and unrealized losses totaled $44,000.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which amends the FASB ASC 840 and creates Topic 842, Leases. The new topic supersedes Topic 840, Leases, and increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosures of key information about leasing arrangements. For companies that are not emerging growth companies (EGCs), ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. For EGCs, the ASU was to be effective for fiscal years beginning after December 15, 2019. However, in November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326)*,*Derivatives and Hedging (Topic 815)* and *Leases (Topic 842*), *Effective Dates (ASU 2019-10),* which included a one-year deferral of the effective date of ASU 2016-02 for certain entities. As a result, the ASU is now effective for EGCs for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company expects to adopt the new standard in the fourth quarter of 2021 using the modified retrospective method, under which the Company will apply Topic 842 to existing and new leases as of January 1, 2021, but prior periods will not be restated and will continue to be reported under Topic 840 guidance in effect during those periods. The Company anticipates that the adoption will not have a material impact on its consolidated statements of operations and consolidated comprehensive loss or its consolidated statements of cash flows but expects to recognize right-of-use assets and liabilities for lease obligations associated with its operating leases.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which will require a reporting entity to use a new forward-looking impairment model for most financial assets that generally will result in the earlier recognition of allowances for losses. The ASU, along with related amendments, revised the measurement of credit losses for financial assets measured at amortized cost from an incurred loss to an expected loss methodology. The ASU affected receivables, debt securities, net investment in leases, and most other financial assets that represent a right to receive cash. The standard and other related subsequently issued ASUs will be effective for the Company for annual periods beginning after December 15, 2022, with early adoption permitted beginning in 2019. The Company is currently evaluating the impact that the adoption of the standard and other related subsequently issued ASUs will have on its consolidated financial statements and accompanying footnotes.

Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this ASU are effective for the Company on January 1, 2021. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the Company's condensed consolidated financial statements requires the Company to make estimates and assumptions that impact the reported amounts of assets, liabilities and expenses and the disclosure of contingent assets and liabilities in the condensed consolidated financial statements and accompanying notes. Significant estimates in the Company's condensed consolidated financial statements relate to clinical trial accruals and the valuation of equity awards. Management evaluates its estimates on an ongoing basis. Although estimates are based on the Company's historical experience, knowledge of current events, and actions it may undertake in the future, actual results may ultimately materially differ from these estimates and assumptions.

Accrued Research and Development Expense

The Company is required to estimate its expenses resulting from its obligations under contracts with vendors, consultants and contract research organizations, in connection with conducting research and development activities. The financial terms of these contracts are subject to negotiations, which vary from contract to contract and may result in payment flows that do not match the periods over which materials or services are provided under such contracts. The Company reflects research and development expenses in its condensed consolidated financial statements by matching those expenses with the period in which services and efforts are expended. The Company accounts for these expenses according to the progress of the non-clinical or clinical study as measured by the timing of various aspects of the study or related activities. The Company determines accrual estimates through review of the underlying contracts along with preparation of financial models taking into account discussions with research and development personnel and other key personnel as well as considering input from representatives of our contract service providers as to the progress of studies, or other services being conducted. During the course of a study, the Company adjusts its rate of expense recognition if actual results differ from its estimates. The Company classifies its estimates for accrued research and development expenses as accrued expenses on the accompanying condensed consolidated balance sheet.

Australian Research and Development Tax Incentive

The Company is eligible under the Australian Research and Development Tax Incentive Program, or the Tax Incentive, to obtain a cash refund from the Australian Taxation Office for eligible research and development expenditures. However, the Company must have revenue of less than AUD $20.0 million during the reimbursable period and cannot be controlled by income tax exempt entities. The Tax Incentive is recognized as a reduction to research and development expense when there is a reasonable assurance that the Tax Incentive will be received, the relevant expenditure has been incurred, and the amount can be reliably measured. The Company classifies its estimate for the Tax Incentive as prepaid expenses and other current assets on the accompanying condensed consolidated balance sheet.

Stock-Based Compensation

The Company measures employee and non-employee stock-based awards, including stock options and stock purchase rights, at grant-date fair value and records compensation expense on a straight-line basis over the vesting period of the award. The Company uses the Black-Scholes option pricing model to value its stock option awards. Estimating the fair value of stock option awards requires management to apply judgment and make estimates of certain assumptions, including the volatility of the Company's common stock, the expected term of the Company's stock options, the expected dividend yield and the fair value of the Company's common stock on the measurement date. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards.

Net Loss per Share

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares and common share equivalents outstanding for the period. Common stock equivalents are only included when their effect is dilutive. The Company's potentially dilutive securities include outstanding options under the Company's equity incentive plan and outstanding warrants to purchase common stock, each of which have been excluded from the computation of diluted net loss per share as they would be anti-dilutive to the net loss per share. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position.

Potentially dilutive securities not included in the calculation of diluted net loss per share attributable to common stockholders because to do so would be anti-dilutive are as follows (in common stock equivalent shares):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Common stock options	3,839,951	2,414,461	3,839,951	2,414,461
Common stock warrants	1,366,141	80,428	1,366,141	80,428
Total	5,206,092	2,494,889	5,206,092	2,494,889

3. Fair Value of Financial Instruments

The following tables summarize the Company's assets that require fair value measurements on a recurring basis and their respective input levels based on the fair value hierarchy (in thousands):

	June 30, 2021	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
U.S. treasury securities	$ 24,118	$ 24,118	$ -	$ -
Total	$ 24,118	$ 24,118	$ -	$ -

	December 31, 2020	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
U.S. treasury securities	$ 56,220	$ 56,220	$ -	$ -
Certificates of deposit	1,961	1,961	-	-
Total	$ 58,181	$ 58,181	$ -	$ -

U.S. treasury securities and certificates of deposit are valued using Level 1 inputs. Level 1 securities are valued at unadjusted quoted prices in active markets that are observable at the measurement date for identical, unrestricted assets or liabilities. Fair values determined by Level 2 inputs, which utilize data points that are observable such as quoted prices, interest rates and yield curves, require the exercise of judgment and use of estimates, that if changed, could significantly affect the Company's financial position and results of operations. Investments in agency securities are valued using Level 2 inputs. Level 2 securities are initially valued at the transaction price and subsequently valued and reported utilizing inputs other than quoted prices that are observable either directly or indirectly, such as quotes from third-party pricing vendors.

The carrying amounts of the Company's financial instruments, including cash, prepaid and other current assets, accounts payable, and accrued liabilities, approximate fair value due to their short maturities. The carrying amount of the Company's notes payable of $10.1 million at June 30, 2021 approximated their fair value as the terms of the notes are consistent with the market terms of transactions with similar profiles (Level 2 inputs). None of the Company's non-financial assets or liabilities are recorded at fair value on a non-recurring basis.

At June 30, 2021 and December 31, 2020, the Company had investments in money market funds of $66.6 million and $17.4 million, respectively, that were measured at fair value using the net asset value per share (or its equivalent) that have not been classified in the fair value hierarchy. The funds invest primarily in U.S. government securities.

The Company did not hold any Level 1, 2 or 3 financial liabilities that are recorded at fair value on a recurring basis as of June 30, 2021 or December 31, 2020.

4. Certain Financial Statement Caption Information

Short-Term Investments

The following table summarizes the Company's short-term investments (in thousands):

	Maturity (in years)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
June 30, 2021					
U.S. treasury securities	1 or less	$ 24,118	$ 1	$ (1)	$ 24,118
Total		$ 24,118	$ 1	$ (1)	$ 24,118
December 31, 2020					
U.S. treasury securities	1 or less	$ 56,218	$ 6	$ (4)	$ 56,220
Certificates of deposit	1 or less	1,955	6	-	1,961
Total		$ 58,173	$ 12	$ (4)	$ 58,181

All of the Company's available-for-sale securities are available to the Company for use in its current operations. As a result, the Company categorizes all of these securities as current assets even though the stated maturity of some individual securities may be one year or more beyond the balance sheet date. All of the Company's securities have a maturity within two years of the balance sheet date.

There were no impairments considered other-than-temporary during the periods presented, as it is management's intention and ability to hold the securities until a recovery of the cost basis or recovery of fair value. For the six months ended June 30, 2021 and 2020, there were net gross realized gains on short-term investments totaling $0 and $13,000, respectively. Unrealized gains and losses are included in accumulated other comprehensive loss.

Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2021	December 31, 2020
Accrued payroll and other employee benefits	$ 1,777	$ 1,870
Clinical studies	906	493
Other accruals	224	307
Non-clinical research	188	72
Accrued interest	69	71
Total accrued expenses	$ 3,164	$ 2,813

5. Notes Payable

On September 30, 2019 (the Effective Date), the Company entered into a Loan and Security Agreement (the Loan Agreement) with two lenders (the Lenders) whereby the Company could borrow up to $20.0 million in a series of term loans. Upon entering into the Loan Agreement, the Company borrowed $10.0 million from the Lenders (Term A Loan).

Under the terms of the Loan Agreement, the Company may, at its sole discretion, borrow from the Lenders (i) up to an additional $5.0 million (Term B Loan) upon the Company's achievement of positive topline data in either the Company's (a) Phase 1b aGVHD trial of itolizumab (EQ001) or (b) Phase 1b asthma trial of itolizumab (EQ001), supporting a formal decision to advance into Phase 2 development, and as confirmed by the Company's Board of Directors (the Term B Milestone) and (ii) up to an additional $5.0 million (Term C Loan and together with Term A Loan and Term B Loan, the Term Loans) upon the Company's achievement of positive topline data in both the Company's Phase 1b aGVHD trial of itolizumab (EQ001) and the Company's Phase 1b asthma trial of itolizumab (EQ001), supporting a formal decision to advance into Phase 2 development, and as confirmed by the Company's Board of Directors (the Term C Milestone). The Company may draw the Term B Loan during the period commencing on the date of the occurrence of the Term B Milestone and ending on the earliest of (i) December 31, 2020, (ii) 60 days after achieving the Term B Milestone, and (iii) the occurrence of an event of default. The Company may draw the Term C Loan during the period commencing on the date of the occurrence of the Term C Milestone and ending on the earliest of (i) December 31, 2020, (ii) 60 days after achieving the Term C Milestone, and (iii) the occurrence of an event of default. As of December 31, 2020, the Company did not achieve the Term B or Term C Milestone and is not eligible to receive the additional funding up to $10.0 million under the Loan Agreement.

All of the Term Loans mature on June 1, 2024 (the Maturity Date) and are repaid through interest-only payments through June 30, 2021, followed by 36 equal monthly principal payments and interest. The Term Loans bear interest at a floating per annum rate equal to the greater of (i) 8.25% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 3.00%.

On December 18, 2020, the Company entered into the First Amendment to the Loan Agreement (the First Amendment) with the Lenders whereby if the Company achieves the Term B Milestone on or prior to June 30, 2021, the interest-only payments will be automatically extended through December 31, 2021.

On April 23, 2021, the Company entered into the Second Amendment to the Loan Agreement (the Second Amendment) which added two new milestones: (i) the Company achieving positive data in the Company's Phase 1b aGVHD trial of itolizumab (EQ001) supporting a formal decision to advance into Phase 2 or Phase 3 development, and as confirmed by the Company's Board of Directors in written board minutes (the Interest-Only Extension Milestone) and (ii) the Company initiating a pivotal Phase 3 aGVHD trial (the Interest-Only Extension II Milestone). If the Company achieves the Interest-Only Extension Milestone on or prior to June 30, 2021, then interest-only payments will be automatically extended through June 30, 2022. If the Company achieves the Interest-Only Extension II Milestone on or prior to June 30, 2022, then interest-only payments will be automatically extended through September 30, 2022. The Second Amendment also amended the final payment percentage from 4.5% to 5.0%.

In May 2021, the Company achieved the Interest-Only Extension Milestone. Due to the achievement of the Interest-Only Extension Milestone, the interest-only payments have been extended through June 30, 2022, followed by 24 equal monthly principal payments and interest. The Company has not achieved the Interest-Only Extension II Milestone as of June 30, 2021 and through the date of the filing of this Quarterly Report on Form 10-Q.

The Company will be required to make a final payment of 5.00% of the original principal amount of the Term Loans drawn payable on the earlier of (i) the Maturity Date, (ii) the acceleration of any Term Loans, or (iii) the prepayment of the Term Loans (the Final Payment). The Company may prepay all, but not less than all, of the Term Loans upon 30 days' advance written notice to the Lenders, provided that the Company will be obligated to pay a prepayment fee equal to (i) 3.00% of the principal amount of the applicable Term Loan prepaid on or before the first anniversary of the applicable funding date, (ii) 2.00% of the principal amount of the applicable Term Loan prepaid between the first and second anniversary of the applicable funding date, and (iii) 1.00% of the principal amount of the applicable Term Loan prepaid thereafter, and prior to the Maturity Date (each, a Prepayment Fee).

In connection with entering into the Loan Agreement, the Company issued to the Lenders warrants exercisable for 80,428 shares of the Company's common stock (the Warrants). The Warrants are exercisable in whole or in part, immediately, and have a per share exercise price of $3.73, which was the closing price of the Company's common stock reported on the Nasdaq Global Market on the day prior to the Effective Date. The Warrants will terminate on the earlier of September 30, 2029 or the closing of certain merger or consolidation transactions.

The Company recorded the Warrants as a debt discount, which is classified as a contra-liability against long-term notes payable on the condensed consolidated balance sheet, and is amortizing the balance over the life of the underlying debt. The offset to the contra-liability is recorded in additional paid-in capital in the Company's condensed consolidated balance sheet as the Warrants were determined to be an equity instrument. The Company determined the fair value of the Warrants at the date of issuance was $0.3 million using the Black-Scholes option pricing model based on significant unobservable inputs (Level 3) with an expected term of 10 years, volatility of 92.78%, risk free rate of 1.68% and expected dividend of 0%.

The costs incurred to issue the Term Loans of $0.1 million were deferred and are included in the discount to the carrying value of the Term Loans in the accompanying condensed consolidated balance sheet. The deferred costs and the Final Payment fee are amortized to interest expense over the expected term of the Term Loans using the effective interest method with an effective interest rate of 10.97%.

Under authoritative guidance, the Second Amendment does not meet the criteria to be accounted for as a troubled debt restructuring. In addition, the Company performed a quantitative analysis and determined that the terms of the new debt and original debt instrument are not substantially different. Accordingly, the Second Amendment is accounted for as a debt modification. A new effective interest rate that equates the revised cash flows to the carrying amount of the original debt was computed and applied prospectively. The new effective interest rate is 10.58%.

The aggregate carrying amounts of the Term Loans are comprised of the following (in thousands):

	June 30, 2021	December 31, 2020
Principal	$ 10,000	$ 10,000
Add: accreted liability for Final Payment fee	244	176
Less: unamortized discount	(177)	(235)
Total	$ 10,067	$ 9,941

Upon the occurrence of certain events, including but not limited to the Company's failure to satisfy its payment obligations under the Loan Agreement, the breach of certain of its other covenants under the Loan Agreement, or the occurrence of a material adverse change, cross defaults to other indebtedness or material agreements, judgment defaults and defaults related to failure to maintain governmental approvals failure of which to maintain could result in a material adverse effect, the Lenders will have the right, among other remedies, to declare all principal and interest immediately due and payable, to exercise secured party remedies, to receive the Final Payment and, if the payment of principal and interest is due prior to the Maturity Date, to receive the applicable Prepayment Fee. At June 30, 2021, the Company was in compliance with the covenants contained in the Loan Agreement.

Future maturities of the Term Loans, including the Final Payment fee, as of June 30, 2021 are as follows (in thousands):

	June 30, 2021
Remainder of 2021	$ -
Year ending December 31, 2022	2,500
Year ending December 31, 2023	5,000
Year ending December 31, 2024	3,000
	10,500
Unaccreted balance for Final Payment fee on Term Loans	(256)
Unamortized discounts	(177)
	10,067
Less current portion	-
Noncurrent portion	$ 10,067

6. Collaboration and License Agreement

In May 2017, the Company entered into a collaboration and license agreement (which was amended in September 2018, April 2019, December 2019, and April 2021), clinical supply agreement, investor rights agreement, and common stock purchase agreement (collectively License Agreements) with Biocon SA (together with Biocon Limited, Biocon). Pursuant to the License Agreements, Biocon granted the Company an exclusive license to develop, make, have made, use, sell, have sold, offer for sale, import and otherwise exploit itolizumab and any pharmaceutical composition or preparation containing or comprising itolizumab that uses Biocon technology or Biocon know-how (collectively a Biocon Product) in the United States, Canada, Australia and New Zealand (collectively Company Territory). However, unless the Company achieves certain regulatory and development milestones within a specific time period, the licensed rights, other than development rights, are limited to the fields of orphan indications and the treatment of conditions related to asthma and lupus. The Company also has the right to sublicense through multiple tiers to third parties, provided such sublicenses comply with the terms of the License Agreements and the Company provides Biocon a copy of each sublicense agreement within 30 days of execution. If the Company grants a third party a sublicense of its rights to develop and commercialize Biocon Products in Australia or New Zealand, the Company will be required to pay Biocon a high double-digit percentage of any upfront payment the Company receives from such sublicensee for such sublicense, as well as a high double-digit percentage of any additional payments the Company receives from such sublicensee for such sublicense, including but not limited to royalty payments on net sales of Biocon Products by such sublicensee. Under the License Agreements, the Company granted back to Biocon a license to use its technology and know-how related to itolizumab and Biocon Products in certain countries outside of the Company's Territory. Pursuant to the License Agreements, Biocon agreed to be the Company's exclusive supplier of itolizumab clinical drug product. Biocon will provide clinical drug product at no cost for up to three concurrent orphan indications until the Company's first U.S. regulatory approval and all other clinical drug product at Biocon's cost.

In consideration of the rights granted to the Company by Biocon, the Company issued Biocon a total of 2,316,134 shares of common stock.

In addition, the Company is obligated to pay Biocon up to an aggregate of $30 million in regulatory milestone payments upon the achievement of certain regulatory approvals and up to an aggregate of $565 million in sales milestone payments upon the achievement of first commercial sale of product and specified levels of product sales. The Company is also required to pay royalties on tiers of aggregate annual net sales of Biocon Products by the Company, the Company's affiliates and the Company's sublicensees in the United States and Canada at percentages from the mid-single digits to sub-teen double-digits and on tiers of aggregate annual net sales of Biocon Products by the Company and the Company's affiliates (but not the Company's sublicensees) in Australia and New Zealand, in each case, subject to adjustments in certain circumstances. Biocon is also required to pay the Company royalties at comparable percentages for sales of itolizumab (EQ001) outside of the Company Territory if the approvals in such geographies included or referenced the Company's data including data from certain of the Company's clinical trials, subject to adjustments in certain circumstances. Under the License Agreements, net sales are calculated on a country-by-country basis and are subject to adjustments, including whether the Biocon Product is sold in the form of a combination product. As of June 30, 2021, the Company has not made or received payments in connection with the milestones or royalties within the agreement.

7. Stockholders' Equity

As of June 30, 2021, the Company's authorized capital stock consisted of 200,000,000 shares of common stock, par value $0.0001 per share, and 10,000,000 shares of preferred stock, par value $0.0001 per share.

The Company had 29,382,806 and 24,753,102 shares of common stock outstanding as of June 30, 2021 and December 31, 2020, respectively.

Registered Direct Offering and related warrants

On February 3, 2021, the Company entered into a securities purchase agreement (the Securities Purchase Agreement) with two institutional investors (the Purchasers), relating to the issuance and sale (the Offering) of an aggregate of 4,285,710 shares of common stock and warrants to purchase 1,285,713 shares of common stock (the Warrants) for aggregate gross proceeds to the Company from this Offering of approximately $30.0 million, excluding any proceeds the Company may receive upon exercise of the Warrants. No underwriter or placement agent participated in the Offering. The proceeds, net of related issuance costs, were $29.9 million.

The Warrants are exercisable immediately upon issuance at an initial exercise price of $14.00 per share and are exercisable on a cashless basis. The Warrants expire on the earlier of (i) the fifth anniversary of issuance or (ii) the 15th calendar date following the date on which the Company closes upon an equity financing that results in not less than $25 million of gross proceeds to the Company at a price per share of common stock equal to or greater than $25.00, at which time, all remaining Warrants will automatically be exercised on a cashless basis. The exercise price and the number of shares of common stock purchasable upon the exercise of the Warrants are subject to adjustment upon the occurrence of specific events, including stock dividends, stock splits, reclassifications and combinations of the Company's common stock. All of the warrants are recorded within equity in accordance with authoritative accounting guidance.

Pursuant to the terms of the Securities Purchase Agreement, the Company agreed to appoint Dr. Yu (Katherine) Xu, Ph. D. to the Board as a nominee of the Purchasers.

Follow-On Public Offering

In August 2020, the Company completed an underwritten public offering of 5,461,169 shares of common stock at $7.00 per share, which included 461,169 shares sold pursuant to the exercise of the underwriters' option to purchase additional shares. The Company received gross proceeds from this offering totaling $38.2 million. The proceeds, net of underwriting discounts and related issuance costs, were $35.7 million.

At-the-Market Offering Program

In November 2019, the Company entered into an Open Market Sales Agreement^{SM} with Jefferies LLC (Jefferies) under which the Company could offer and sell shares of its common stock from time to time, through an "at-the-market", or ATM, equity offering program under which Jefferies acted as sales agent (2019 ATM Facility). The Company set certain parameters for the sale of shares, which included but were not limited to the number of shares to be issued, the time period during which sales are requested to be made, and any minimum price below which sales may not be made. Jefferies was entitled to compensation for its services at a commission rate of 3.0% of the gross sales price per share of common stock sold plus reimbursement of certain expenses.

The maximum aggregate offering price of common stock that could be sold under the 2019 ATM Facility was $8.45 million. The 2019 ATM Facility was fully utilized in July 2020 and, therefore, there was no activity during the six months ended June 30, 2021. During the six months ended June 30, 2020, the Company sold an aggregate of 174,649 shares of its common stock under the 2019 ATM Facility resulting in net proceeds of $0.8 million.

On July 14, 2020, the Company entered into a new ATM equity offering program (2020 ATM Facility) with Jefferies under which the Company may offer and sell shares of the Company's common stock having an aggregate price of up to $150 million, from time to time, through Jefferies acting as our sales agent. During the six months ended June 30, 2021, there was no activity under the 2020 ATM Facility. As of June 30, 2021, the Company sold an aggregate of 788,685 shares of common stock under the 2020 ATM Facility and received gross proceeds of $10.4 million. The Company paid commissions on the gross proceeds, plus reimbursement of expenses to Jefferies and other issuance costs in the aggregate amount of approximately $0.4 million, resulting in net proceeds of $10.0 million. Since June 30, 2021 and through the date of the filing of this Quarterly Report on Form 10-Q, there have been no additional sales of the Company's stock under the 2020 ATM Facility.

Purchase Agreement

On March 27, 2020, the Company entered into a purchase agreement (Purchase Agreement), with Lincoln Park Capital Fund, LLC (Lincoln Park), which provides that, upon the terms and subject to the conditions and limitations set forth therein, the Company may sell to Lincoln Park up to $15.0 million of shares of its common stock from time to time over the 36-month term of the Purchase Agreement. Upon execution of the Purchase Agreement, the Company issued 65,374 shares of its common stock to Lincoln Park as

commitment shares in accordance with the closing conditions contained within the Purchase Agreement. The commitment shares were valued using the closing price of the Company's common stock on the effective date of the Purchase Agreement resulting in a fair market value of approximately $0.2 million. The fair market value of the commitment shares as well as other issuance costs associated with the Purchase Agreement totaled $0.4 million. These issuance costs are classified as prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet. As shares of common stock are sold to Lincoln Park in accordance with the Purchase Agreement, the issuance costs, including the fair value of the commitment shares, will be reclassified to additional paid-in capital on the Company's condensed consolidated balance sheet. There have been no sales of the Company's stock under this Purchase Agreement as of June 30, 2021 and through the date of the filing of this Quarterly Report on Form 10-Q.

Stock Options

The following table summarizes the stock option activity during the six months ended June 30, 2021:

	Shares Subject to Options	Weighted-Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2020	2,463,317	$ 3.71		
Granted	1,750,580	$ 5.35		
Exercised	(295,028)	$ 2.72		
Forfeitures and cancellations	(78,918)	$ 4.29		
Options outstanding at June 30, 2021	3,839,951	$ 4.53	8.83	$ 5,898
Options exercisable at June 30, 2021	1,068,656	$ 3.72	8.04	$ 2,556

(a) Aggregate intrinsic value in this table was calculated as the positive difference, if any, between the closing price per share of the Company's common stock on June 30, 2021 of $5.89 and the price of the underlying options.

At June 30, 2021, unamortized stock compensation for stock options was $10.8 million, with a weighted-average recognition period of 2.9 years.

Stock-Based Compensation Expense

The non-cash stock-based compensation expense for all stock awards, net of forfeitures recognized as they occur, that was recognized in the condensed consolidated statements of operations is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Research and development	$ 462	$ 488	$ 936	$ 902
General and administrative	602	862	1,172	1,235
Total	$ 1,064	$ 1,350	$ 2,108	$ 2,137

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance at June 30, 2021 is as follows:

	June 30, 2021	December 31, 2020
Stock options issued and outstanding	3,839,951	2,463,317
Warrants for common stock	1,366,141	80,428
Awards available under the 2018 Equity Incentive Plan	605,524	1,039,531
Employee stock purchase plan	811,094	612,529
Total	6,622,710	4,195,805

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2020 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 24, 2021. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "we," "us," and "our" refer to Equillium, Inc.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the "safe harbor" created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. 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 that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q and in our other filings with the SEC. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements.

Overview

We are a clinical-stage biotechnology company leveraging deep understanding of immunobiology to develop novel products to treat severe autoimmune and inflammatory, or immuno-inflammatory, disorders with high unmet medical need. Our initial product candidate, itolizumab (EQ001), is a clinical-stage, first-in-class monoclonal antibody that selectively targets CD6, a co-stimulatory receptor differentially expressed on subsets of pro-inflammatory T cells. CD6 plays a central role in the modulation of effector T cell, or T_{eff} cell, activity and trafficking. Activated T_{eff} cells drive a number of immuno-inflammatory diseases across therapeutic areas including transplant science, systemic autoimmunity, pulmonary, neurologic, gastrointestinal, renal, vascular, ophthalmic and dermatologic disorders. Therefore, we believe itolizumab (EQ001) may have broad therapeutic utility in treating a large and diverse set of severe immuno-inflammatory diseases.

Our pipeline is focused on developing itolizumab (EQ001) as a potential best-in-class, disease modifying treatment for multiple severe immuno-inflammatory disorders. We currently have active clinical development programs for itolizumab (EQ001) for the treatment of acute graft-versus-host disease, or aGVHD, lupus/lupus nephritis and uncontrolled asthma.

The EQUATE study is a Phase 1b/2 clinical trial of itolizumab (EQ001) for the first-line treatment of aGVHD. In June 2021, we announced positive topline results from the Phase 1b portion of the EQUATE study. In July 2021, we announced the completion of an End-of-Phase 1 meeting with the FDA which confirmed a path to advance itolizumab (EQ001) into a single Phase 3 pivotal study to support the Biologics License Application (BLA) filing for itolizumab (EQ001) in first-line treatment of patients with aGVHD. We plan to initiate the Phase 3 study in the fourth quarter of 2021.

The EQUIP study is a Phase 1b clinical trial of itolizumab (EQ001) for the treatment of uncontrolled asthma being conducted at sites in Australia and New Zealand. We plan to announce topline data from the EQUIP study in the second half of 2021.

The EQUALISE study is a Phase 1b proof-of-concept multiple ascending dose clinical trial of itolizumab (EQ001) for the treatment of lupus/lupus nephritis. The first part of the EQUALISE study is focused on evaluating the safety of itolizumab (EQ001) in patients with systemic lupus erythematosus (SLE) followed by a second part in lupus nephritis patients where, in addition to safety, potential clinical activity of itolizumab (EQ001) will be assessed. In March 2021, we reported favorable topline data from the Type A group of the EQUALISE study in patients with SLE. Through that topline data in the Type A group of the EQUALISE study, itolizumab (EQ001) administered subcutaneously was safe and well tolerated and demonstrated a dose-dependent reduction of cell surface CD6 expression on effector T cells, which is a leading indicator of drug activity, consistent with itolizumab's mechanism of action. We plan to announce interim data from the Type B part of the study in patients with lupus nephritis in the second half of 2021.

In March 2020, as a result of impacts and risks associated with the COVID-19 pandemic, we decided to pause enrollment in our EQUIP and EQUALISE studies. This decision was not based on any observed safety issues associated with itolizumab (EQ001) but rather out of an abundance of caution related to the COVID-19 pandemic and our concern for the well-being of patients and their

caregivers. In July 2020, we announced that patient enrollment in both of those trials had resumed. We did not pause enrollment of patients in our EQUATE study given the acute life-threatening severity of aGVHD as we believe itolizumab (EQ001) represents a potentially life-saving treatment for these severely ill patients. However, there remains a risk that enrollment of all three of our current Phase 1b trials and the timing of data from those trials may be adversely impacted by the COVID-19 pandemic.

We acquired rights to itolizumab (EQ001) for the territories of the United States and Canada in May 2017 pursuant to a collaboration and license agreement with Biocon SA (subsequently assigned to Biocon Limited, or together, Biocon). In December 2019, we expanded our rights to itolizumab (EQ001) to include the territories of Australia and New Zealand pursuant to an amendment to that agreement. In August 2019, we entered into a letter agreement with Biocon that grants us exclusive rights to negotiate licensing rights with third parties to develop and commercialize itolizumab (EQ001) in select major markets outside of North America. This letter agreement allows us to represent itolizumab (EQ001) more broadly commercially and participate in value that may be created with strategic partners across geographies. Our collaboration with Biocon includes an exclusive supply agreement for clinical and commercial drug product of itolizumab (EQ001). Biocon currently manufactures itolizumab (EQ001) at commercial scale in a facility in India regulated by the FDA.

We have ongoing translational biology programs to assess the therapeutic potential of itolizumab (EQ001) in additional indications where CD6 and its ligand, Activated Leukocyte Cell Adhesion Molecule, or ALCAM, play an important role in the pathogenesis of T cell mediated diseases. Our selection of current and future indications is driven by our analysis of the scientific, translational, clinical and commercial rationale for advancing itolizumab (EQ001) into further development.

Since our inception, substantially all of our efforts have been focused on organizing and staffing our company, business planning, raising capital, in-licensing rights to itolizumab (EQ001), conducting non-clinical research, filing three INDs, conducting clinical development of itolizumab (EQ001) and the general and administrative activities associated with operating a public company. We have not generated any revenue from product sales or otherwise. Since inception, we have primarily financed our operations through our initial public offering, or IPO, a follow-on public offering, a registered direct offering, private placements of convertible promissory notes, term loans and sales of our common stock through “at-the-market” sales agreements, or ATM offerings, with Jefferies LLC, or Jefferies. We have incurred losses since our inception. Our net losses were $18.1 million for the six months ended June 30, 2021 and $29.8 million for the year ended December 31, 2020. As of June 30, 2021, we had an accumulated deficit of $89.1 million. Substantially all of our operating losses resulted from expenses incurred in connection with our research and development activities, non-clinical and clinical activities and general and administrative costs associated with our operations.

We expect to continue to incur significant expenses and increasing losses into the foreseeable future. We anticipate our expenses will increase substantially as we continue our research and development activities, including the ongoing and future clinical development of itolizumab (EQ001), potentially expand the indications in which we conduct clinical development of itolizumab (EQ001), potentially acquire additional products and/or product candidates, seek regulatory approval for and potentially commercialize any approved product candidates, hire additional personnel, protect our intellectual property, incur increasing expense associated with our outstanding debt, and incur general corporate costs. We expect that our existing cash, cash equivalents and short-term investments as of June 30, 2021, will enable us to fund our currently planned operations for at least the next 12 months.

We do not expect to generate any revenues from product sales unless and until we successfully complete development and obtain regulatory approval for itolizumab (EQ001) or any future product candidate, which is unlikely to happen within the next 12 months, if ever. Accordingly, until such time as we can generate significant revenue from sales of our product candidates, if ever, we expect to finance our cash needs through a combination of equity offerings, debt financings, and collaboration and license agreements. However, we may not be able to secure additional financing or enter into such other arrangements in a timely manner or on favorable terms, if at all. As a result of the COVID-19 pandemic and actions taken to slow its spread, the global credit and financial markets have experienced extreme volatility, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that further deterioration in credit and financial markets and confidence in economic conditions will not occur. If equity and credit markets deteriorate, it may make any necessary debt or equity financing more difficult to obtain, more costly and/or more dilutive. In addition, subject to limited exceptions, our loan and security agreement with Oxford Finance LLC and Silicon Valley Bank also prohibits us from incurring indebtedness without the prior written consent of the lenders, which consent may be withheld at their sole and absolute discretion. Our failure to raise capital or enter into such other arrangements when needed would have a negative impact on our financial condition and could force us to delay, reduce or terminate our research and development programs or other operations, or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Financial Overview

Revenue

We currently have no products approved for sale, and we have not generated any revenues to date. In the future, we may generate revenue from collaboration or license agreements we may enter into with respect to our product candidates, as well as product sales from any approved product, which approval is unlikely to happen within the next 12 months, if ever. Our ability to generate product revenues will depend on the successful development and eventual commercialization of itolizumab (EQ001) and any future product candidates. If we fail to complete the development of itolizumab (EQ001) or any future product candidates in a timely manner, or to obtain regulatory approval for our product candidates, our ability to generate future revenue and our results of operations and financial position would be materially adversely affected.

Research and Development Expenses

Research and development expenses primarily consist of costs associated with our non-clinical research and clinical development of itolizumab (EQ001). Our research and development expenses include:

- salaries and other related costs, including stock-based compensation and benefits, for personnel in research and development functions;
- external research and development expenses incurred under arrangements with third parties, such as consultants and advisors for research and development;
- costs of services performed by third parties, such as contract research organizations, or CROs, that conduct research and development activities on our behalf;
- costs related to preparing and filing three INDs with the FDA and other regulatory interactions and submissions;
- pharmacovigilance costs related to global drug safety monitoring and reporting;
- external expenses related to chemistry, manufacturing, and controls (CMC) and supply of drug product; and
- costs related to general overhead expenses such as travel, insurance and rent expenses associated with our research and development activities.

We expense research and development costs as incurred. We account for nonrefundable advance payments for goods and services that will be used in future research and development activities as expenses when the service has been performed or when the goods have been received.

Our direct research and development expenses consist principally of external costs, such as fees paid to CROs and consultants in connection with our non-clinical research and clinical development.

We recognize the Australian Research and Development Tax Incentive, or the Tax Incentive, as a reduction of research and development expense. The amounts are determined based on our eligible research and development expenditures and are non-refundable, provided that in order to qualify for the Tax Incentive the filing entity must have revenue of less than AUD $20.0 million during the tax year for which a reimbursement claim is made and cannot be controlled by an income tax exempt entity. The Tax Incentive is recognized when there is reasonable assurance that the Tax Incentive will be received, the relevant expenditure has been incurred, and the amount can be reliably measured or reliably estimated.

We plan to substantially increase our research and development expenses for the foreseeable future as we continue to advance the development of itolizumab (EQ001) and potentially expand the number of indications for which we are developing itolizumab (EQ001). The successful development of itolizumab (EQ001) is highly uncertain. At this time, due to the inherently unpredictable nature of pre-clinical and clinical development, which has been further exacerbated by the uncertain magnitude, extent and duration of impacts associated with the COVID-19 pandemic, we cannot reasonably estimate the nature, timing or costs of the efforts that will be necessary to complete the remainder of the development of itolizumab (EQ001) or the period, if any, in which material net cash inflows from itolizumab (EQ001) may commence. Clinical development timelines, the probability of success, and development costs can differ materially from expectations.

Completion of clinical trials may take several years or more, and the length of time generally varies according to the type, complexity, novelty, and intended use of a product candidate. The cost of clinical trials may vary significantly over the life of a project as a result of differences arising during clinical development, including, among others:

- managing the impact of COVID-19 pandemic and related precautions on the operation of our clinical trials;
- per patient clinical trial costs;
- the number of clinical trials required for approval;

- the number of sites and the number of countries included in our clinical trials;
- the length of time required to enroll suitable patients;
- the inefficiencies and additional costs related to any delays and potential restarts of clinical trials;
- the number of doses that patients receive;
- the number of patients that participate in our clinical trials;
- the drop-out or discontinuation rates of patients in our clinical trials;
- the duration of patient follow-up;
- potential additional safety monitoring or other studies requested by regulatory agencies;
- the number and complexity of procedures, analyses and tests performed during our clinical trials;
- the costs of procuring drug product for our clinical trials;
- the phase of development of the product candidate; and
- the efficacy and safety profile of the product candidate.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other related costs, including stock-based compensation and benefits, and consulting fees for executive, human resources, investor relations, finance, and accounting functions. Other significant costs include legal fees relating to patent and corporate matters, insurance, travel, board expenses, facility costs and taxes.

We anticipate that our general and administrative expenses will increase in future periods, reflecting an expanding infrastructure, increased legal, audit, tax and other professional fees associated with being a public company and maintaining compliance with stock exchange listing and SEC requirements, director and officer insurance premiums associated with being a public company, and accounting and investor relations costs. In addition, if we obtain regulatory approval for any product candidate, we expect to incur expenses associated with building the infrastructure and capabilities to commercialize such product. However, the timing of any such approval is highly uncertain, and it may be several years, if ever, that we receive any such regulatory approval.

Interest Expense

Interest expense consists of interest and amortization of discounts on our outstanding term loans payable.

Interest Income

Interest income consists primarily of interest income earned on cash, cash equivalents and short-term investments, and is recognized when earned.

Other (Expense) Income, net

Other (expense) income, net consists primarily of net foreign currency transaction gains and losses related to our Australian subsidiary.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2021 and 2020

The following table sets forth our results of operations for the three and six months ended June 30, 2021 and 2020 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Research and development	$ 5,985	$ 3,893	$ 11,865	$ 8,599
General and administrative	2,858	2,717	5,673	5,463
Interest expense	(270)	(274)	(541)	(547)
Interest income	13	122	39	342
Other (expense) income, net	(58)	301	(109)	(31)

Research and Development Expenses

Research and development expenses were $6.0 million and $11.9 million for three and six months ended June 30, 2021, respectively, compared to $3.9 million and $8.6 million for the three and six months ended June 30, 2020, respectively.

The increase of $2.1 million in research and development expenses for the three months ended June 30, 2021, compared to the same period in 2020, was primarily driven by the following changes:

- $0.9 million increase in employee compensation and benefits, primarily related to increased headcount;
- $0.7 million increase in clinical development activities, primarily related to our aGVHD and lupus/lupus nephritis clinical trials;
- $0.2 million increase in consulting activities;
- $0.2 million increase in overhead expenses primarily driven by increased lab supplies and costs associated with expansion of lab space; and
- $0.1 million increase in non-clinical research activities.

The increase of $3.3 million in research and development expenses for the six months ended June 30, 2021, compared to the same period in 2020, was primarily driven by the following changes:

- $1.5 million increase in employee compensation and benefits, primarily related to increased headcount;
- $1.4 million increase in clinical development activities, primarily related to our aGVHD and lupus/lupus nephritis clinical trials;
- $0.2 million increase in non-clinical research activities;
- $0.1 million increase in consulting activities; and
- $0.1 million increase in overhead expenses primarily driven by increased lab supplies and costs associated with expansion of lab space.

General and Administrative Expenses

General and administrative expenses were $2.9 million and $5.7 million for the three and six months ended June 30, 2021, respectively, compared to $2.7 million and $5.5 million for the three and six months ended June 30, 2020, respectively.

The increase of $0.2 million in general and administrative expenses for the three months ended June 30, 2021, compared to the same period in 2020, was primarily driven by the following changes:

- $0.4 million increase in employee compensation and benefits, primarily related to increased headcount; and
- $0.2 million decrease in non-cash stock-based compensation mainly due to fully-vested retention option grants issued to certain officers and directors in the second quarter of 2020.

The increase of $0.2 million in general and administrative expenses for the six months ended June 30, 2021, compared to the same period in 2020, was primarily driven by the following changes:

- $0.7 million increase in employee compensation and benefits, primarily related to increased headcount;
- $0.2 million decrease in consulting expenses;
- $0.2 million decrease in legal fees; and
- $0.1 million decrease in overhead expenses primarily driven by lower insurance costs.

Interest Expense

Interest expense was $0.3 million and $0.5 million for the three and six months ended June 30, 2021, respectively, compared to $0.3 million and $0.5 million in the same periods in 2020. Interest expense consists of interest on our term notes payable.

Interest Income

Interest income was $13,000 and $39,000 for the three and six months ended June 30, 2021, respectively, compared to $0.1 million and $0.3 million for the three and six months ended June 30, 2020, respectively. The decrease in interest income was primarily due to lower interest rates during 2021 compared to 2020.

Other (Expense) Income, net

Other expense, net was $0.1 million for the three and six months ended June 30, 2021, respectively, compared to $0.3 million of other income, net and $31,000 of other expense, net for the three and six months ended June 30, 2020. The change in both the three and six months ended June 30, 2021 compared to the same periods in 2020 were primarily driven by changes in net foreign currency transaction gains and losses.

Liquidity and Capital Resources

From inception through June 30, 2021, we have raised an aggregate of approximately $178.1 million in gross proceeds pursuant to our IPO, a follow-on public offering, a registered direct offering, private placements of convertible promissory notes, proceeds from term loans and proceeds from equity issuances under our ATM facility. As of June 30, 2021, we had $73.5 million in cash and cash equivalents and $24.1 million in short-term investments.

Sources of Liquidity

Registered Direct Offering

In February 2021, we entered into a securities purchase agreement with two institutional investors relating to the issuance and sale of an aggregate of 4,285,710 shares of common stock and warrants to purchase 1,285,713 shares of common stock for aggregate gross proceeds to us from this offering of approximately $30.0 million, excluding any proceeds we may receive upon exercise of the warrants. No underwriter or placement agent participated in the offering. The warrants are exercisable immediately upon issuance at an initial exercise price of $14.00 per share and are exercisable on a cashless basis. The warrants expire on the earlier of (i) the fifth anniversary of issuance or (ii) the 15th calendar date following the date on which we close upon an equity financing that results in not less than $25 million in gross proceeds to us at a price per share of common stock equal to or greater than $25.00, at which time, all remaining warrants will automatically exercise on a cashless basis.

Follow-on Public Offering

In August 2020, we completed an underwritten public offering of 5,461,169 shares of common stock at $7.00 per share, which included 461,169 shares sold pursuant to the exercise of the underwriters' option to purchase additional shares. We received gross proceeds from this offering totaling $38.2 million. Net proceeds from this offering, net of underwriting discounts and related issuance costs, were $35.7 million.

2020 Purchase Agreement

In March 2020, we entered into a purchase agreement, or the Purchase Agreement, with Lincoln Park Capital Fund, LLC, or Lincoln Park, which provides that, upon the terms and subject to the conditions and limitations set forth therein, we may sell to Lincoln Park up to $15.0 million of shares of our common stock from time to time over the 36-month term of the Purchase Agreement. Upon execution of the Purchase Agreement, we issued 65,374 shares of our common stock to Lincoln Park as commitment shares in accordance with the closing conditions contained within the Purchase Agreement. We have not sold any shares of our common stock to Lincoln Park under the Purchase Agreement through the date of the filing of this Quarterly Report on Form 10-Q.

At-the-Market Offering Program

In November 2019, we entered into an Open Market Sales Agreement^{SM} with Jefferies to sell shares of our common stock having aggregate sales proceeds of up to $8.45 million, from time to time, through an ATM equity offering program under which Jefferies acts as sales agent, or the 2019 ATM Facility. Under the 2019 ATM Facility, we set certain parameters for the sale of shares, which may include but are not limited to the number of shares to be issued, the time period during which sales are requested to be made, and any minimum price below which sales may not be made. Jefferies is entitled to compensation for its services at a commission rate of 3.0% of the gross sales price per share of common stock sold plus reimbursement of certain expenses. As of July 2020, the 2019 ATM Facility had been fully utilized. We sold an aggregate of 943,739 shares of our common stock under the 2019 ATM Facility for gross proceeds of $8.45 million.

On July 14, 2020, we entered into another Open Market Sales Agreement with Jefferies for a new ATM equity offering to sell shares of our common stock, from time to time, having aggregate sales proceeds of up to $150 million under which Jefferies would act as sales agent, or the 2020 ATM Facility. The 2020 ATM Facility provides that Jefferies will be entitled to compensation for its services at a commission rate of 3.0% of the gross sales price per share of common stock sold. We are not obligated to make any sales under

the 2020 ATM Facility. As of June 30, 2021, we sold an aggregate of 788,685 shares of common stock under the 2020 ATM Facility, for gross proceeds of $10.4 million. We paid cash commissions on the gross proceeds, plus reimbursement expenses to Jefferies, legal fees and other issuance costs in the aggregate amount of $0.4 million, resulting in net proceeds of $10.0 million. There have been no further sales of shares under the 2020 ATM Facility through the date of the filing of this Quarterly Report on Form 10-Q.

September 2019 Loan Agreement

On September 30, 2019, we entered into a loan and security agreement, or Loan Agreement, with Oxford Finance LLC and Silicon Valley Bank, or together, the Lenders, pursuant to which we can borrow up to $20.0 million in a series of term loans. Upon entering into the Loan Agreement, we borrowed $10.0 million, or Term A Loan. Under the terms of the Loan Agreement, we may, at our sole discretion, borrow from the Lenders (i) up to an additional $5.0 million, or Term B Loan, upon our achievement of positive topline data in either our (a) itolizumab (EQ001) Phase 1b aGVHD trial or (b) itolizumab (EQ001) Phase 1b asthma trial, supporting a formal decision to advance into Phase 2 development, and as confirmed by our Board of Directors, or the Term B Milestone, and (ii) up to an additional $5.0 million, or Term C Loan and together with Term A Loan and Term B Loan, the Term Loans, upon our achievement of positive topline data in both our EQ001 Phase 1b aGVHD trial and our itolizumab (EQ001) Phase 1b asthma trial, supporting a formal decision to advance into Phase 2 development, and as confirmed by our Board of Directors, or the Term C Milestone. We may draw the Term B Loan during the period commencing on the date of the occurrence of the Term B Milestone and ending on the earliest of (i) December 31, 2020, (ii) 60 days after achieving the Term B Milestone, and (iii) the occurrence of an event of default. We may draw the Term C Loan during the period commencing on the date of the occurrence of the Term C Milestone and ending on the earliest of (i) December 31, 2020, (ii) 60 days after achieving the Term C Milestone, and (iii) the occurrence of an event of default. As of December 31, 2020, the Company did not achieve the Term B or Term C Milestone and was not eligible to receive the additional funding up to $10.0 million under the Loan Agreement.

All of the Term Loans mature on June 1, 2024 (the Maturity Date) and are repaid through interest-only payments through June 30, 2021, followed by 36 equal monthly payments of principal and interest. The Term Loans bear interest at a floating per annum rate equal to the greater of (i) 8.25% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 3.00%.

On December 18, 2020, the Company entered into the First Amendment to the Loan Agreement (the First Amendment) with the Lenders whereby if the Company achieves the Term B Milestone on or prior to June 30, 2021, the interest-only payments will be automatically extended through December 31, 2021.

On April 23, 2021, the Company entered into the Second Amendment to the Loan Agreement (the Second Amendment) which added two new milestones: (i) the Company achieving positive data in the Company's Phase 1b aGVHD trial of itolizumab (EQ001) supporting a formal decision to advance into Phase 2 or Phase 3 development, and as confirmed by the Company's Board of Directors in written board minutes (the Interest-Only Extension Milestone) and (ii) the Company initiating a pivotal Phase 3 aGVHD trial (the Interest-Only Extension II Milestone). If the Company achieves the Interest-Only Extension Milestone on or prior to June 30, 2021, then interest-only payments will be automatically extended through June 30, 2022. If the Company achieves the Interest-Only Extension II Milestone on or prior to June 30, 2022, then interest-only payments will be automatically extended through September 30, 2022. The Second Amendment also amended the final payment percentage from 4.5% to 5.0%.

In May 2021, the Company achieved the Interest-Only Extension Milestone. Due to the achievement of the Interest-Only Extension Milestone, the interest-only payments have been extended through June 30, 2022, followed by 24 equal monthly principal payments and interest. The Company has not achieved the Interest-Only Extension II Milestone as of June 30, 2021 and through the date of the filing of this Quarterly Report on Form 10-Q.

Funding Requirements

We expect our expenses to increase substantially in connection with our ongoing and future activities, particularly as we advance and expand our clinical development of itolizumab (EQ001), including potential new indications. We expect that our primary uses of capital will be for clinical research and development services, non-clinical research, manufacturing, legal and other regulatory compliance expenses, compensation and related expenses, risk management, and general overhead costs.

We expect that our existing cash, cash equivalents and short-term investments as of June 30, 2021 will enable us to fund our currently planned operations for at least the next 12 months. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect. Furthermore, our operating plans may change, and we may need additional funds sooner than planned. Additionally, the process of testing product candidates in clinical trials is costly, and the timing of progress in these trials is uncertain. Because the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of itolizumab (EQ001) or whether, or when, we may achieve profitability.

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

- the initiation, progress, timing, costs and results of our ongoing and future clinical trials of itolizumab (EQ001), including as such activities may be adversely impacted by the COVID-19 pandemic;
- the number and scope of indications we decide to pursue for itolizumab (EQ001) development;
- the cost, timing and outcome of regulatory review of any Biologics License Application, or BLA, we may submit for itolizumab (EQ001);
- the costs and timing of manufacturing for itolizumab (EQ001), if approved;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
- our efforts to enhance operational systems and our ability to attract, hire and retain qualified personnel, including personnel to support the development of itolizumab (EQ001);
- the costs associated with operating a public company;
- the terms and timing of establishing and maintaining collaborations, licenses and other similar arrangements;
- the extent to which we acquire or in-license other product candidates and technologies; and
- the cost associated with commercializing itolizumab (EQ001), if approved for commercial sale.

Until such time as we can generate substantial product revenues, if ever, we expect to finance our cash needs through a combination of equity offerings, debt financings, and collaboration and license agreements. The sale of additional equity or convertible debt could result in additional dilution to our stockholders and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. The incurrence of debt financing would result in debt service obligations and the governing documents would likely include operating and financing covenants that would restrict our operations. As a result of the COVID-19 pandemic and actions taken to slow its spread, the global credit and financial markets have experienced extreme volatility, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that further deterioration in credit and financial markets and confidence in economic conditions will not occur. If equity and credit markets deteriorate, it may make any necessary debt or equity financing more difficult to obtain, more costly and/or more dilutive. If we raise additional funds through collaboration or license agreements, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us and/or that may reduce the value of our common stock. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or other operations. Any of these actions could have a material effect on our business, financial condition and results of operations. We have experienced net losses and negative cash flows from operating activities since our inception and expect to continue to incur net losses into the foreseeable future. We had an accumulated deficit of $89.1 million as of June 30, 2021. We expect operating losses and negative cash flows to continue for at least the next several years as we continue to incur costs related to the development of itolizumab (EQ001).

Cash Flows

The following table sets forth the primary sources and uses of cash for each of the periods set forth below (in thousands):

	Six Months Ended June 30,	
	2021	**2020**
Net cash provided by (used in):		
Operating activities	$ (14,938)	$ (11,450)
Investing activities	33,827	21,460
Financing activities	30,662	871
Effect of exchange rate changes on cash	(8)	(17)
Net increase in cash and cash equivalents	$ 49,543	$ 10,864

Operating Activities

Net cash used in operating activities was $14.9 million during the six months ended June 30, 2021 as compared to $11.5 million during the six months ended June 30, 2020. The increase in net cash used in operating activities was primarily the result of the increase in operating expenses during the six months ended June 30, 2021 related to a ramp up in our research and clinical development activities.

Investing Activities

Net cash provided by investing activities was $33.8 million during the six months ended June 30, 2021. We purchased $7.6 million of short-term investments, and $41.5 million of our short-term investments matured during the period. Purchases of property and equipment for the six months ended June 30, 2021 totaled $23,000.

Net cash provided by investing activities was $21.5 million during the six months ended June 30, 2020. We purchased $2.2 million of short-term investments, and $23.7 million of our short-term investments matured during the period. Purchases of property and equipment for the six months ended June 30, 2020 totaled $15,000.

Financing Activities

Net cash provided by financing activities totaled $30.7 million during the six months ended June 30, 2021. We received net proceeds from the sale of shares associated with our registered direct offering. totaling $29.9 million as well as from the exercise of stock options totaling $0.6 million and from the issuance of shares under our employee stock purchase plan totaling $0.1 million.

Net cash provided by financing activities totaled $0.9 million during the six months ended June 30, 2020. We received net proceeds from the sale of shares under the 2019 ATM facility totaling $0.8 million and from the issuance of shares under our employee stock purchase plan totaling $0.1 million.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules, and similarly did not and do not have any holdings in variable interest entities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As of June 30, 2021, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2021.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

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

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

Use of Proceeds

On October 11, 2018, our Registration Statement on Form S-1 (file No. 333-227387) was declared effective by the SEC for our initial public offering of common stock. On October 16, 2018, we sold an aggregate of 4,670,000 shares of common stock and on November 2, 2018, we sold an additional 445,097 shares of common stock pursuant to the underwriters' partial exercise of their option to purchase additional shares, each at an offering price of $14.00 per share, for aggregate gross proceeds of approximately $71.6 million. After deducting underwriting discounts, commissions and offering costs incurred by us of approximately $7.1 million, the net proceeds from the offering were approximately $64.5 million. The joint book-running managers for the offering were Jefferies LLC, Leerink Partners LLC and Stifel, Nicolaus & Company, Incorporated. No offering costs were paid or are payable, directly or indirectly, to our directors or officers, to persons owning 10% or more of any class of our equity securities, or to any of our affiliates.

There has been no material change in the expected use of the net proceeds from our IPO as described in our final prospectus filed with the SEC on October 12, 2018. Upon receipt, the net proceeds from our IPO were held in cash, cash equivalents and short-term investments. As of June 30, 2021, we have used $61.0 million of the net proceeds from the IPO. Pending such uses, we plan to continue investing the unused proceeds from the IPO in fixed, non-speculative income instruments and money market funds.

Item 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on October 16, 2018.
3.2	Amended and Restated Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed on October 16, 2018.
4.1	Form of Common Stock Certificate of the Registrant, incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-1 (File No. 333-227387), as amended, originally filed with the Securities and Exchange Commission on September 17, 2018.
4.2	Warrant to Purchase Common Stock, dated September 30, 2019, issued to Oxford Finance LLC, incorporated by reference to Exhibit 4.2 of the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 12, 2019.
4.3	Warrant to Purchase Common Stock, dated September 30, 2019, issued to Silicon Valley Bank, incorporated by reference to Exhibit 4.3 of the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 12, 2019.
4.4	Registration Rights Agreement, dated as of March 27, 2020, by and between the Registrant and Lincoln Park Capital Fund, LLC, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on March 30, 2020.
4.5	Form of Warrant, issued February 5, 2021, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 4, 2021.
10.1	Purchase Agreement between the Company and the Purchasers, dated February 3, 2021, incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 4, 2021.
10.2	Fourth Amendment to Collaboration and License Agreement by and between Registrant and Biocon Limited, dated April 14, 2021, incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 13, 2021.
10.3	Second Amendment to Loan and Security Agreement by and between Registrant and Oxford Finance LLC, dated April 23, 2021, incorporated by reference to Exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 13, 2021.
31.1*	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
31.2*	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
32.1**	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rules 13a-14(b) or 15d-14(b) of the Securities Exchange Act, as amended, and 18 U.S.C. Section 1350.
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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	The cover page for the Company's Quarterly Report on Form 10-Q has been formatted in Inline XBRL and contained in Exhibit 101.

* Filed herewith.

** Furnished herewith.

+ Indicates management contract or compensatory plan.

SIGNATURES

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

Date: August 10, 2021

EQUILLIUM, INC.

By: /s/ Bruce D. Steel
Bruce D. Steel
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jason A. Keyes
Jason A. Keyes
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Bruce D. Steel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Equillium, Inc., a Delaware corporation (the "registrant");

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

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

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

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

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

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

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

Date: August 10, 2021

/s/ Bruce D. Steel

Bruce D. Steel
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Jason A. Keyes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Equillium, Inc., a Delaware corporation (the "registrant");

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

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

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

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

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

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

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

Date: August 10, 2021

/s/ Jason A. Keyes

Jason A. Keyes
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

Certification Pursuant to 18 U.S.C. §1350, as Adopted
Pursuant to §906 of the Sarbanes-Oxley Act of 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), each of the undersigned hereby certifies in his capacity as an officer of Equillium, Inc. (the "Company"), that, to the best of his knowledge:

(1) the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, to which this Certification is attached as Exhibit 32.1 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; 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/ Bruce D. Steel

Bruce D. Steel
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 10, 2021

/s/ Jason A. Keyes

Jason A. Keyes
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 10, 2021

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Equillium, Inc. under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Equillium, Inc. and will be retained by Equillium, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.