

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

(Mark One)

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 001-38473

Evelo Biosciences, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

46-5594527
(I.R.S. Employer
Identification No.)

620 Memorial Drive
Cambridge, Massachusetts
(Address of principal executive offices)

02139
(Zip Code)

(617) 577-0300
(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	EVLO	Nasdaq Global Select Market

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

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

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

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

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

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

As of July 31, 2019, the registrant had 32,059,427 shares of common stock, \$0.001 par value per share, outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, business strategy, prospective products, product approvals, research and development costs, timing and likelihood of success, expected timing of the release of clinical trial data, new formulations and product candidates, plans and objectives of management for future operations and future results of anticipated products, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential" or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described under the sections in this Quarterly Report on Form 10-Q entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q. These forward-looking statements are subject to numerous risks, including, without limitation, the following:

- our status as a development-stage company and our expectation to incur losses in the future;
- our future capital needs and our need to raise additional funds;
- our ability to build a pipeline of product candidates and develop and commercialize drugs;
- our unproven approach to therapeutic intervention;
- our ability to enroll patients and volunteers in clinical trials, timely and successfully complete those trials and receive necessary regulatory approvals;
- our ability to establish our own manufacturing facilities and to receive or manufacture sufficient quantities of our product candidates;
- our ability to protect and enforce our intellectual property rights;
- federal, state, and foreign regulatory requirements, including FDA regulation of our product candidates;
- the timing of clinical trials and the likelihood of regulatory filings and approvals;
- our ability to obtain and retain key executives and attract and retain qualified personnel; and
- our ability to successfully manage our growth.

Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties.

As forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not occur or be achieved, and actual results could differ materially from those projected in the forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Evelo Biosciences, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands, except per share and share amounts)

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 109,475	\$ 93,101
Short-term investments	3,998	54,818
Prepaid expenses and other current assets	3,825	3,703
Total current assets	117,298	151,622
Property and equipment, net	7,488	6,925
Other assets	1,422	1,320
Total assets	\$ 126,208	\$ 159,867
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,693	\$ 1,519
Accrued expenses	6,914	4,965
Other current liabilities	282	2,751
Total current liabilities	9,889	9,235
Noncurrent liabilities:		
Long-term debt, net of current portion	14,856	12,305
Deferred rent, net of current portion	1,123	1,071
Other noncurrent liabilities	252	307
Total liabilities	26,120	22,918
Commitments and contingencies		
Stockholder's equity:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2019 and December 31, 2018, respectively	—	—
Common stock, \$0.001 par value; 200,000,000 shares authorized; 32,134,440 and 31,951,540 shares issued and 32,045,706 and 31,825,769 shares outstanding at June 30, 2019 and December 31, 2018, respectively	32	32
Additional paid-in capital	254,676	250,316
Accumulated other comprehensive loss	1	(18)
Accumulated deficit	(154,621)	(113,381)
Total stockholders' equity	100,088	136,949
Total liabilities and stockholders' equity	\$ 126,208	\$ 159,867

See accompanying notes to condensed consolidated financial statements.

Evelo Biosciences, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited, in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating expenses:				
Research and development	\$ 15,464	\$ 10,172	\$ 31,141	\$ 17,315
General and administrative	5,923	5,056	11,050	8,338
Total operating expenses	<u>21,387</u>	<u>15,228</u>	<u>42,191</u>	<u>25,653</u>
Loss from operations	(21,387)	(15,228)	(42,191)	(25,653)
Other income (expense):				
Interest income, net	446	367	951	413
Other expenses	—	(285)	—	(406)
Other income, net	<u>446</u>	<u>82</u>	<u>951</u>	<u>7</u>
Net loss	\$ (20,941)	\$ (15,146)	\$ (41,240)	\$ (25,646)
Convertible preferred stock dividends	—	(1,520)	—	(3,937)
Net loss attributable to common stockholders	<u>\$ (20,941)</u>	<u>\$ (16,666)</u>	<u>\$ (41,240)</u>	<u>\$ (29,583)</u>
Net loss per share attributable to common stockholders, basic and diluted				
	\$ (0.65)	\$ (0.85)	\$ (1.29)	\$ (2.50)
Weighted-average number of common shares outstanding, basic and diluted				
	<u>32,041,401</u>	<u>19,626,985</u>	<u>31,983,558</u>	<u>11,818,302</u>
Comprehensive loss:				
Net loss	\$ (20,941)	\$ (15,146)	\$ (41,240)	\$ (25,646)
Other comprehensive loss:				
Unrealized gain (loss) on investments, net of tax of \$0	3	—	19	—
Comprehensive loss	<u>\$ (20,938)</u>	<u>\$ (15,146)</u>	<u>\$ (41,221)</u>	<u>\$ (25,646)</u>

See accompanying notes to condensed consolidated financial statements.

Evelo Biosciences, Inc.
Condensed Consolidated Statements of Preferred Stock and Stockholders' Equity
(Unaudited, in thousands, except share amounts)

Six Month Periods Ended June 30, 2019

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance-December 31, 2018	—	\$ —	31,825,769	\$ 32	\$ 250,316	\$ (18)	\$ (113,381)	\$ 136,949
Vesting of restricted common stock	—	—	23,345	—	7	—	—	7
Exercise of stock options and warrants	—	—	181,521	—	257	—	—	257
Stock-based compensation expense	—	—	—	—	1,953	—	—	1,953
Unrealized gain on investments	—	—	—	—	—	16	—	16
Net loss	—	—	—	—	—	—	(20,299)	(20,299)
Balance-March 31, 2019	—	\$ —	32,030,635	\$ 32	\$ 252,533	\$ (2)	\$ (133,680)	\$ 118,883
Vesting of restricted common stock	—	—	13,692	—	7	—	—	7
Exercise of stock options	—	—	1,379	—	1	—	—	1
Stock-based compensation expense	—	—	—	—	2,135	—	—	2,135
Unrealized gain on investments	—	—	—	—	—	3	—	3
Net loss	—	—	—	—	—	—	(20,941)	(20,941)
Balance-June 30, 2019	—	\$ —	32,045,706	\$ 32	\$ 254,676	\$ 1	\$ (154,621)	\$ 100,088

See accompanying notes to condensed consolidated financial statements.

Evelo Biosciences, Inc.
Condensed Consolidated Statements of Convertible Preferred Stock, Preferred Stock and Stockholders' Equity (Deficit)
(Unaudited, in thousands, except share amounts)

	Six Month Periods Ended June 30, 2018									
	Convertible Preferred Stock		Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance-December 31, 2017	65,833,096	\$ 83,702	—	\$ —	3,880,607	\$ 4	\$ 1,708	\$ —	\$ (56,435)	\$ (54,723)
Issuance of Series B and Series C Preferred Stock, net of issuance costs	25,482,199	82,076	—	—	—	—	—	—	—	—
Vesting of restricted common stock	—	—	—	—	31,557	—	11	—	—	11
Exercise of stock options and warrants	—	—	—	—	31,765	—	35	—	—	35
Stock-based compensation expense	—	—	—	—	—	—	652	—	—	652
Net loss	—	—	—	—	—	—	—	—	(10,500)	(10,500)
Balance-March 31, 2018	<u>91,315,295</u>	<u>\$ 165,778</u>	<u>—</u>	<u>\$ —</u>	<u>3,943,929</u>	<u>\$ 4</u>	<u>\$ 2,406</u>	<u>\$ —</u>	<u>\$ (66,935)</u>	<u>\$ (64,525)</u>
Proceeds from Initial Public Offering, net of underwriting costs and commissions	—	—	—	—	5,312,500	5	75,793	—	—	75,798
Conversion of preferred stock into common stock	(91,315,295)	(165,778)	—	—	22,386,677	22	165,756	—	—	165,778
Reclassification of warrant liability	—	—	—	—	—	—	879	—	—	879
Vesting of restricted common stock	—	—	—	—	31,572	—	11	—	—	11
Exercise of stock options and warrants	—	—	—	—	51,408	1	4	—	—	5
Stock-based compensation expense	—	—	—	—	—	—	2,247	—	—	2,247
Unrealized gain on investments	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	\$ (15,146)	\$ (15,146)
Balance-June 30, 2018	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>31,726,086</u>	<u>\$ 32</u>	<u>\$ 247,096</u>	<u>\$ —</u>	<u>\$ (82,081)</u>	<u>\$ 165,047</u>

See accompanying notes to condensed consolidated financial statements.

Evelo Biosciences, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2019	2018
Operating activities		
Net loss	\$ (41,240)	\$ (25,646)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	4,088	2,899
Depreciation expense	803	1,252
Change in fair value of warrant and debt derivative liability		406
Net (accretion of discount)/amortization of premium on marketable securities	(161)	—
Non-cash interest expense	51	51
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(144)	(1,443)
Accounts payable	1,324	(187)
Accrued expenses and other current liabilities	1,920	3,188
Other liabilities	10	317
Net cash used in operating activities	(33,349)	(19,163)
Investing activities		
Proceeds from sales and maturities of investments	51,000	—
Purchases of property and equipment	(1,480)	(2,663)
Net cash provided by/(used in) investing activities	49,520	(2,663)
Financing activities		
Proceeds from the issuance of common stock upon completion of initial public offering	—	85,000
Net proceeds from the issuance of convertible preferred stock	—	81,336
Net proceeds from the issuance of long-term debt	—	4,975
Cash payment of deferred financing and offering costs	(56)	(8,678)
Settlement of derivative liability	—	(250)
Proceeds from the exercise of stock options, restricted common stock and warrants	259	99
Net cash provided by financing activities	203	162,482
Net increase in cash, cash equivalents and restricted cash	16,374	140,656
Cash, cash equivalents and restricted cash – beginning of period	94,351	39,746
Cash, cash equivalents and restricted cash – end of period	\$ 110,725	\$ 180,402
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 436	\$ 334
Noncash investing and financing activities		
Conversion of convertible preferred stock into common stock upon closing of initial public offering	\$ —	\$ 165,778
Property and equipment additions in accounts payable and accrued expenses	\$ 211	\$ 1,089
Deferred financing and initial public offering costs in accounts payable and accrued expenses	\$ 46	\$ 508
Conversion of convertible preferred stock warrants into common stock warrants	\$ —	\$ 819
Issuance of debt derivative liability in connection with long-term debt facility	\$ —	\$ 150
Issuance of warrants in connection with long-term debt facility	\$ —	\$ 89

See accompanying notes to the condensed consolidated financial statements.

EVELO BIOSCIENCES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****1. Organization**

Evelo Biosciences, Inc. ("Evelo" or the "Company") is a biotechnology company which was incorporated in Delaware on May 6, 2014. The Company is discovering and developing potential therapies designed to engage immune cells in the small intestine and drive therapeutic effects throughout the body. The Company is advancing these monoclonal antibodies with the aim of treating a broad range of immune mediated diseases with an initial focus on inflammatory diseases and oncology. The Company is headquartered in Cambridge, Massachusetts.

Since inception, the Company has devoted substantially all of its efforts to research and development and raising capital. The Company has not generated any revenue related to its primary business purpose to date. The Company is subject to a number of risks similar to those of other development stage companies, including dependence on key individuals, the need to develop commercially viable products, competition from other companies, many of whom are larger and better capitalized, and the need to obtain adequate additional financing to fund the development of its products.

The Company has funded its operations from the issuance of convertible notes, convertible preferred stock, common stock and debt financing. At June 30, 2019, the Company had cash, cash equivalents and short-term investments of \$113.5 million and an accumulated deficit of \$154.6 million.

The Company has incurred operating losses since inception and expects such losses and negative operating cash flows to continue for the foreseeable future. The transition to profitability is dependent upon the successful development, approval, and commercialization of its products and product candidates and the achievement of a level of revenues adequate to support its cost structure. Based on the Company's current operating plan, the Company believes that its cash, cash equivalents and short-term investments at June 30, 2019 will be sufficient to fund operations and capital expenditures for at least the twelve months following the filing of this Quarterly Report on Form 10-Q. Management's belief with respect to its ability to fund operations is based on estimates that are subject to risks and uncertainties. If actual results are different from management's estimates, the Company may need to seek additional funding sooner than would otherwise be expected. There can be no assurance that the Company will be able to obtain additional funding on acceptable terms, if at all.

2. Summary of Significant Accounting Policies**Basis of Presentation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standard Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from this report, as is permitted by such rules and regulations. Accordingly, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and notes thereto. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited financial statements. In the opinion of the Company's management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments which are necessary to present fairly the Company's financial position as of June 30, 2019, the results of its operations and stockholders' equity for the three and six months ended June 30, 2019 and 2018 and cash flows for the six months ended June 30, 2019 and 2018. Such adjustments are of a normal and recurring nature. The results for the three and six months ended June 30, 2019 are not necessarily indicative of the results for the year ending December 31, 2019, or for any future period.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates and assumptions reflected in these condensed consolidated financial statements include, but are not limited to, the accrual of research and development expenses and the valuation of stock-based awards. The Company bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned, controlled subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Subsequent Event Considerations

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the consolidated financial statements to provide additional evidence for certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated as required. The Company has evaluated all subsequent events and determined that there are no material recognized or unrecognized subsequent events requiring disclosure, other than those disclosed in this Quarterly Report on Form 10-Q.

Emerging Growth Company Status

Evelo is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and it may take advantage of reduced reporting requirements that are otherwise applicable to public companies. Evelo may take advantage of these exemptions until it is no longer an emerging growth company. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. Evelo has elected to use the extended transition period for complying with new or revised accounting standards, and, as a result of this election, its consolidated financial statements may not be comparable to companies that comply with public company effective dates. Evelo may take advantage of these exemptions up until the last day of the fiscal year following the fifth anniversary of its IPO or such earlier time that it is no longer an emerging growth company. Evelo would cease to be an emerging growth company if it has more than \$1.07 billion in annual revenue, it has more than \$700.0 million in market value of its stock held by non-affiliates (and has been a public company for at least 12 months and has filed one annual report on Form 10-K), or it has issued more than \$1.0 billion of non-convertible debt securities over a three-year period.

Comprehensive Loss

Comprehensive loss includes net loss and certain changes in stockholders' equity that are excluded from net loss. The Company's only element of other comprehensive income (loss) is unrealized gains and losses on available-for-sale investments. Comprehensive loss totaled \$20.9 million and \$41.2 million for the three and six months ended June 30, 2019, respectively, and \$15.1 million and \$25.6 million for the three and six months ended June 30, 2018, and was not significantly different than net loss in any period. For the three and six months ended June 30, 2018 comprehensive loss was equal to net loss.

Cash, Cash Equivalents, and Restricted Cash

Cash equivalents are comprised of highly liquid investments that are readily convertible into cash with original maturities of three months or less. Cash and cash equivalents include cash held in banks and amounts held in money market funds and U.S. treasuries with original maturities of three months or less. Cash equivalents are stated at cost, which approximates market value. The Company's restricted cash consists of restricted cash in connection with building leases for the Company's office and laboratory premises. Restricted cash totaled approximately \$1.3 million at both June 30, 2019 and December 31, 2018 and is classified within other assets on the accompanying condensed consolidated balance sheet. The following reconciles cash, cash equivalents and restricted cash as of June 30, 2019 and December 31, 2018, as presented on the Company's statements of cash flows, to its related balance sheet accounts (in thousands):

	June 30, 2019	December 31, 2018
Cash and cash equivalents:		
Cash	\$ 1,214	\$ 1,300
Money market funds	108,261	91,801
Total cash and cash equivalents	109,475	93,101
Restricted cash	1,250	1,250
Cash, cash equivalents and restricted cash	\$ 110,725	\$ 94,351

Investments

The Company accounts for and classifies its investments as either “available-for-sale,” “trading,” or “held-to-maturity,” in accordance with the accounting guidance related to the accounting and classification of certain investments in debt and equity securities. The determination of the appropriate classification is based primarily on management’s intent to sell the investment at the time of purchase. As of June 30, 2019, all of the Company’s investments were classified as available-for-sale securities.

Available-for-sale securities are those securities which the Company views as available for use in current operations, if needed. The Company generally classifies its available-for-sale securities as short-term investments, even though the stated maturity date may be one year or more beyond the current balance sheet date. Available-for-sale investments are stated at fair value with their unrealized gains and losses included in accumulated other comprehensive loss within stockholders’ (deficit) equity, until such gains and losses are realized in other income (expense) within the condensed consolidated statements of operations and comprehensive loss or until an unrealized loss is considered other-than-temporary.

The Company recognizes other-than-temporary impairments of its investments in debt securities when there is a decline in fair value below the amortized cost basis and if (a) it has the intent to sell the security or (b) it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost basis. If either of these conditions is met, the Company recognizes the difference between the amortized cost of the security and its fair value at the impairment measurement date in the condensed consolidated statements of operations and comprehensive loss. If neither of these conditions is met, the Company must perform additional analyses to evaluate whether the unrealized loss is associated with the creditworthiness of the issuer of the security rather than other factors, such as interest rates or market factors. If the Company determines from this analysis that it does not expect to receive cash flows sufficient to recover the entire amortized cost of the security, a credit loss exists, the impairment is considered other-than-temporary and is recognized in its condensed consolidated statements of operations and comprehensive loss.

Fair Value of Financial Instruments

ASC 820, Fair Value Measurement (“ASC 820”), establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company’s own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy that distinguishes between the following:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs that reflect the Company’s own assumptions about the assumptions market participants would use in pricing the asset or liability.

To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

An entity may choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company did not elect to measure any additional financial instruments or other items at fair value.

Research and Development Costs

Research and development costs are expensed in the period incurred. Research and development expenses consist of both internal and external costs such as payroll, consulting, and manufacturing costs associated with the development of the Company's product candidates. Costs for certain development activities, such as clinical trials and manufacturing development activities, are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations, and information provided to the Company by its vendors on their actual costs incurred or level of effort expended. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected on the consolidated balance sheets as prepaid or accrued research and development expenses.

Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts are expensed as the related goods are delivered or the services are performed.

The Company has and may continue to acquire the rights to develop and commercialize new product candidates from third parties. The upfront payments to acquire license, product or rights, as well as any future milestone payments, are immediately recognized as research and development expense provided that there is no alternative future use of the rights in other research and development projects. Any milestone payments made for Intellectual Property after regulatory approval, or that have alternative future use, are capitalized and amortized.

Stock-Based Compensation

The Company records stock-based compensation for options granted to employees and directors based on the grant date fair value of awards issued. The expense is recorded over the requisite service period, which is the vesting period, on a straight-line basis. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options. The determination of the fair value of stock options on the date of grant using an option-pricing model is affected by the Company's common stock price, as well as a number of other assumptions. The Company records forfeitures as they occur.

The Company accounts for stock-based compensation arrangements with non-employees based upon the fair value of the consideration received or the equity instruments issued, whichever is more reliably measurable. The measurement date for non-employee awards is generally the date performance of services required from the non-employee is complete. Stock-based compensation costs for non-employee awards are recognized as services are provided, which is generally the vesting period, on a straight-line basis. The unvested portion of the stock options is subject to re-measurement over the vesting period and forfeitures are recorded as they occur.

Segments

The Company has one operating segment. The Company's chief operating decision maker, its Chief Executive Officer, manages the Company's operations on a consolidated basis for the purposes of allocating resources.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU 2014-09"), and further updated through ASU 2016-12 ("ASU 2016-12"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount to which an entity expects to be entitled when products are transferred to customers. This guidance is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2017, for public entities and no later than for annual reporting periods beginning after December 15, 2018, for non-public entities. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company adopted ASU 2014-09 on January 1, 2019 and has concluded that the adoption did not have a material impact on its consolidated financial statements as the Company is not yet generating revenues.

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements* (Topic 808)-Clarifying the Interaction between Topic 808 and Topic 606 ("ASU 2018-18"). The amendments in ASU 2018-18 make targeted improvements to U.S. GAAP for collaborative arrangements by clarifying that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of a unit of account. In those situations, all the guidance in Topic 606 should be applied, including recognition, measurement, presentation, and disclosure requirements. In addition, unit-of-account guidance in Topic 808 was aligned with the guidance in Topic 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of Topic 606. ASU 2018-18 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments in this Update should be applied retrospectively to the date of initial application of Topic 606. The Company adopted ASU 2018-18 on January 1, 2019 and has concluded the adoption did not have a material impact on its consolidated financial statements as the Company does not have any collaborative agreements under which any participant is considered a customer of the Company.

Accounting Pronouncements Issued and Not Adopted as of June 30, 2019

In February 2016, the FASB issued ASU 2016-2, *Leases* (Topic 842) ("ASU 2016-2"), which supersedes the guidance in former ASC 840, *Leases*. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to the historical guidance for operating leases. This guidance is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018 for most public entities. Early adoption is permitted for all entities. Although its assessment is not complete, the Company currently expects the adoption of this guidance to result in the addition of material balances of leased assets and corresponding lease liabilities to its consolidated balance sheets, primarily relating to leases of office space.

In June 2018, the FASB issued ASU No. 2018-07, *Stock-based Compensation: Improvements to Nonemployee Share-based Payment Accounting* (Topic 718) ("ASU 2018-07"), which amends the existing accounting standards for share-based payments to nonemployees. This ASU aligns much of the guidance on measuring and classifying nonemployee awards with that of awards to employees. Under the new guidance, the measurement of nonemployee equity awards is fixed on the grant date. This ASU becomes effective in the first quarter of fiscal year 2020 and early adoption is permitted but no earlier than the Company's adoption date of Topic 606. Entities will apply the ASU by recognizing a cumulative-effect adjustment to retained earnings as of the beginning of the annual period of adoption. The Company is currently evaluating the impact that ASU 2018-07 will have on its consolidated financial statements.

3. Investments

As of June 30, 2019 and December 31, 2018, the Company had short-term investments, consisting entirely of U.S. treasury securities, of \$4.0 million and \$54.8 million, respectively.

The following tables summarize the Company's investments held at June 30, 2019 and December 31, 2018, which are all classified as available-for-sale (in thousands):

Description	Amortized cost	Unrealized Gain	Unrealized Loss	Fair Value
June 30, 2019:				
U.S. treasury securities	\$ 3,997	\$ 1	\$ —	\$ 3,998
Total	\$ 3,997	\$ 1	\$ —	\$ 3,998

Description	Amortized cost	Unrealized Gain	Unrealized Loss	Fair Value
December 31, 2018:				
U.S. treasury securities	\$ 54,836	\$ —	\$ (18)	\$ 54,818
Total	\$ 54,836	\$ —	\$ (18)	\$ 54,818

The amortized cost of available-for-sale securities is adjusted for amortization of premiums and accretion of discounts to maturity. At June 30, 2019 the balance in the Company's accumulated other comprehensive loss was comprised of activity related to the Company's available-for-sale investments. There were no material realized gains or losses recognized on the sale or maturity of available-for-sale securities during the three and six months ended June 30, 2019 or 2018, and as a result, the Company did not reclassify any amounts out of accumulated other comprehensive loss for the same periods.

As of June 30, 2019 and December 31, 2018, the aggregate fair value of securities held by the Company in an unrealized loss position for less than twelve months was \$4.0 million and \$54.8 million, respectively, and none of these securities had remaining maturities of greater than three years. The Company has the intent and ability to hold such securities until recovery. The Company determined that there has been no material change in the credit risk of the above investments. As a result, the Company determined it did not hold any investments with any other-than-temporary impairment as of June 30, 2019 or December 31, 2018.

4. Fair Value Measurements

The following tables present information about the Company's financial assets and liabilities that have been measured at fair value as of June 30, 2019 and December 31, 2018 (in thousands):

Description	June 30, 2019	Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Money market funds included within cash and cash equivalents	\$ 108,261	\$ 108,261	\$ —	\$ —
U.S. treasury securities included within short-term investments	3,998	—	3,998	—
Total	\$ 112,259	\$ 108,261	\$ 3,998	\$ —

Description	December 31, 2018	Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Money market funds included within cash and cash equivalents	\$ 91,801	\$ 91,801	\$ —	\$ —
U.S. treasury securities included within short-term investments	54,818	—	54,818	—
Total	\$ 146,619	\$ 91,801	\$ 54,818	\$ —

As of June 30, 2019 and December 31, 2018, the Company's cash equivalents and short-term investments have been initially valued at the transaction price and subsequently valued utilizing a third party pricing service. The Company validates the prices provided by its third-party pricing service by understanding the models used and obtaining market values from other pricing sources.

5. Property and Equipment, Net

Property and equipment consists of the following (in thousands):

	June 30, 2019	December 31, 2018
Property and equipment:		
Lab equipment	\$ 6,786	\$ 5,393
Leasehold improvements	1,944	1,824
Furniture and fixtures	698	525
Computers and software	198	115
Office equipment	9	9
Construction-in-process	608	1,011
Property and equipment	10,243	8,877
Less: accumulated depreciation	(2,755)	(1,952)
Property and equipment, net	\$ 7,488	\$ 6,925

The Company recognized \$0.4 million and \$0.8 million of depreciation expense for the three and six months ended June 30, 2019, respectively, and \$0.7 million and \$1.3 million for the three and six months ended June 30, 2018, respectively.

6. Loan and Security Agreements

The Company has a credit facility (the "2016 Credit Facility") with a bank that allows the Company to borrow up to \$15.0 million. Borrowings under the 2016 Credit Facility are secured by a lien on all Company assets, excluding intellectual property.

In February 2018, the Company drew the remaining \$5.0 million available under the 2016 Credit Facility. This resulted in an increase to the interest rate to the higher of (i) prime plus 0.25% or (ii) 4.50% per annum. The interest only payment period was extended through to August 15, 2019. Upon the expiration of the interest only period, amounts borrowed will be repaid over 24 equal monthly payments of principal plus interest accrued through August 15, 2021. The Company has the ability to prepay the outstanding balance of the 2016 Credit Facility at its option with a prepayment fee of 2% of principal amount if prepayment was made before August 15, 2018 or 0.5% if the prepayment is made between August 15, 2018 and August 15, 2019.

In conjunction with the February 2018 drawdown, the Company issued a warrant to purchase up to 34,722 shares of the Company's Series B preferred stock at an exercise price of \$1.80 per share. As part of the February 2018 drawdown, the loan and security agreement was amended to include the payment of a \$0.3 million success fee to the financial institution in the event of a liquidation event, including an initial public offering. The success fee represented an embedded derivative which the Company bifurcated from the debt arrangement and carried at fair value. In May 2018,

the Company completed its IPO and paid the success fee of \$0.3 million. In addition, the warrant issued in February 2018 was exercised in May 2018.

The Company has the following minimum aggregate future loan payments at June 30, 2019 (in thousands):

Twelve month period ending June 30,	Amount
2020	\$ 6,978
2021	7,805
2022	1,259
Total minimum payments	\$ 16,042
Less amounts representing interest and discount	(1,186)
Long-term debt	\$ 14,856

The 2016 Credit Facility contains negative covenants restricting the Company's activities, including limitations on cash deposits, dispositions, mergers or acquisitions, incurring indebtedness or liens, paying dividends or making investments and certain other business transactions. There are no financial covenants associated with the agreement. The obligations under the agreement are subject to acceleration upon the occurrence of specified events of default, including a material adverse change in the Company's business, operations or financial or other condition. The Company has determined that the risk of subjective acceleration under the material adverse events clause is remote and therefore has classified the long-term portion of the outstanding principal in non-current liabilities.

Interest expense related to the Company's 2016 Credit Facility was approximately \$0.2 million and \$0.4 million for the three and six months ended June 30, 2019 and 2018, respectively.

On July 19, 2019, the Company repaid the entire loan balance outstanding under the 2016 Credit Facility, plus a prepayment fee of approximately \$0.1 million, using the proceeds from a new debt facility discussed in Note 14. As the Company effectively refinanced the outstanding balance of the 2016 Credit Facility, the Company has classified the entire balance of the 2016 Credit Facility as long term on the condensed consolidated balance sheet.

7. In-License Agreements

Mayo Foundation for Medical Education and Research

On June 10, 2016, the Company entered into a Research and License Agreement, (the "2016 Mayo License Agreement") with Mayo Foundation for Medical Education and Research ("Mayo"). Under the Mayo License Agreement, Mayo was entitled to certain participation rights in connection with the issuance and sale of Series B Preferred Stock. The 2016 Mayo License Agreement allowed Mayo to purchase shares at the same price paid as other investors and is considered to be a fair value contract. In 2017, Mayo purchased 1,666,667 shares of Series B Preferred Stock at \$1.80 per share. Also pursuant to the 2016 Mayo License Agreement, Mayo received 490 shares of common stock upon the completion of certain project milestones as well as warrants to purchase common stock (the "Mayo Warrants") exercisable for 18 shares and 116 shares of common stock upon the completion of certain additional project milestones. The Mayo Warrants were fully vested and expensed in 2016. On April 9, 2018, Mayo Foundation exercised its warrant and was issued 134 shares of common stock.

On August 6, 2017, the Company and Mayo entered into a license agreement ("2017 Mayo License Agreement"). Under the 2017 Mayo License Agreement, Mayo granted the Company (i) an exclusive, worldwide, sublicensable license under Mayo's rights to certain intellectual property and microbial strains (ii) a non-exclusive, worldwide, sublicensable license to certain related know-how, in each case, to develop and commercialize certain microbial strains and licensed products incorporating any such strains. As consideration, the Company paid a nonrefundable upfront fee of \$0.2 million and annual license maintenance fees. Nonrefundable upfront fees were expensed in full to research and development expense in 2017. Annual maintenance fees will be expensed as incurred over the term of the agreement. The Company may owe Mayo milestone payments upon the achievement of certain development, regulatory, and commercial milestones, up to a maximum of \$56.0 million in the aggregate, as well as royalties on net sales of licensed products in low single-digit percentages. As of June 30, 2019, the Company has incurred milestone payments to date totaling approximately \$0.2 million under the agreement of which no amounts are currently due.

University of Chicago

On March 10, 2016, the Company and the University of Chicago entered into a patent license agreement (“2016 University of Chicago Agreement”). Under the 2016 University of Chicago Agreement, the University of Chicago granted the Company (i) an exclusive, royalty-bearing and sublicensable license under the Licensed Patents and (ii) a non-exclusive, royalty-bearing, sublicensable license to access the technical information to diligently develop and commercialize Licensed Products. As consideration, the Company paid a nonrefundable upfront fee of less than \$0.5 million and will pay annual license maintenance fees. Nonrefundable upfront fees were expensed in full to research and development expense in 2016. Annual maintenance fees will be expensed as incurred over the term of the agreement. The Company may owe the University of Chicago milestone payments, totaling an aggregate of approximately \$60.9 million upon the achievement of certain development, regulatory, and commercial milestones, as well as royalties on net sales of licensed products ranging from low to high single-digit percentages. In addition, the Company also agreed to pay the University of Chicago a share of sublicense revenue. The University of Chicago maintains control of patent prosecution, defense and maintenance on their patent rights. The Company has the first right, but not obligation, to control any post-grant proceedings and to take action in the prosecution or prevention of any infringement by a third party to patent rights. The Company is responsible for reimbursing the University of Chicago, or directly paying, for patent prosecution, defense and/or maintenance costs incurred. This includes any costs associated with defense activities related to one of the patents underlying the 2016 University of Chicago Agreement and to which in April 2019 the United States Patent and Trademark Office instituted a post-grant review based on a petition from a third party. As of June 30, 2019, the Company has incurred milestone payments to date totaling approximately \$0.4 million.

8. Commitments and Contingencies**Lease Obligations**

In January 2018, the Company entered into an operating sublease arrangement to lease approximately 40,765 square feet for its office and research development space at 620 Memorial Drive, Cambridge, MA 02139 from February 2018 to September 2025. The Company maintains an additional separate operating lease for office and laboratory space that is scheduled to expire in 2020. The leases require security deposits, which the Company has primarily met with letters of credit from a financial institution that are secured with cash on deposit.

In June 2018, the Company entered into a sublease arrangement with a third party to lease space subject to an operating lease that is scheduled to expire in 2020. The future minimum rental payments to be received under this agreement total \$0.4 million and are equivalent to the minimum payments due from the Company to the landlord.

The Company recorded rent expense of \$0.7 million and \$1.4 million for the three and six months ended June 30, 2019, respectively. Rent expense for the three and six months ended June 30, 2019 is net of sublease rental income of \$0.1 million and \$0.3 million, respectively. Rent expense totaled \$0.8 million and \$1.5 million for the three and six months ended June 30, 2018.

The minimum aggregate future lease commitments, exclusive of any offsetting sublease rental payments, at June 30, 2019, are as follows (in thousands):

Twelve month period ending June 30,	Amount
2020	\$ 3,287
2021	2,929
2022	3,017
2023	3,085
2024	3,201
Thereafter	4,128
	<u>\$ 19,647</u>

Collaboration Agreement with Sacco S.r.l.

In July 2019, the Company entered into a Collaboration Agreement with Sacco S.r.l. ("Sacco"), an affiliate of one of the Company's existing contract manufacturing organizations, pursuant to which and subject to certain exceptions for pre-existing products for pre-existing customers, Sacco will manufacture and supply single strain, non-genetically modified microbes intended for oral delivery or oral use in pharmaceutical products exclusively for the Company for a period of five years. Sacco may terminate the agreement if the provision of manufacturing services has been, or is scheduled to be, inactive for a period of six consecutive months. The Company has agreed to pay Sacco an aggregate of €3.0 million, €0.6 million annually, during the exclusivity period. The Company has not recognized any expense associated with this agreement as of June 30, 2019.

Equipment Funding Arrangement

In July 2019, the Company entered into an arrangement with one of its external manufacturing partners providing the Company with priority access to future manufacturing services which will be rendered using certain dedicated equipment. In return for such access, the Company committed to provide funding for the purchase of the dedicated equipment in an aggregate amount of £0.8 million, £0.4 million of which to be paid upfront and, subject to the manufacturer's installation and qualification of the equipment, an additional two installments of £0.2 million will be paid in January and April 2020.

Biose Industrie

On February 15, 2018, the Company entered into an Exclusivity and Commitment Agreement with Biose Industrie ("Biose"), a French corporation, in which Biose has agreed to exclusively manufacture certain microbial biotherapeutic products for the Company and reserve agreed upon manufacturing resources to conduct manufacturing runs for such products. Under the terms of this agreement, the Company agreed to annual fees in the mid-six digits in consideration of both exclusivity for the manufacture of monoclonal microbials and for a set minimum number of manufacturing runs per year. Exclusivity fees paid and any minimum commitments are expensed as incurred. The Company has agreed to pay an exclusivity fee of \$0.3 million per year.

Litigation and Other Proceedings

The Company may periodically become subject to legal proceedings and claims arising in connection with on-going business activities, including claims or disputes related to patents that have been issued or that are pending in the field of research on which the Company is focused. The Company is not a party to any material litigation and does not have contingency reserves established for any litigation liabilities.

In April 2019, the United States Patent and Trademark Office ("USPTO"), granted a third party petition to initiate a post-grant review of a patent issued to the University of Chicago, to which the Company has an exclusive license from the University of Chicago. Although the Company believes that the subject patent is valid, there is a possibility that the USPTO could invalidate the patent or require the University of Chicago to narrow the claims contained in the patent. Under the terms of the license agreement, the Company is responsible for reimbursing the University of Chicago for patent defense costs.

9. Stockholders' Equity and Convertible Preferred Stock

Common Stock

On April 27, 2018, the Company filed an amendment to its certificate of incorporation with the Secretary of State of the State of Delaware, to effect a 1-for-4.079 reverse stock split of the Company's common stock. All share and per share data shown in the accompanying condensed consolidated financial statements and related notes have been retroactively revised to reflect the reverse stock split.

On May 11, 2018, the Company completed an IPO of 5,312,500 shares of its common stock for aggregate gross proceeds of \$85.0 million. The Company received approximately \$75.8 million in net proceeds after deducting underwriting discounts and commissions and other estimated offering expenses payable by the Company. Upon closing of the IPO, all of the outstanding shares of convertible preferred stock automatically converted into 22,386,677 shares of common stock at the applicable conversion ratio then in effect.

On May 11, 2018, the Company filed a restated certificate of incorporation with the Secretary of the State of Delaware, which became effective in connection with the closing of the IPO. Pursuant to the restated certificate of incorporation, the Company is authorized to issue 200,000,000 shares of common stock and 10,000,000 shares of preferred stock.

On June 3, 2019, the Company filed a Registration Statement on Form S-3 (File No. 333-231911) (the "Shelf") with the SEC in relation to the registration of common stock, preferred stock, debt securities, warrants and/or units of any combination thereof in the aggregate amount of up to \$200.0 million for a period up to three years from the date of the filing. The Company also simultaneously entered into a sales agreement with Cowen and Company, LLC, as sales agent, providing for the offering, issuance and sale by the Company of up to an aggregate \$50.0 million of its common stock from time to time in "at-the-market" offerings under the Shelf. As of June 30, 2019, no securities have been issued pursuant to the sales agreement.

Convertible Preferred Stock

Upon closing of the IPO in May 2018, all 91,315,295 outstanding shares of the Series A, Series A-1, Series A-2, Series A-3, Series B and Series C Preferred Stock (collectively, the "Preferred Stock") automatically converted into 22,386,677 shares of the Company's common stock at the applicable conversion ratio of 1-for-4.079. Prior to conversion, all shares of Preferred Stock accrued a cumulative dividend of 8% per annum. Dividends for the applicable periods are included in net loss attributable to common shareholders on the condensed consolidated statement of operations through the conversion date. All accrued dividends earned on Preferred Stock were forfeited as of the conversion.

In February and March 2018, the Company issued a total of 25,232,199 shares of Series C Preferred Stock at purchase price of \$3.23 for gross proceeds of \$81.5 million under the same terms as the Series B Preferred Stock.

10. Stock-Based Compensation

2018 Incentive Award Plan

The Company's board of directors adopted on April 18, 2018, and the Company's stockholders approved, the 2018 Incentive Award Plan (the "2018 Plan"), which became effective May 8, 2018 and under which the Company may grant cash and equity-based incentive awards to the Company's employees, officers, directors, consultants and advisors. Following the effectiveness of the 2018 Plan, the Company ceased making grants under the 2015 Stock Incentive Plan (as amended the "2015 Plan"). The 2018 Plan allows the Company to grant awards for up to 1,344,692 shares of common stock plus that number of shares of common stock subject to awards outstanding under the 2015 Plan, that are forfeited, lapse unexercised or are settled in cash. Each year starting with 2019, the number of shares available for grants of awards under the 2018 Plan will be increased automatically on January 1 by a number of shares of common stock equal to the lesser of 4% of the shares of common stock outstanding on the final day of the preceding calendar year or the number of shares determined by the Company's board of directors. Accordingly, effective January 1, 2019, the number of shares authorized for issuance under the 2018 Plan was increased by 1,273,031 shares. The 2015 Plan continues to govern the terms and conditions of the outstanding awards granted under it.

The exercise price of stock options granted under the 2018 Plan is equal to not less than the fair market value of a share of the Company's common stock on the grant date. Other terms of awards, including vesting requirements, are determined by the board of directors and are subject to the provisions of the 2018 Plan. Stock options granted to employees generally vest over a four-year period but may be granted with different vesting terms. Certain options provide for accelerated vesting in the event of a change in control. Awards granted to non-employee consultants generally vest monthly over a period of one to four years. Stock options granted under the 2018 Plan expire no more than 10 years from the date of grant. As of June 30, 2019, equity-based incentive awards for the purchase of up to 1,906,571 shares of the Company's common stock have been issued under the 2018 Plan, of which 5,000 have been canceled and none have been exercised. As of June 30, 2019, 987,548 shares of common stock are available for future grant under the 2018 Plan, which includes 271,396 shares subject to awards that were originally granted, and have, since the effective date of the 2018 Plan, been canceled or repurchased under the 2015 Plan.

2015 Stock Incentive Plan

Prior to the approval of the 2018 Plan, the Company granted equity awards under the 2015 Plan, which originally provided for grant of incentive stock options, non-qualified stock options, restricted stock awards ("RSAs"), and other stock-based awards to the Company's employees, officers, directors, consultants and advisors.

The terms of stock awards agreements, including vesting requirements, are determined by the board of directors and are subject to the provisions of the 2015 Plan. Stock options granted to employees generally vest over a four-year period but may be granted with different vesting terms. A limited number of awards contain performance-based vesting criteria and for such awards that are deemed probable of vesting, the Company records expense in the period in which such determination is made through any estimated remaining vesting period. Certain options provide for accelerated vesting in the event of a change in control. Awards granted to non-employee consultants generally vest monthly over a period of one to four years. Stock options issued under the 2015 Plan expire no more than 10 years from the date of grant. As of the adoption of the 2018 Plan, the Company ceased making awards under the 2015 Plan.

Under the 2015 Plan, the Company was authorized to grant equity awards up to an aggregate of 5,417,044 shares of common stock. As of June 30, 2019, an aggregate of 5,758,518 options and other equity awards had been granted under the 2015 Plan, of which 1,087,450 have been exercised and 707,405 have been canceled and 18,468 have been repurchased as of June 30, 2019. A total of 113,006 shares previously reserved under the 2015 Plan that had not been exercised or were otherwise subject to outstanding exercise awards were no longer authorized as of May 8, 2018.

Stock-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
General and administrative	\$ 1,162	\$ 1,486	\$ 2,224	\$ 1,896
Research and development	973	761	1,864	1,003
Total stock-based compensation expense	\$ 2,135	\$ 2,247	\$ 4,088	\$ 2,899

Stock Options

A summary of the Company's stock option activity and related information is as follows:

	Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2018	4,917,811	\$ 5.64
Granted	1,202,595	12.11
Exercised	(182,900)	1.42
Canceled	(72,259)	5.62
Options outstanding at June 30, 2019	5,865,247	\$ 7.10
Exercisable as of June 30, 2019	1,987,901	\$ 3.71

The weighted-average fair value of options granted during the six months ended June 30, 2019 and 2018 was \$8.19 and \$8.15, respectively.

On January 30, 2018, the Company issued 250,000 shares of Series B Preferred Stock to a non-employee consultant as part of the consideration for services performed and completed in 2017. The Company has recognized \$0.7 million as general and administrative expense in the condensed consolidated statement of operations and comprehensive loss, of which \$0.1 million was recorded in the six months ended June 30, 2018.

As of June 30, 2019, total unrecognized stock-based compensation expense relating to unvested stock options was \$24.1 million. This amount is subject to change as the unvested portion of the stock options granted to non-employees is subject to re-measurement over the vesting period. This amount is expected to be recognized over a weighted average period of 3.03 years.

2018 Employee Stock Purchase Plan

The Company's board of directors adopted on April 18, 2018, and the Company's stockholders approved, the 2018 Employee Stock Purchase Plan (the "ESPP"), which became effective on May 8, 2018. A total of 336,356 shares of common stock were initially reserved for issuance under the ESPP. In addition, the number of shares of common stock that may be issued under the ESPP will automatically increase on the first day of each calendar year, beginning in 2020 and ending in 2028, by an amount equal to the lesser of (i) 1% of the number of shares of the Company's common stock outstanding on the last day of the applicable preceding calendar year and (ii) an amount determined by the Company's board of directors. Offering periods under the ESPP will commence when determined by the plan administrator. The Company has not begun any offering periods under the ESPP.

11. Income Taxes

Deferred tax assets and deferred tax liabilities are recognized based on temporary differences between the financial reporting and tax basis of assets and liabilities using statutory rates. A valuation allowance is recorded against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized.

There were no significant income tax provisions or benefits for the three or six months ended June 30, 2019. Due to losses incurred since inception and the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has recorded a full valuation allowance against the Company's otherwise recognizable net deferred tax assets.

12. Net Loss Per Share

Basic and diluted net loss per common share is determined by dividing net loss attributable to common stockholders by the weighted-average common shares outstanding during the period. The Company has computed diluted net loss per common share after giving consideration to all potentially dilutive common shares, including options to purchase common stock, restricted common stock, convertible preferred stock and warrants to purchase convertible preferred stock, outstanding during the period determined using the if-converted and treasury stock methods, except where the effect of including such securities would be antidilutive. Because the Company has reported net losses since inception, these potential common shares have been anti-dilutive and therefore basic and diluted net loss per share have been equivalent.

The following table presents securities that have been excluded from the computations of diluted weighted-average shares outstanding as they would be anti-dilutive:

	Six Months Ended June 30,	
	2019	2018
Unvested common stock from early exercise of options	88,744	194,751
Stock options to purchase common stock	5,865,247	4,876,190
Total	5,953,991	5,070,941

13. Related Party Transactions

The Company receives clinical advisory services from Weatherden Ltd. ("Weatherden") under agreements that were entered into during 2017 and 2018. Duncan McHale, the Company's Chief Medical Officer, is a part owner of Weatherden. During the six months ended June 30, 2019 and 2018, the Company paid Weatherden \$0.5 million and \$0.2 million, respectively. As of June 30, 2019 and 2018, the amounts due to Weatherden under the supply of service agreement were \$0.2 million and \$0.2 million, respectively.

In June 2018, the Company entered into a subleasing arrangement with Ring Therapeutics (formerly VL46), an affiliate of one of its stockholders, Flagship Venture Funds. Under the terms of the sublease, the Company will invoice Ring Therapeutics for an aggregate \$0.9 million in rent payments which are due during the period from July 1, 2018 through May 31, 2020 plus any related taxes and lease operating costs. As of June 30, 2019, \$0.4 million related to this sublease agreement has been recorded as an offset to rent expense within the consolidated statements of operations and comprehensive loss.

14. Subsequent Event

2019 Credit Facility

On July 19, 2019, the Company entered into a loan and security agreement (as amended, the "Loan Agreement") with K2 HealthVentures LLC ("K2HV") pursuant to which the K2HV agreed to make term loans in an aggregate principal amount of up to \$45.0 million available to the Company in three tranches. The initial tranche of \$20.0 million was funded upon closing on July 19, 2019. The second tranche of \$10.0 million is available to be funded at the Company's election between December 1, 2019 and June 1, 2020, subject to certain customary conditions. The third tranche of \$15.0 million is available to be funded at the Company's election on or before January 15, 2021, subject to certain customary conditions and the achievement of certain clinical development milestones. Borrowings under the Loan Agreement are collateralized by substantially all of the Company's personal property, excluding intellectual property, and the Company pledged its equity interests in its subsidiaries, subject to certain limitations with respect to its foreign subsidiaries.

Interest on the outstanding loan balance will accrue at a variable annual rate equal to the greater of (i) 8.65% and (ii) the prime rate plus 3.15%. The Company is required to make interest-only payments on the loans on a monthly basis through February 28, 2022. If the Company elects to draw the third tranche, the interest-only period is extended through August 31, 2022. Subsequent to the interest only periods, the Company is required to make equal monthly payments of principal plus interest until the loans mature on August 1, 2024. Upon final payment or prepayment of the loans, the Company must pay a final payment equal to 4.3% of the loans borrowed. The Company incurred fees associated with establishing the facility of \$0.4 million. Company has an option to prepay the loans in whole, subject to a prepayment fee of 2% of the amount prepaid or, if the prepayment occurs after the 18-month anniversary of the funding date of the loans, 1% of the amount prepaid.

The Loan Agreement contains customary representations, warranties and covenants and also includes customary events of default, including payment defaults, breaches of covenants, change of control and occurrence of a material adverse effect. Upon the occurrence and continuation of an event of default, a default interest rate of an additional 5% per annum may be applied to the outstanding loan balances, and the administrative agent, collateral agent, and lenders may declare all outstanding obligations immediately due and payable and exercise all of their rights and remedies as set forth in the Loan Agreement and under applicable law.

The Company used the proceeds from the initial \$20.0 million tranche to prepay all amounts outstanding under the 2016 Credit Facility on July 19, 2019.

Contemporaneous with the closing of the first tranche of funding described above, the Company's \$15.0 million loan balance outstanding under an existing credit facility was repaid in full.

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 appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report"), including the audited consolidated financial statements and notes thereto contained in our 2018 Annual Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the "Risk Factors" section of this Quarterly Report on Form 10-Q, our actual results could differ materially from the results described, in or implied, by these forward-looking statements. In this Quarterly Report on Form 10-Q, unless otherwise stated or as the context otherwise requires, references to "Evelo," "Evelo Biosciences," the "Company," "we," "us," "our" and similar references refer to Evelo Biosciences, Inc. and its consolidated subsidiaries.

Overview

Evelo Biosciences is discovering and developing oral biologics that act on cells in the small intestine with systemic therapeutic effects. These cells in the small intestine play a central role in governing the immune, metabolic and neurological systems. Our first product candidates are monoclonal microbials, single strains of microbes selected for defined pharmacological properties. They have been observed in preclinical models to have systemic dose-dependent effects, modulating multiple clinically-validated pathways. Our product candidates have the potential to be effective, safe and affordable medicines to improve the lives of people with chronic diseases and cancer.

We currently have three product candidates in clinical trials, EDP1066 and EDP1815 for the treatment of inflammatory diseases and EDP1503 for the treatment of cancer. We also are advancing additional oral biologics through preclinical development in other disease areas.

We have recently discovered new oral formulations of our monoclonal microbials which we believe can significantly enhance the pharmacological potency of our product candidates. One such formulation increased the potency by up to 30-fold in preclinical *in vivo* models. This formulation enhances the probability of translating preclinical effects into patients and we believe it can be commercialized cost effectively. We plan to introduce this formulation into ongoing and new clinical trials beginning in the second half of 2019 across multiple monoclonal microbials.

Recent Clinical Developments

EDP1815

EDP1815 is a monoclonal microbial candidate for inflammatory diseases. In November 2018 we initiated our ongoing Phase 1b placebo-controlled dose-escalating safety and tolerability study of EDP1815 in approximately 24 healthy volunteers and up to 108 patients with mild to moderate psoriasis or atopic dermatitis. The primary endpoint of this trial is safety and tolerability. Prospectively defined secondary and exploratory endpoints include clinical measures of disease, cellular histological biomarkers and blood immune cell biomarkers taken from biopsies and blood samples, respectively, at the start and end of the 28-day dosing period.

In August 2019, we reported positive EDP1815 interim data from this Phase 1b trial from an initial 12-patient cohort of mild to moderate psoriasis patients. EDP1815 was well tolerated with no overall difference reported from placebo. Patients dosed once per day for 28 days with 550mg ("1x dose") of the enteric capsule formulation of EDP1815 showed a statistically significant ($p > 0.05$) reduction in mean lesion severity score ("LSS") at 28 days of 2 points, compared to a mean increase of 0.25 points in patients who received placebo. LSS reductions over the dosing period of patients dosed with EDP1815 ranged from 0-67 percent. LSS, a secondary endpoint, is a component of the Psoriasis Area and Severity Index (PASI) score and measures redness, thickness, and scaling of an individual psoriatic lesion across the dosing period and is a sensitive clinical measure for patients with mild to moderate disease. Analysis of the basal epithelium mitotic count, a secondary endpoint and cellular driver of psoriasis pathology, showed a mean reduction over the dosing period of 2.25 cells/mm² in patients who received EDP1815 compared to no change in patients receiving placebo. Lower basal epithelium mitotic counts indicate a reduction of psoriasis pathology. In an analysis of the change over the dosing period of blood immune cell cytokine production following stimulation with lipopolysaccharide, an exploratory endpoint, the EDP1815 dosed patient group showed a reduction in cytokine production indicative of a systemic anti-inflammatory response, compared to no reduction in the placebo group.

Enrollment is underway in this ongoing Phase 1b clinical trial of an additional cohort of mild to moderate psoriasis patients to be dosed at a 2.76g ("5x dose") of the enteric capsule formulation. Data from this cohort are expected in the fourth quarter of 2019. One further cohort of psoriasis patients and one cohort of atopic dermatitis patients are planned to be dosed with a new formulation of EDP 1815.

Based on these data, we plan to advance EDP1815 into Phase 2 in early 2020. This placebo-controlled dose and formulation optimization trial will investigate daily dosing of EDP1815 in mild to moderate psoriasis patients over 24 weeks. The primary endpoint of the trial will be the change in PASI score over 24 weeks with a formal interim analysis at 12 weeks. Multiple doses and formulations of EDP1815 will be investigated. Part A of the trial is designed to select the optimal formulation and will test the enteric capsule formulation and the new formulation of EDP1815 versus placebo in approximately 180 patients. We expect to report interim data from Part A of the study and select the optimal formulation for Part B of the study in late 2020. Part B of the study will test multiple doses of the optimal formulation against placebo for 24 weeks in approximately 250 patients.

We expect to advance EDP1815 into further inflammatory disease indications after this Phase 2 interim data analysis. Potential indications include psoriatic arthritis, axial spondylarthritis, rheumatoid arthritis atopic dermatitis and asthma.

EDP1066

EDP1066 is a monoclonal microbial candidate for inflammatory diseases. In April 2018 we initiated our ongoing Phase 1b placebo-controlled dose-escalating safety and tolerability study of EDP1066 in approximately 36 healthy volunteers and up to 96 patients with mild to moderate psoriasis or atopic dermatitis. The primary endpoint of this trial is safety and tolerability. Prospectively defined secondary and exploratory endpoints include clinical measures of disease, cellular histological biomarkers and blood immune cell biomarkers taken from biopsies and blood samples, respectively, at the start and end of the 28-day dosing period.

In August 2019, we reported interim clinical data from two cohorts of mild to moderate psoriasis patients from this Phase 1b trial. EDP1066 was well tolerated with no overall difference reported from placebo. In an analysis of the change over the dosing period of blood immune cell cytokine production following stimulation by lipopolysaccharide, an exploratory endpoint, patients who received a 3.3g ("5x dose") of EDP1066 showed a reduction in cytokine production consistent with a pharmacodynamic effect. No reduction was observed in patients receiving a 660mg ("1x dose") of EDP1066 or placebo. No effects were observed in the secondary endpoints of clinical measures of disease or cellular histological biomarkers at either the 660mg or 3.3g dose of EDP1066.

Based on this data and the EDP1815 psoriasis data reported in August 2019, we are focusing the ongoing EDP1066 Phase 1b trial on the enrollment of a cohort of mild to moderate atopic dermatitis patients to be dosed with a new formulation which demonstrated significantly higher potency preclinically. We expect to report data from this cohort in the first quarter of 2020. There will be no further development of EDP1066 in psoriasis.

EDP1503

EDP1503 is a monoclonal microbial candidate for oncology. In December 2018, we initiated our ongoing Phase 1/2 open-label study of EDP1503 in combination with KEYTRUDA (pembrolizumab), Merck's anti-PD-1 therapy, in three groups of patients: microsatellite stable colorectal cancer; triple-negative breast cancer; and patients across multiple tumor types who have relapsed on prior PD-1/L1 inhibitor treatment. We estimate that we will enroll up to 120 subjects in this study which will assess the safety and tolerability, immune response markers and overall response rates achieved with EDP1503 in combination with KEYTRUDA. We expect initial clinical data from this study in the first half of 2020.

In January 2019, the University of Chicago initiated a Phase 2a investigator-sponsored clinical study of EDP1503 in combination with KEYTRUDA in melanoma patients. The University of Chicago will enroll up to 70 PD-1-naïve and PD-1-relapsed melanoma patients in this study which is assessing the safety, tolerability and overall response rates achieved with EDP1503 in combination with KEYTRUDA. Additionally, the University of Chicago will evaluate immune response markers from biopsies taken during the study. As of August 2019, we will no longer issue guidance related to this investigator-sponsored trial.

In addition to these ongoing clinical trials, we expect to initiate future additional clinical trials related to these product candidates and potential new product candidates. For instance, we expect to continue to conduct immuno-pharmacology clinical trials in healthy volunteers with EDP1066 and EDP1815.

Recent Collaboration Activities

On July 9, 2019, we entered into a collaboration agreement (the "Collaboration Agreement") with Sacco S.r.l. ("Sacco"), an affiliate of one of our existing contract manufacturing partners. Pursuant to the Collaboration Agreement, Sacco will manufacture and supply single strain, non-genetically modified microbes intended for oral delivery or oral use in pharmaceutical products exclusively for us for a period of five years. Sacco may terminate the agreement if the provision of manufacturing services has been, or is scheduled to be, inactive for a period of six consecutive months. We have agreed to pay Sacco an aggregate of €3.0 million, €0.6 million annually, during the exclusivity period.

Recent Financing Activities

On July 19, 2019 we entered into a Loan and Security Agreement (as amended, the "Loan Agreement") with K2 HealthVentures LLC ("K2HV") providing for up to \$45 million in potential debt financing, the proceeds of which intended to be used to prepay our entire existing outstanding loan balance, the advancement of our research and development activities related to our pipeline of oral biologics and for general corporate purposes. Under terms of the Loan Agreement, the aggregate principal amount of \$45 million is available in three tranches of term loans of \$20 million, \$10 million, and \$15 million, respectively. At closing on July 19, 2019, we borrowed \$20 million, representing the first tranche under the new facility. The second tranche will be available to us between December 1, 2019 and June 1, 2020. The third tranche will be available to us through January 15, 2021, subject to the achievement of certain clinical development milestones. Interest on the outstanding loan balance will accrue at a variable rate equal to the greater of (i) 8.65% and (ii) the prime rate as published in the Wall Street Journal, plus 3.15%. We are required to make monthly interest-only payments through February 2022. If we elect to draw the third tranche, the interest-only period is extended through August 2022. Subsequent to the interest-only period, we are required to make equal monthly principal payments plus any accrued interest until the loans mature in August 2024. Upon final payment or prepayment of the loans, we are required to pay a final payment equal to 4.3% of the loans borrowed.

Contemporaneous with the closing of the first tranche of funding described above, our \$15.0 million loan balance outstanding under an existing credit facility, was repaid in full. In accordance with the agreement underlying the prior debt facility, we paid an additional 0.5% prepayment fee as additional expense.

Since our incorporation in 2014, we have devoted substantially all of our resources to developing our clinical and preclinical candidates, building our intellectual property portfolio and process development and manufacturing function, business planning, raising capital and providing general and administrative support for these operations. On May 11, 2018, we completed our initial public offering (the "IPO") of 5,312,500 shares of our common stock at a public offering price of \$16.00 per share. The net proceeds from the IPO were approximately \$75.8 million. Prior to our IPO, we financed our operations primarily with proceeds from sales of convertible preferred stock to our equity investors and borrowings under a loan and security agreement, as amended, with a financial institution. Through June 30, 2019, we had received aggregate gross proceeds of \$257.6 million from sales of common stock, convertible preferred stock and borrowings under our previous loan and security agreement with Pacific Western Bank.

We are a development stage company and have not generated any revenue. All of our product candidates are in early clinical or preclinical development. Our ability to generate product revenue sufficient to achieve profitability will depend heavily on the successful development and eventual commercialization of one or more of our product candidates. Since our inception, we have incurred significant operating losses and we continue to incur significant research and development and other expenses related to our operations. For the six months ended June 30, 2019, our net loss was \$20.9 million. As of June 30, 2019, we had an accumulated deficit of \$154.6 million. We do not expect to generate revenue from sales of any products for the foreseeable future, if at all.

We expect that our expenses will increase substantially in connection with our ongoing activities, particularly as we:

- continue the ongoing proof of concept trials for EDP1066, EDP1815 and EDP1503;
- potentially initiate additional clinical trials for EDP1066, EDP1815 and EDP1503;
- initiate or advance the clinical development of additional product candidates;
- conduct research and continue preclinical development of potential product candidates;

- make strategic investments in manufacturing capabilities, including potentially planning and building our own manufacturing facility;
- maintain our current intellectual property portfolio and opportunistically acquire complementary intellectual property;
- increase employees and employee-related expenses including salaries, benefits, travel and stock-based compensation expense; and
- seek to obtain regulatory approvals for our product candidates.

In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution.

As a result, we will need additional financing to support our continuing operations. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of public or private equity or debt financings or other sources, which may include collaborations with third parties. Adequate additional financing may not be available to us on acceptable terms, or at all. Our inability to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy. We will need to generate significant revenue to achieve profitability, and we may never do so.

Because of the numerous risks and uncertainties associated with drug development, we are unable to predict the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. Even if we are able to generate revenue from product sales, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate our operations.

As of June 30, 2019, our principal source of liquidity is cash, cash equivalents and short-term investments, which totaled approximately \$113.5 million. We expect that our existing cash, cash equivalents and investments will enable us to fund our planned operating expenses and capital expenditure requirements into the fourth quarter of 2020. We have based these estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. See "Liquidity and Capital Resources."

Financial Operations Overview

Revenue

We have not generated any revenue since our inception and do not expect to generate any revenue from the sale of products in the near future, if at all. If our development efforts for our current product candidates or additional product candidates that we may develop in the future are successful and result in marketing approval or if we enter into collaboration or license agreements with third parties, we may generate revenue in the future from a combination of product sales or payments from such collaboration or license agreements.

Operating Expenses

Our operating expenses since inception have consisted primarily of research and development activities and general and administrative costs.

Research and Development Expenses

Research and development expenses consist primarily of costs incurred for our research activities, including our discovery efforts, and the development of our product candidates, which include:

- expenses incurred under agreements with third parties, including investigative sites, external laboratories and contract research organizations ("CROs") that conduct research, preclinical activities and clinical trials on our behalf;

- manufacturing process-development costs as well as technology transfer and other expenses incurred with CMOs that manufacture drug substance and drug product for use in our preclinical activities and any current or future clinical trials;
- salaries, benefits and other related costs, including stock-based compensation expense, for personnel in our research and development functions;
- expenses to acquire technologies to be used in research and development;
- costs of outside consultants, including their fees, stock-based compensation and related travel expenses;
- the cost of laboratory supplies and acquiring, developing and manufacturing preclinical study and clinical trial materials;
- costs related to compliance with regulatory requirements; and
- facility-related expenses, which include depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs.

We expense research and development costs as incurred. We recognize external development costs based on an evaluation of the progress to completion of specific tasks using information provided to us by our vendors and our clinical investigative sites. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, and are reflected in our financial statements as prepaid or accrued research and development expenses. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized, even when there is no alternative future use for the research and development. The capitalized amounts are expensed as the related goods are delivered or the services are performed.

Our primary focus of research and development since inception has been building a platform to enable us to develop medicines based on an understanding that cells in the small intestine play a central role in governing the immune, metabolic and neurological systems and to show potential clinical utility. Our platform and program expenses consist principally of costs, such as preclinical research, clinical and preclinical manufacturing activity costs, clinical development costs, licensing expense as well as an allocation of certain indirect costs, facility costs and depreciation expense. We do not allocate personnel costs, which primarily include salaries, discretionary bonus and stock-based compensation costs, as such costs are separately classified as research and development personnel costs.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect that our research and development expenses will continue to increase in the foreseeable future as we continue to implement our business strategy, continue our ongoing clinical trials for our product candidates, including EDP1066, EDP1815 and EDP1503, initiate additional clinical trials, continue to discover and develop additional product candidates, seek regulatory approvals for any products that successfully complete clinical trials, build manufacturing capabilities, hire additional research and development personnel, and expand into additional therapeutic areas.

At this time, we cannot reasonably estimate or know the nature, timing and estimated costs of the efforts that will be necessary to complete the development of, and obtain regulatory approval for, any of our product candidates. We are also unable to predict when, if ever, material net cash inflows will commence from sales or licensing of our product candidates. This is due to the numerous risks and uncertainties associated with drug development, including the uncertainty of:

- our ability to add and retain key research and development personnel;
- our ability to successfully develop, obtain regulatory approval for, and then successfully commercialize, our product candidates;
- our successful enrollment in and completion of clinical trials;

- the costs associated with the development of our current product candidates and/or any additional product candidates we identify in-house or acquire through collaborations;
- our ability to discover, develop and utilize biomarkers to demonstrate target engagement, pathway engagement and the impact on disease progression of our product candidates;
- our ability to establish an appropriate safety profile with Investigational New Drug-enabling toxicology studies;
- our ability to establish and maintain agreements with third-party manufacturers and other entities for clinical trial supply and future commercial supply, if our product candidates are approved;
- the terms and timing of any collaboration, license or other arrangement, including the terms and timing of any milestone payments thereunder;
- our ability to obtain and maintain patent, trade secret and other intellectual property protection and regulatory exclusivity for our product candidates if and when approved;
- our receipt of marketing approvals from applicable regulatory authorities;
- our ability to commercialize products, if and when approved, whether alone or in collaboration with others; and
- the continued acceptable safety profiles of the product candidates following approval.

A change in any of these variables with respect to the development of any of our product candidates would significantly change the costs, timing and viability associated with the development of that product candidate.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries, benefits and other related costs, including stock-based compensation, for personnel in our executive, finance, corporate and business development, and administrative functions. General and administrative expenses also include legal fees relating to patent and corporate matters; professional fees for accounting, auditing, tax and administrative consulting services; insurance costs; administrative travel expenses; and facility-related expenses, which include depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs.

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support the expected growth in our research and development activities and the potential commercialization of our product candidates. We also expect to incur increased expenses associated with being a public company, including increased costs of accounting, audit, legal, regulatory and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance costs and investor and public relations costs.

Interest Income (Expense), Net

Interest income (expense), net primarily consists of interest earned on our cash, cash equivalents and short-term investments balances offset by interest expense incurred on our debt. During each of the three and six month periods ended June 30, 2019 and 2018, interest income (expense), net consisted primarily of interest earned on institutional money market instruments and U.S. treasury securities offset by interest at the stated rate on borrowings under our previous loan and security agreement with Pacific Western Bank, amortization of deferred financing costs and interest expense related to the accretion of debt discount associated with our previous loan and security agreement with Pacific Western Bank.

Other Expenses

Other expenses primarily consist of non-cash changes in the fair value of warrants issued in connection with our previous loan and security agreement with Pacific Western Bank, all of which were settled in 2018.

Income Taxes

Since our inception in 2014, we have not recorded any U.S. federal or state income tax benefits for the net losses we have incurred in each year or our earned research and development tax credits, due to our uncertainty of realizing a benefit from those items.

Results of Operations

Comparison of the Three Months Ended June 30, 2019 and 2018

The following table summarizes our results of operations for the three months ended June 30, 2019 and 2018 (in thousands):

	Three Months Ended June 30,		Change
	2019	2018	
Operating expenses:			
Research and development	\$ 15,464	\$ 10,172	\$ 5,292
General and administrative	5,923	5,056	867
Total operating expenses	21,387	15,228	6,159
Loss from operations	(21,387)	(15,228)	(6,159)
Other (expense) income:			
Interest income, net	446	367	79
Other expense	—	(285)	285
Other income, net	446	82	364
Net loss	\$ (20,941)	\$ (15,146)	\$ (5,795)

Research and Development Expenses (in thousands):

	Three Months Ended June 30,		Change
	2019	2018	
Platform expenses	\$ 2,341	\$ 1,720	\$ 621
Inflammation programs	6,098	4,192	1,906
Oncology programs	2,495	1,164	1,331
Research and development personnel costs (including stock-based compensation)	4,530	3,096	1,434
Total research and development expenses	\$ 15,464	\$ 10,172	\$ 5,292

Research and development expenses were \$15.5 million for the three months ended June 30, 2019, compared to \$10.2 million for the three months ended June 30, 2018. The increase of \$5.3 million was due primarily to increases of \$1.9 million in costs for our inflammation programs, driven primarily by clinical trial expenses, an increase of \$1.3 million for our oncology programs, also related to increased costs associated with clinical development activities, as well as an increase of \$0.6 million in platform expenses in line with our strategy to maximize the potential of our platform. Personnel costs increased \$1.4 million due primarily to increases in research and development headcount and compensation, including an increase of \$0.2 million in stock-based compensation expense. We expect that our research and development expenses will continue to increase in the foreseeable future as we continue our clinical trials for our product candidates, initiate new clinical trials, continue discovery and development efforts for additional product candidates, hire additional research and development personnel and seek to increase manufacturing capabilities and possibly expand into additional therapeutic areas.

General and Administrative Expenses (in thousands):

	Three Months Ended June 30,		Change
	2019	2018	
General and administrative personnel costs (including stock-based compensation)	\$ 3,163	\$ 2,679	\$ 484
Professional fees	1,651	1,256	395
Facility costs, office expense and other	1,109	1,121	(12)
Total general and administrative expenses	<u>\$ 5,923</u>	<u>\$ 5,056</u>	<u>\$ 867</u>

General and administrative expenses were \$5.9 million for the three months ended June 30, 2019, compared to \$5.1 million for the three months ended June 30, 2018. The increase of \$0.9 million primarily reflects costs required to support our growing organization and public company status. Professional fees increased \$0.4 million, reflecting primarily increases in legal and patent costs as well as increases in other professional and consulting fees. Personnel costs increased by \$0.5 million, due primarily to increases in general and administrative headcount and compensation. The increase in personnel costs was partially offset by a decrease of \$0.3 million in stock-based compensation expense versus the prior year period due to one-time charges being recorded in the prior period related to our IPO. We expect general and administrative expenses to continue to increase due to higher personnel and related costs, professional fees, and consulting expenses in support of the continued growth of the Company.

Other Income (Expense), Net

Other income (expense), net for the three months ended June 30, 2019 was income of \$0.4 million compared to income of \$0.1 million for the three months ended June 30, 2018. The increase was primarily driven by the prior period including expense associated with the change in fair value of our warrant liabilities which were settled in the prior year period, offset by a \$0.1 million increase in current period interest income caused by higher net interest rates earned during the current period.

Net Loss

Net loss for the three months ended June 30, 2019 was \$20.9 million, compared to \$15.1 million for the three months ended June 30, 2018.

Comparison of the Six Months Ended June 30, 2019 and 2018

The following table summarizes our results of operations for the six months ended June 30, 2019 and 2018 (in thousands):

	Six Months Ended June 30,		Change
	2019	2018	
Operating expenses:			
Research and development	\$ 31,141	\$ 17,315	\$ 13,826
General and administrative	11,050	8,338	2,712
Total operating expenses	<u>42,191</u>	<u>25,653</u>	<u>16,538</u>
Loss from operations	(42,191)	(25,653)	(16,538)
Other (expense) income:			
Interest income (expense), net	951	413	538
Other expense	—	(406)	406
Other income (expense), net	<u>951</u>	<u>7</u>	<u>944</u>
Net loss	<u>\$ (41,240)</u>	<u>\$ (25,646)</u>	<u>\$ (15,594)</u>

Research and Development Expenses (in thousands):

	Six Months Ended June 30,		Change
	2019	2018	
Platform expenses	\$ 5,046	\$ 3,831	\$ 1,215
Inflammation programs	12,152	6,062	6,090
Oncology programs	5,026	1,929	3,097
Other program expenses	—	43	(43)
Research and development personnel costs (including stock-based compensation)	8,917	5,450	3,467
Total research and development expenses	<u>\$ 31,141</u>	<u>\$ 17,315</u>	<u>\$ 13,826</u>

Research and development expenses were \$31.1 million for the six months ended June 30, 2019, compared to \$17.3 million for the six months ended June 30, 2018. The increase of \$13.8 million was due primarily to increases of \$6.1 million in costs for our inflammation programs, driven primarily by clinical trial expenses and external manufacturing costs, an increase of \$3.1 million for our oncology programs, related primarily to increased costs associated with clinical development activities, as well as an increase of \$1.2 million in platform expenses in line with our strategy to maximize the potential of our platform. Personnel costs increased \$3.5 million due primarily to increases in research and development headcount and compensation, including an increase of \$0.9 million in stock-based compensation expense.

General and Administrative Expenses (in thousands):

	Six Months Ended June 30,		Change
	2019	2018	
General and administrative personnel costs (including stock-based compensation)	\$ 5,933	\$ 4,102	\$ 1,831
Professional fees	2,842	2,355	487
Facility costs, office expense and other	2,275	1,881	394
Total general and administrative expenses	<u>\$ 11,050</u>	<u>\$ 8,338</u>	<u>\$ 2,712</u>

General and administrative expenses were \$11.1 million for the six months ended June 30, 2019, compared to \$8.3 million for the six months ended June 30, 2018. The increase of \$2.7 million primarily reflects costs required to support our growing organization and public company status. Personnel costs increased by \$1.8 million, due primarily to increases in general and administrative headcount and compensation, including an increase of \$0.3 million in stock-based compensation expense. Professional fees increased \$0.5 million, reflecting increases in legal, patent and other professional consulting fees. Facility, office and other costs increased \$0.4 million, primarily due to increased costs to support corporate operational activities including the expansion of our leased space to support the growth of the Company.

Other Income (Expense), Net

Other income (expense), net for the six months ended June 30, 2019 was income of \$1.0 million, compared to none for the six months ended June 30, 2018. This change was primarily driven by an increase in net interest income of approximately \$0.5 million, due primarily to larger average cash, cash equivalents and short-term investments balances held during the current period.

Net Loss

Net loss for the six months ended June 30, 2019 was \$41.2 million, compared to \$25.6 million for the six months ended June 30, 2018.

Liquidity and Capital Resources

We have incurred losses and generated negative operating cash flows since our inception and anticipate that we will continue to incur losses for at least the next several years. We incurred net losses of approximately \$20.9 million and \$15.1 million for the three months ended June 30, 2019 and June 30, 2018, respectively. To date, we have financed our operations primarily with proceeds from the initial public offering of our common stock, sales of our convertible preferred stock to our equity investors and borrowings under our debt facilities. From our inception, we have received gross proceeds of \$262.6 million from such transactions, including a net \$20.0 million borrowed under our debt facilities. As of June 30, 2019, we had cash, cash equivalents and short-term investments of \$113.5 million and an accumulated deficit of \$154.6 million.

On June 3, 2019, we entered into a sales agreement with Cowen and Company, LLC, as sales agent, pursuant to which we may, from time to time, issue and sell up to an aggregate of \$50.0 million of our common stock in "at-the-market" offerings. As of June 30, 2019, no securities had been issued pursuant to the sales agreement.

On May 11, 2018, we completed our IPO of 5,312,500 shares of common stock at a public offering price of \$16.00 per share. The gross proceeds from the IPO were \$85.0 million and the net proceeds were approximately \$75.8 million, after deducting underwriting discounts and commissions and other estimated offering expenses payable by us.

On July 19, 2019 we entered into the "Loan Agreement" with K2HV providing for up to \$45 million of current and future potential debt financing. Under terms of the Loan Agreement, the aggregate principal amount is available in three tranches of term loans of \$20 million, \$10 million, and \$15 million, respectively. At closing on July 19, 2019, we withdrew initial proceeds of \$20 million representing the first tranche under the new facility. The second tranche will be available to us between December 1, 2019 and June 1, 2020. The third tranche will be available to us through January 15, 2021, subject to the achievement of certain clinical development milestones.

Interest on the outstanding loan balance will accrue at a variable rate equal to the greater of (i) 8.65% and (ii) the prime rate as published in the Wall Street Journal, plus 3.15%. We are required to make monthly interest-only payments through February 2022. If we elect to draw the third tranche, the interest-only period is extended through August 2022. Subsequent to the interest-only period, we are required to make equal monthly principal payments plus any accrued interest until the loans mature in August 2024. Upon final payment or prepayment of the loans, we are required to pay a final payment equal to 4.3% of the loans borrowed. We have an option to prepay the loans in whole, subject to a prepayment fee of 2% of the amount prepaid or, if the prepayment occurs after the 18-month anniversary of the funding date of the loans, 1% of the amount prepaid.

Contemporaneous with the closing of the first tranche of funding described above, we repaid the entire \$15.0 million loan balance outstanding under an existing Loan and Security Agreement with a separate financial institution. In accordance with the agreement underlying the prior debt facility, we paid an additional 0.5% prepayment fee as additional expense.

We expect that our existing cash, cash equivalents and investments will enable us to fund our planned operating expenses and capital expenditure requirements into the fourth quarter of 2020.

Until such time, if ever, as we can generate revenue from product sales, we expect to finance our cash needs through a combination of equity offerings, debt financings and potential collaborations, license and development agreements. To the extent that we raise additional capital through future equity offerings or debt financings, ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of the common stockholders. Debt and equity financings, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. There can be no assurance that such financings will be obtained on terms acceptable to us, if at all. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us we may have to significantly delay, scale back or discontinue our research and development programs or future commercialization efforts. If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties for one or more of our current or future drug candidates, we may be required to relinquish valuable rights to our technologies, future revenue streams, research programs or drug candidates or to grant licenses on terms that may not be favorable to us. Our failure to raise capital as and when needed would have a material adverse effect on our financial condition and our ability to pursue our business strategy.

Cash Flows

The following table summarizes our sources and uses of cash for each of the periods presented (in thousands):

	Six Months Ended June 30,	
	2019	2018
Cash used in operating activities	\$ (33,349)	\$ (19,163)
Cash provided by/(used in) investing activities	49,520	(2,663)
Cash provided by financing activities	203	162,482
Net increase in cash, cash equivalents and restricted cash	<u>\$ 16,374</u>	<u>\$ 140,656</u>

Operating Activities

Net cash used in operating activities for the six months ended June 30, 2019 was \$33.3 million driven primarily by our net loss of \$41.2 million partially offset by non-cash charges including stock-based compensation expense of \$4.1 million and depreciation expense of \$0.8 million and changes in components of working capital.

Net cash used in operating activities for the six months ended June 30, 2018 was \$19.2 million driven primarily by our net loss of \$25.6 million. This was partially offset by a net change in working capital of \$1.9 million and non-cash charges including stock-based compensation expense of \$2.9 million, depreciation expense of \$1.3 million, and a change in fair value of warrant liability and debt derivative of \$0.4 million.

Investing Activities

Net cash provided by investing activities for the six months ended June 30, 2019 was \$49.5 million, primarily consisted of the maturity of investments totaling \$51.0 million. This was partially offset by the purchase of capital equipment which totaled \$1.5 million during the period.

Net cash used in investing activities for the six months ended June 30, 2018 was \$2.7 million for the purchase of capital equipment during the period.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2019 was \$0.2 million, primarily consisting of proceeds from the exercise of common stock options.

Net cash provided by financing activities for the six months ended June 30, 2018 was \$162.5 million, primarily consisting of the net proceeds of \$76.3 million from our IPO, net proceeds of \$81.3 million from the issuance of our Series C Preferred Stock as well as net proceeds of approximately \$5.0 million from the issuance of long-term debt.

Contractual Obligations and Commitments

On July 19, 2019 we entered into the Loan Agreement with K2HV providing for up to \$45.0 million of current and future potential debt financing in three tranches. At closing, we drew \$20.0 million of proceeds which were available under the first tranche of this debt facility and contemporaneously repaid our entire \$15.0 million outstanding loan with a separate financial institution, including a 0.5% prepayment fee. Under the Loan Agreement, a second tranche of \$10.0 million will be available to us between December 1, 2019 and June 1, 2020, subject to certain customary conditions, and a third tranche of \$15.0 million will be available to us through January 15, 2021, subject to the achievement of certain clinical development milestones. Interest on the outstanding loan balance will accrue at a variable rate equal to the greater of (i) 8.65% and (ii) the prime rate as published in the Wall Street Journal, plus 3.15%. We are required to make monthly interest-only payments through February 2022 or, if the third tranche is drawn, August 2022. Subsequent to the interest-only period, principal payments will commence in March 2022 or September 2022, as applicable, with equal payments plus accrued interest being made by us in consecutive monthly installments until the loans mature in August 2024. Upon final payment or prepayment of the loans, we are required to make a final payment equal to 4.3% of the loans borrowed. At our option, we may prepay the loans in whole, subject to a prepayment fee of 2% of the amount prepaid or, if the prepayment occurs after the 18-month anniversary of the funding date of the

loans, 1% of the amount prepaid. Based on the above and using our initial interest rate of 8.65%, minimum contractual interest and principal payments due under our new debt facility from December 31, 2018 will total approximately: \$0.6 million within 1 year; \$3.5 million between 1 to 3 years; \$17.1 million between 4-5 years; and \$6.4 million thereafter.

In July 2019, we entered into the Collaboration Agreement with a CMO. Pursuant to the agreement, the CMO has agreed that subject to certain exceptions, it will exclusively provide specified manufacturing services for us over a period of five years. We have committed to pay the CMO an aggregate of €3.0 million, €0.6 million annually, during the exclusivity period.

Also in July 2019, we entered into an arrangement with one of our external manufacturing partners to fund the purchase of certain dedicated equipment that will be used in manufacturing for an aggregate amount of £0.8 million, £0.4 million to be paid upfront and, subject to the manufacturer's installation and qualification of the equipment, the additional two equal installments of £0.2 million will be paid in January and April 2020.

Other than as described immediately above, there have been no material changes to our contractual obligations and commitments included in our Annual Report on Form 10-K for the year ended December 31, 2018.

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 in the rules and regulations of the SEC.

Recent Accounting Pronouncements

For a discussion of recently adopted or issued accounting pronouncements please refer to Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Use of Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities in our consolidated financial statements, as well as the reported revenues and expenses during the reporting periods. These items, including accrued research and development expenses and stock-based compensation, are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience, known trends and events, and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions. In making estimates and judgments, management employs critical accounting policies.

There have been no material changes to our critical accounting policies from those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Company's Annual Report on Form 10-K that was filed with the SEC on February 15, 2019.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Fluctuation Risk

We are exposed to market risk related to changes in interest rates. As of June 30, 2019, our cash, cash equivalents and short-term investments consisted of cash, money market accounts and U.S. treasury securities. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. However, because of the short-term nature of the instruments in our portfolio, an immediate 10% change in market interest rates would not have a material impact on the fair market value of our investment portfolio or on our financial position or results of operations.

In July 2019, we received proceeds of \$20.0 million under a new debt facility with a lender. This term loan bears interest at a variable annual rate equal to the greater of (i) 8.65% and (ii) the prime rate plus 3.15%, thereby exposing us to interest rate risk. Based upon the prime rate at June 30, 2019 of 5.50% and considering the \$20.0 million of borrowings described above, an immediate 10% change in the prime rate would increase our interest to be paid by less than \$0.2 million annually and therefore would not have a material impact on our debt-related obligations, financial position or results of operations.

Foreign Currency Fluctuation Risk

We are not currently exposed to significant market risk related to changes in foreign currency exchange rates; however, we have contracted with and may continue to contract with foreign vendors that are located in Europe.

Our operations may be subject to fluctuations in foreign currency exchange rates in the future.

Inflation Fluctuation Risk

Inflation generally affects us by increasing our cost of labor and clinical trial costs. We do not believe that inflation had a material effect on our business, financial condition or results of operations during the three and six months ended June 30, 2019 and 2018.

Item 4. Controls and Procedures.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2019.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART 2—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time we may be involved in claims and proceedings arising in the course of our business. The outcome of any such claims or proceedings, regardless of the merits, is inherently uncertain. For example, in April 2019, the United States Patent and Trademark Office ("USPTO") granted Genome & Co.'s petition to initiate a post-grant review of a patent issued to the University of Chicago, to which we have an exclusive license from the University of Chicago. Although we believe that the subject patent is valid, there is a possibility that the USPTO could invalidate the patent or require the University of Chicago to narrow the claims contained in the patent. Under the terms of our license agreement we are responsible for reimbursing the University of Chicago for patent defense costs.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below, as well as the other information in this Quarterly Report on Form 10-Q, including our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Results of Operations and Financial Condition," before deciding whether to invest in our common stock. The occurrence of any of the events or developments described below could harm our business, financial condition, results of operations and growth prospects. In such an event, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Financial Position and Need for Additional Capital

We are a development-stage company and have incurred significant losses since our inception. We expect to incur losses for the foreseeable future and may never achieve or maintain profitability.

Since inception, we have incurred significant operating losses. Our net loss was \$20.9 million and \$41.2 million for the three and six months ended June 30, 2019, respectively, and \$56.9 million, \$28.0 million and \$13.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. As of June 30, 2019, we had an accumulated deficit of \$154.6 million. Through June 30, 2019, we have financed our operations through private placements of our preferred stock, borrowings under our previous loan and security agreement with Pacific Western Bank and proceeds from our initial public offering which was completed in May 2018. We have devoted substantially all of our financial resources and efforts to developing our monoclonal microbial platform, identifying potential product candidates and conducting preclinical studies. We are in the early stages of developing our product candidates, and we have not completed the development of any monoclonal microbial therapies or other drugs or biologics. We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate that our expenses will increase substantially as we:

- seek to enhance our monoclonal microbial platform and discover and develop additional product candidates;
- seek regulatory approvals for any product candidates that successfully complete clinical trials;
- seek to establish a sales, marketing and distribution infrastructure and scale-up manufacturing capabilities to commercialize any products for which we may obtain regulatory approval;
- maintain, expand and protect our intellectual property portfolio; and
- add clinical, scientific, operational, financial and management information systems and personnel, including personnel to support our product development and potential future commercialization efforts and to support our operations as a public company.

In addition, we anticipate that our expenses will increase substantially if we experience any delays or encounter any issues with any of the above, including but not limited to failed studies, complex results, safety issues or other regulatory challenges.

To become and remain profitable, we must succeed in developing and eventually commercializing products that generate significant revenue. This will require us to be successful in a range of challenging activities, including completing preclinical testing and clinical trials of our product candidates, discovering additional product candidates, obtaining regulatory approval for these product candidates and manufacturing, marketing and selling any products for

which we may obtain regulatory approval. We are only in the preliminary stages of most of these activities. We may never succeed in these activities and, even if we do, may never generate revenue that is significant enough to achieve profitability.

Because of the numerous risks and uncertainties associated with pharmaceutical product and biological product development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability. If we are required by the U.S. Food and Drug Administration ("FDA") or the European Medicines Agency ("EMA") or other regulatory authorities to perform preclinical or clinical studies in addition to those currently expected, or if there are any delays in completing our preclinical studies or clinical trials or the development of any of our product candidates, our expenses could increase and revenue could be further delayed.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress our value and could impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our product offerings or even continue our operations.

We will need additional funding in order to complete development of our product candidates and commercialize our products, if approved. If we are unable to raise capital when needed, we could be forced to delay, reduce or discontinue our product development programs or commercialization efforts.

We expect our expenses to increase in connection with our ongoing activities, particularly as we conduct clinical trials, build manufacturing capacity and expand into additional therapeutic areas.

We expect that our cash, cash equivalents and investments as of June 30, 2019 will enable us to fund our planned operating expenses and capital expenditure requirements into the fourth quarter of 2020. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. Our future capital requirements will depend on many factors, including:

- the progress and results of any ongoing and future clinical trials;
- the cost of manufacturing clinical supplies of our product candidates, including EDP1066, EDP1815 and EDP1503;
- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for any other future product candidates;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs and timing of future commercialization activities, including manufacturing, marketing, sales and distribution, for any of our product candidates for which we receive marketing approval;
- the revenue, if any, received from commercial sales of our product candidates for which we receive marketing approval;
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims;
- the effect of competing technological and market developments; and
- the extent to which we acquire or invest in businesses, products and technologies, including entering into licensing or collaboration arrangements for product candidates, although we currently have no commitments or agreements to complete any such transactions.

Any additional fundraising efforts may divert our management from their day-to-day activities, which may adversely affect our ability to develop and commercialize our product candidates. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. Moreover, the terms of any financing may adversely affect the holdings or the rights of our stockholders and the issuance of additional securities, whether equity or debt, by us, or the possibility of such issuance, may cause the market price of our shares to decline. The sale of additional equity or convertible securities would dilute all of our stockholders. The incurrence of indebtedness

could result in increased fixed payment obligations and we may be required to agree to certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell, or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. We could also be required to seek funds through arrangements with collaborators or others at an earlier stage than otherwise would be desirable and we may be required to relinquish rights to some of our technologies or product candidates or otherwise agree to terms unfavorable to us, any of which may have a material adverse effect on our business, operating results and prospects.

If we are unable to obtain funding on a timely basis, we may be required to significantly curtail, delay, or discontinue one or more of our research or product development programs or the commercialization of any product candidates. In addition, we may be unable to make milestone and royalty payments due under our intellectual property license agreements or other payments under our agreements with contract research organizations ("CROs") and academic research collaborators, or expand our operations or otherwise capitalize on our business opportunities, as desired, which could materially affect our business, financial condition and results of operations.

Our limited operating history may make it difficult to evaluate the success of our business to date and to assess our future viability.

Since our inception in 2014, we have devoted substantially all of our resources to identifying and developing our product candidates, building our intellectual property portfolio, process development and manufacturing function, planning our business, raising capital and providing general and administrative support for these operations. All of our product candidates are in clinical or preclinical development. We dosed the first subjects in our clinical trial of our first monoclonal microbial candidate in our inflammation portfolio, EDP1066, in April 2018, and commenced initial clinical trials for our second inflammation candidate, EDP1815, and our oncology product candidate, EDP1503, in the fourth quarter of 2018, but have not completed any clinical trials for these or any other product candidates. We have not yet demonstrated our ability to successfully complete any non-clinical toxicology study, Phase 1 clinical study, Phase 2 clinical study or any Phase 3 or other pivotal clinical trials, obtain regulatory approvals, manufacture a commercial scale product, or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful product commercialization. Additionally, we expect our financial condition and operating results to continue to fluctuate significantly from quarter to quarter and year to year due to a variety of factors, many of which are beyond our control.

Consequently, any predictions about our future success or viability may not be as accurate as they could be if we had a longer operating history.

The terms of our loan and security agreements place restrictions on our operating and financial flexibility. If we raise additional capital through debt financing, the terms of any new debt could further restrict our ability to operate our business.

We have a \$45.0 million term loan credit facility with K2 HealthVentures LLC and other parties ("K2HV"), (as amended, the "Loan Agreement") that is secured by a lien covering substantially all of our personal property, excluding intellectual property. Contemporaneous with the closing of the first tranche of funding under the Loan Agreement, we repaid the entire \$15.0 million loan balance outstanding under our prior loan and security agreement with Pacific Western Bank. As of July 31, 2019, the outstanding principal balance under the credit facility is \$20.0 million resulting from the closing of the first tranche of funding which occurred on July 19, 2019. The Loan Agreement contains customary representations, warranties, affirmative and negative covenants and events of default applicable to us and our subsidiaries.

If we default under the Loan Agreement, K2HV may accelerate all of our repayment obligations and exercise all of their rights and remedies under the Loan Agreement and applicable law, potentially requiring us to renegotiate our agreement on terms less favorable to us or to immediately cease operations. Further, if we are liquidated, the lenders' right to repayment would be senior to the rights of the holders of our common stock to receive any proceeds from the liquidation. K2HV could declare a default upon the occurrence of any event, among others, that they interpret as a material adverse effect or a change of control as delineated under the Loan Agreement, payment defaults, or breaches of covenants thereby requiring us to repay the loan immediately or to attempt to reverse the declaration of default through negotiation or litigation. Any declaration by the lenders of an event of default could significantly harm our business and prospects and could cause the price of our common stock to decline. If we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

Risks Related to the Discovery, Development and Regulatory Approval of Our Product Candidates

We are very early in our development efforts and may not be successful in our efforts to use our platform to build a pipeline of product candidates and develop marketable drugs.

We are using our monoclonal microbial platform, with an initial focus on developing therapies in immunology, specifically inflammatory diseases, and also oncology. While we believe our preclinical studies to date have validated our platform to a degree, we are at an early stage of development and our platform has not yet, and may never lead to, approvable or marketable products. We are developing these product candidates and additional product candidates that we intend to use to treat broader immunological diseases, respiratory diseases, neuro-inflammation and degeneration, liver diseases, type I diabetes, food allergy, neurobehavior, cardiovascular disease and diseases of metabolism. We may have problems applying our technologies to these other areas, and our new product candidates may not demonstrate a comparable ability in treating disease as our initial product candidates. Even if we are successful in identifying additional product candidates, they may not be suitable for clinical development as a result of our inability to manufacture more complex monoclonal microbials, limited efficacy, unacceptable safety profiles or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance. The success of our product candidates will depend on several factors, including the following:

- completion of preclinical studies and clinical trials with positive results;
- receipt of marketing approvals from applicable regulatory authorities;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- making arrangements with third-party manufacturers for, or establishing our own, commercial manufacturing capabilities;
- launching commercial sales of our products, if and when approved, whether alone or in collaboration with others;
- entering into new collaborations throughout the development process as appropriate, from preclinical studies through to commercialization;
- acceptance of our products, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies;
- obtaining and maintaining coverage and adequate reimbursement by third-party payors, including government payors, for our products, if approved;
- protecting our rights in our intellectual property portfolio;
- operating without infringing or violating the valid and enforceable patents or other intellectual property of third parties;
- maintaining a continued acceptable safety profile of the products following approval; and
- maintaining and growing an organization of scientists and business people who can develop and commercialize our products and technology.

If we do not successfully develop and commercialize product candidates based upon our technological approach, we will not be able to obtain product revenue in future periods, which likely would result in significant harm to our financial position and adversely affect our stock price.

Our product candidates are intended to act on cells in the small intestine to produce systemic therapeutic effects with limited systemic exposure. This biological interaction between the small intestine and the rest of the body may not function in humans the way we have observed in mice and our drugs may not reproduce the systemic effects we have seen in preclinical data.

We believe our product candidates, including EDP1066, EDP1815 and EDP1503, work by modulating systemic responses via interactions with cells in the small intestine. This requires our monoclonal microbials, when dosed, to pass safely through the tissues of the gut, where they can interact with cells in the interior of the small intestine called the lumen. Dosing to achieve sufficient exposure may require an inconvenient dosing regimen. Even with successful formulation and delivery to achieve proper exposure of our microbes to the small intestine, we may not get sufficient or even any activity at the site of disease. This may be because our understanding of the mechanisms of the small intestine do not work in humans the way we believe they do. Despite there being strong academic literature to support the concept and our observations in preclinical studies in mice, these principles and the ability to use monoclonal microbials to modulate the immune system and other systems has not yet been proven in humans.

Our product candidates are monoclonal microbials, which are an unproven approach to therapeutic intervention.

All of our product candidates are based on monoclonal microbials. We have not, nor to our knowledge has any other company, received regulatory approval for an oral therapeutic based on this approach. We cannot be certain that our approach will lead to the development of approvable or marketable products. In addition, our monoclonal microbial therapies may have different safety profiles and efficacy in various indications. Finally, the FDA or other regulatory agencies may lack experience in evaluating the safety and efficacy of products based on monoclonal microbials, which could result in a longer than expected regulatory review process, increase our expected development costs and delay or prevent commercialization of our product candidates.

Our platform relies on third parties for biological materials to expand our microbial library.

Our monoclonal microbial platform relies on third parties for biological materials, including human samples containing bacteria, to expand our microbial library. Some biological materials have not always met our expectations or requirements, and any disruption in the supply of these biological materials could materially adversely affect our business and ability to build our pipeline of product candidates. For example, if any supplied biological materials are contaminated, we would not be able to use such biological materials. Although we have quality control processes and screening procedures, biological materials are susceptible to damage and contamination. Improper storage of these materials, by us or any third party suppliers, may require us to destroy some of our raw materials or products.

Even if our product candidates do not cause off target adverse events, there may be immunotoxicity associated with the fundamental pharmacology of our product candidates.

Our product candidates, including EDP1066, EDP1815 and EDP1503, are designed to work by modulating the immune system. While we have observed in preclinical studies that our monoclonal microbials have limited systemic exposure, the pharmacological immune effects we induce are systemic. Systemic immunomodulation from taking our monoclonal microbials could lead to immunotoxicity in patients, which may cause us or regulatory authorities to delay, limit or suspend clinical development. Other immunomodulatory agents have shown immunotoxicity. This includes immune suppressive agents, such as HUMIRA or REMICADE, which have shown an increased risk of infection or in rare instances certain types of blood cancer. In the case of immune activating agents, such as YERVOY, induction of adverse auto-immune events has been observed in some patients. Immunotoxicity in one program could cause regulators to view these adverse events as a class effect of our monoclonal microbials which may impact the timing of the development of our pipeline of potential product candidates. Even if the adverse events are manageable, the profile of the drug may be such that it limits or diminishes the possible number of patients who could receive our therapy.

Our product candidates may cause undesirable side effects or have other properties that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following marketing approval, if any.

Undesirable side effects caused by our product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA, EMA or comparable foreign regulatory authorities. Results of our clinical trials could reveal a high and unacceptable severity and prevalence of side effects or unexpected characteristics. For example, some of our product candidates may consist of live biological material that may remain viable in humans, which carries a risk of causing infections in patients. Some infections may require treatment with antibiotics to eliminate the monoclonal microbial. All our product candidates are screened for antibiotic sensitivity but it is possible that if antibiotic therapy does not eliminate the live biological material, a resistant version of our strain could reemerge. These events, while unlikely, could cause a delay in our clinical development and/or could increase the regulatory standards for the entire class of monoclonal microbials. In an instance where the infection risk of taking our product candidates is high, this may cause the benefit risk profile of therapy to be non-competitive in the market and may lead to discontinuation of development of the product.

In addition, it is possible that infections from our product candidates could be rare and not frequently observed in our clinical trials. In larger post marketing authorization trials, however, data could show that the infection risk, while small, does exist. If unacceptable side effects arise in the development of our product candidates, we, the FDA, EMA or comparable foreign regulatory authorities, the institutional review boards ("IRBs") at the institutions in which our studies are conducted, or ethics committees, or the data safety monitoring board ("DSMB") could suspend or terminate our clinical trials or the FDA, EMA or comparable foreign regulatory authorities could order us to cease clinical trials or deny approval of our product candidates for any or all targeted indications. Treatment-related side effects could also affect patient recruitment or the ability of enrolled patients to complete the trial or result in potential product liability claims. In addition, these side effects may not be appropriately recognized or managed by the treating medical staff. We expect to have to train medical personnel using our product candidates to understand the side effect profiles for our clinical trials and upon any commercialization of any of our product candidates. Inadequate training in recognizing or managing the potential side effects of our product candidates could result in patient injury or death. Any of these occurrences may harm our business, financial condition and prospects significantly.

If any of our product candidates receives marketing approval, and we or others later identify undesirable side effects caused by such products, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw their approval of the product;
- we may be required to recall a product or change the way such product is administered to patients;
- additional restrictions may be imposed on the marketing of the particular product or the manufacturing processes for the product or any component thereof;
- we may be required to conduct post-marketing studies or clinical trials;
- regulatory authorities may require the addition of labeling statements, such as a "black box" warning or a contraindication;
- we may be required to implement a risk evaluation and mitigation strategy or create a medication guide outlining the risks of such side effects for distribution to patients;
- we could be sued and held liable for harm caused to patients;
- the product may become less competitive; and
- our reputation may suffer.

Any of the foregoing events could prevent us from achieving or maintaining market acceptance of the particular product candidate, if approved, and result in the loss of significant revenues to us, which would materially and adversely affect our results of operations and business.

Companies with microbiome products or differing microbial products may produce negative clinical data which will adversely affect public perception of monoclonal microbials, and may negatively impact regulatory approval of, or demand for, our potential products.

Our monoclonal microbial product candidates are pharmaceutical compositions of commensal microbes. While we believe our approach is distinct from microbiome therapies, negative data from clinical trials using microbiome-based therapies (e.g., fecal transplant) and other microbial therapies could negatively impact the perception of the therapeutic use of microbial-based products. This could negatively impact our ability to enroll patients in clinical trials. The clinical and commercial success of our potential products will depend in part on the public and clinical communities' acceptance of the use of monoclonal microbials. Moreover, our success depends upon physicians prescribing, and their patients being willing to receive, treatments that involve the use of product candidates we may develop in lieu of, or in addition to, existing treatments with which they are already familiar and for which greater clinical data may be available.

Adverse events in our preclinical studies or clinical trials or those of our competitors or of academic researchers utilizing monoclonal microbial technologies, even if not ultimately attributable to our product candidates, and the resulting publicity could result in increased governmental regulation, unfavorable public perception, potential regulatory delays in the testing or approval of our potential product candidates, stricter labeling requirements for our product candidates that are approved, if any, and a decrease in demand for any such products.

Catastrophic loss of our master cell banks could significantly impair our ability to manufacture our product candidates.

Our monoclonal microbial product candidates require that we manufacture from master cell banks ("MCBs") of our microbial strains. There is a possibility of a catastrophic failure or destruction of our MCBs. This could make it impossible for us to continue to manufacture a specific product. Recreating and recertifying our MCBs is possible but not certain and could put at risk the supply of our product candidates for preclinical studies or clinical trials or any products, if approved, to our customers.

Clinical drug development involves a lengthy and expensive process, with an uncertain outcome. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

All of our product candidates are currently in clinical or preclinical development. We dosed the first subjects in our clinical trial of our first monoclonal microbial candidate in our inflammation portfolio, EDP1066, in April 2018, and commenced initial clinical trials for our second inflammation candidate, EDP1815, and our oncology product candidate, EDP1503, in the fourth quarter of 2018, but have not completed any clinical trials for these or any other product candidates. It is impossible to predict when or if any of our product candidates will prove effective and safe in humans or will receive regulatory approval, and the risk of failure through the product development process is high. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failed clinical trial can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. For example, in our initial clinical trials, drug products will be delivered in a capsule coated for targeted release in the small intestine. This formulation has not previously been clinically tested, nor are we able to dose mice with a capsule coated for targeted release in the small intestine. Our ongoing and planned clinical trials will be the first time this formulation is tested, and we cannot assure you that the results of this formulation will be consistent with the observations from our preclinical studies. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials due to adverse safety profiles or lack of efficacy, notwithstanding promising results in earlier studies, and we cannot be certain that we will not face similar setbacks.

The results from early clinical trials of product candidates may not predict the results that will be obtained in subsequent subjects or in subsequent human clinical trials of that product candidate. For example, in August 2019, we announced positive Phase 1b clinical data, as measured using certain secondary and exploratory endpoints, from one 12-patient cohort in our ongoing clinical trial of EDP1815 in subjects with mild to moderate psoriasis and also from our EDP1066 trial in subjects with mild to moderate psoriasis. Although the initial clinical data from these trials may be encouraging, the data are preliminary in nature, based on a limited number of people with psoriasis, and the Phase 1 studies are not complete. These data, or other positive data, may not continue for these people with psoriasis or occur for any

future patients in these studies, and may not be repeated or observed in any future studies. There can be no assurance that these studies will ultimately be successful or support further clinical advancement of this product candidate.

In addition, we cannot be certain as to the type and number of clinical trials the FDA will require us to conduct before we may successfully gain approval, referred to as licensure in the United States, to market any of our product candidates. Prior to approving a new therapeutic product, the FDA generally requires that efficacy be demonstrated in two adequate and well-controlled clinical trials. In some situations, evidence from a Phase 2 trial and a Phase 3 trial or from a single Phase 3 trial can be sufficient for FDA approval, such as in cases where the trial or trials provide highly reliable and statistically strong evidence of an important clinical benefit. Additionally, the FDA requires that investigation include adequate tests to demonstrate the safety of the new therapeutic product. Additional clinical trials could cause us to incur significant development costs, delay or prevent the commercialization of our products or otherwise adversely affect our business.

We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to receive marketing approval or commercialize our product candidates, including:

- regulators, IRBs or ethics committees may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- we may experience delays in reaching, or fail to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;
- clinical trials of our product candidates may demonstrate undesirable side effects or produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs;
- the number of patients required for clinical trials of our product candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate or participants may drop out of these clinical trials at a higher rate than we anticipate;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;
- we may have to, or regulators, IRB or ethics committees may require that we or our investigators, suspend or terminate clinical trials of our product candidates for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;
- the cost of clinical trials of our product candidates may be greater than we anticipate;
- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate;
- regulators may revise the requirements for approving our product candidates, or such requirements may not be as we anticipate; and
- regarding trials managed by any future collaborators, our collaborators may face any of the above issues, and may conduct clinical trials in ways they view as advantageous to them but potentially suboptimal for us.

If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our product candidates or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, we may:

- be delayed in obtaining marketing approval for our product candidates;
- lose the support of any future collaborators, requiring us to bear more of the burden of developing certain microbial strains;
- not obtain marketing approval at all;

- obtain marketing approval in some countries and not in others;
- obtain approval for indications or patient populations that are not as broad as we intend or desire;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings;
- be subject to additional post-marketing testing requirements; or
- have the product removed from the market after obtaining marketing approval.

Our product development costs will increase if we experience delays in clinical testing or marketing approvals. We do not know whether any of our preclinical studies or clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Significant preclinical or clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do, potentially impairing our ability to successfully commercialize our product candidates and harming our business and results of operations.

If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside the United States, such as the EMA. We are developing our product candidates, EDP1066 and EDP1815, to treat inflammatory diseases, beginning with psoriasis and atopic dermatitis, and EDP1503 to treat multiple types of cancer. There are a limited number of patients from which to draw for clinical studies.

Patient enrollment is also affected by other factors including:

- the severity of the disease under investigation;
- the patient eligibility criteria for the study in question;
- the perceived risks and benefits of the product candidate under study;
- the availability of other treatments for the disease under investigation;
- the existence of competing clinical trials;
- the efforts to facilitate timely enrollment in clinical trials;
- our payments for conducting clinical trials;
- the patient referral practices of physicians;
- the ability to monitor patients adequately during and after treatment; and
- the proximity and availability of clinical trial sites for prospective patients.

Our inability to enroll a sufficient number of patients or volunteers for our clinical trials would result in significant delays and could require us to abandon one or more clinical trials altogether. Enrollment delays in our clinical trials may result in increased development costs for our product candidates, which would cause the value of our company to decline and limit our ability to obtain additional financing.

If we are not able to obtain, or if there are delays in obtaining, required regulatory approvals, we will not be able to commercialize our product candidates or will not be able to do so as soon as anticipated, and our ability to generate revenue will be materially impaired.

Our product candidates and the activities associated with their development and commercialization, including their design, testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale

and distribution, are subject to comprehensive regulation by the FDA and other regulatory agencies in the United States and by the EMA and similar regulatory authorities outside the United States. Failure to obtain marketing approval for a product candidate in any jurisdiction will prevent us from commercializing the product candidate in that jurisdiction, and may affect our plans for commercialization in other jurisdictions as well. We have not received approval to market any of our product candidates from regulatory authorities in any jurisdiction. We have only limited experience in filing and supporting the applications necessary to gain marketing approvals and expect to rely on third parties to assist us in this process.

Securing marketing approval requires the submission of extensive preclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish the product candidate's safety and efficacy to such regulatory authorities' satisfaction. Securing marketing approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. Our product candidates may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining marketing approval or prevent or limit commercial use.

The process of obtaining marketing approvals, both in the United States and abroad, is expensive and may take many years. The scope and amount of clinical data required to obtain marketing approvals can vary substantially from jurisdiction to jurisdiction, and it may be difficult to predict whether a particular regulatory body will require additional or different studies than those conducted by a sponsor, especially for novel product candidates such as our monoclonal microbials. The FDA, EMA or other foreign regulatory authorities may delay, limit, or deny the approval of our product candidates for many reasons, including: our inability to demonstrate that the clinical benefits of our product candidates outweigh any safety or other perceived risks; the regulatory authority's disagreement with the interpretation of data from nonclinical or clinical studies; the regulatory agency's requirement that we conduct additional preclinical studies and clinical trials; changes in marketing approval policies during the development period; changes in or the enactment of additional statutes or regulations, or changes in regulatory review process for each submitted product application; or the regulatory authority's failure to approve the manufacturing processes or third-party manufacturers with which we contract. Regulatory authorities have substantial discretion in the approval process and may refuse to accept a marketing application as deficient. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent marketing approval of a product candidate. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable. Of the large number of drugs in development, only a small percentage successfully complete the FDA, EMA or other regulatory approval processes and are commercialized.

Furthermore, our product candidates may not receive marketing approval even if they achieve their specified endpoints in clinical trials. Clinical data are often susceptible to varying interpretations and many companies that have believed that their products performed satisfactorily in clinical trials have nonetheless failed to obtain FDA, EMA or the applicable foreign regulatory agency approval for their products. The FDA, EMA or foreign regulatory authorities may disagree with our trial design and our interpretation of data from nonclinical and clinical studies. Upon the review of data from any pivotal trial, the FDA, EMA or applicable foreign regulatory agency may request that the sponsor conduct additional analyses of the data and, if it believes the data are not satisfactory, could advise the sponsor to delay filing a marketing application.

Even if we eventually complete clinical testing and receive approval of a biologics license application ("BLA") or foreign marketing authorization for one of our product candidates, the FDA, EMA or applicable foreign regulatory agency may grant approval contingent on the performance of costly additional clinical trials which may be required after approval. The FDA, EMA or the applicable foreign regulatory agency may also approve our products for a more limited indication and/or a narrower patient population than we originally request, and the FDA, EMA or applicable foreign regulatory agency may not approve the labeling that we believe is necessary or desirable for the successful commercialization of our products. Any delay in obtaining, or inability to obtain, applicable regulatory approval would delay or prevent commercialization of our product candidates and would materially adversely impact our business and prospects.

The development of therapeutic products targeting the underlying biology of monoclonal microbials and their interactions with cells in the small intestine is an emerging field, and it is possible that the FDA, EMA or other regulatory authorities could issue regulations or new policies in the future affecting our monoclonal microbials that could adversely affect our product candidates.

If we experience delays in obtaining approval or if we fail to obtain approval of our product candidates, the commercial prospects for our product candidates may be harmed and our ability to generate revenues will be materially impaired.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we intend to focus on developing product candidates for multiple initial indications that we identify as most likely to succeed, in terms of both regulatory approval and commercialization. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that may prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and product development programs and product candidates for specific indications may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements, in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

A fast track designation by the FDA may not actually lead to a faster development or regulatory review or approval process.

We may seek fast track designation for some of our product candidates. If a drug or biologic is intended for the treatment of a serious or life-threatening condition and nonclinical or clinical data demonstrate the potential to address unmet medical needs for this condition, the drug or biologic sponsor may apply for FDA fast track designation. Fast track designation provides increased opportunities for sponsor meetings with the FDA during preclinical and clinical development, in addition to the potential for rolling review once a marketing application is filed. The FDA has broad discretion whether or not to grant this designation, and even if we believe a particular product candidate is eligible for this designation, we cannot assure you that the FDA would decide to grant it. Even if we do receive fast track designation, we may not experience a faster development process, review or approval compared to conventional FDA procedures. Fast track designation does not assure ultimate approval by the FDA. The FDA may withdraw fast track designation if it believes that the designation is no longer supported by data from our product development program.

A breakthrough therapy designation by the FDA for our product candidates may not lead to a faster development or regulatory review or approval process, and it does not increase the likelihood that our product candidates will receive marketing approval.

We may seek a breakthrough therapy designation for our product candidates. A breakthrough therapy is defined as a drug or biologic that is intended to treat a serious or life-threatening disease or condition, and preliminary clinical evidence indicates that the drug or biologic may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints. For drugs that have been designated as breakthrough therapies, interaction and communication between the FDA and the sponsor can help to identify the most efficient path for clinical development. Drugs designated as breakthrough therapies by the FDA may also be eligible for accelerated approval.

Designation as a breakthrough therapy is within the discretion of the FDA. Accordingly, even if we believe one of our product candidates meets the criteria for designation as a breakthrough therapy, the FDA may disagree and instead determine not to make such designation. In any event, the receipt of a breakthrough therapy designation for a product candidate may not result in a faster development process, review or approval compared to conventional FDA procedures and does not assure ultimate approval by the FDA. In addition, even if one or more of our product candidates qualify as breakthrough therapies, the FDA may later decide that the products no longer meet the conditions for qualification and rescind the designation.

We may seek orphan drug designation for some of our product candidates, but may not be able to obtain it.

Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs and biologics for relatively small patient populations as orphan drugs. In the United States, the FDA may designate a drug or biologic as an orphan drug if it is intended to treat a rare disease or condition, which is defined as a disease or condition that affects fewer than 200,000 individuals in the United States, or if it affects more than 200,000 individuals in the United States, there is no reasonable expectation that the cost of developing and making the product available in the United States for the disease or condition will be recovered from sales of the product.

Generally, if a product with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, the product is entitled to a period of marketing exclusivity, which precludes the EMA or the FDA from approving another marketing application for the same drug or biologic for that time period. The applicable period is seven years in the United States and ten years in Europe. Market exclusivity based on orphan drug designation is distinct from exclusivity conveyed by other regulations and under issued patents; the periods of exclusivity may run concurrently. The European exclusivity period can be reduced to six years if a product no longer meets the criteria for orphan drug designation or if the product is sufficiently profitable so that market exclusivity is no longer justified.

In addition, exclusive marketing rights in the United States may be limited if we seek approval for an indication broader than the orphan-designated indication or may be lost if the FDA or EMA later determines that the request for designation was materially defective or if we are unable to assure sufficient quantities of the product to meet the needs of patients with the rare disease or condition. We may seek orphan drug designation and exclusivity for some of our product candidates. However, even if we obtain orphan drug designation for a product candidate, we may not be able to obtain or maintain orphan drug exclusivity for that product candidate. Orphan drug exclusivity may be lost if the FDA or EMA determines that the request for designation was materially defective or if we are unable to assure sufficient quantity of the drug or biologic to meet the needs of patients with the rare disease or condition. We also may not be the first to obtain marketing approval of any product candidate for which we have obtained orphan drug designation for the orphan-designated indication due to the uncertainties associated with developing pharmaceutical products.

Further, even if we obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different drugs with different active moieties may be approved for the same condition. Even after an orphan drug is approved, the FDA can subsequently approve the same drug with the same active moiety for the same condition if the FDA concludes that the later drug is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care or if the manufacturer of the product with orphan exclusivity is unable to maintain sufficient product quantity. Orphan drug designation neither shortens the development time or regulatory review time of a drug nor gives the drug any advantage in the regulatory review or approval process.

Risks Related to our Dependence on Third Parties and Manufacturing

We rely, and expect to continue to rely, on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such trials.

We rely, and expect to continue to rely, on third parties, such as contract research organizations ("CROs") clinical data management organizations, medical institutions, clinical investigators and potential pharmaceutical partners, to conduct and manage our clinical trials and investigator-sponsored trials, including our clinical trial of EDP1066, and anticipated clinical trials for EDP1815 and EDP1503.

Our reliance on these third parties for research and development activities will reduce our control over these activities but does not relieve us of our responsibilities. For example, we remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with regulatory standards, commonly referred to as good clinical practices, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, safety and welfare of trial participants are protected. Other countries' regulatory agencies also have requirements for clinical trials with which we must comply. We also may be required in certain instances to register ongoing clinical trials and post the results of completed clinical trials on government-sponsored databases, such as *ClinicalTrials.gov*, within specified timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties, do not meet expected deadlines, experience work stoppages, terminate their agreements with us or need to be replaced, or do not conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we may need to enter into new arrangements with alternative third parties, which could be difficult, costly or impossible, and our clinical trials may be extended, delayed, or terminated or may need to be repeated. If any of the foregoing occur, we may not be able to obtain, or may be delayed in obtaining, marketing approvals for our product candidates and may not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates.

We also expect to rely on other third parties to store and distribute drug product required by our clinical trials. Any performance failure on the part of our distributors could delay clinical development or marketing approval of our product candidates or commercialization of our products, producing additional losses and depriving us of potential product revenue.

We rely on third parties for the manufacture of our product candidates for preclinical and clinical testing and expect to continue to do so for the foreseeable future. This reliance on third parties increases the risk that we will not have sufficient quantities of our product candidates or that such quantities may not be available at an acceptable cost, which could delay, prevent or impair our development or commercialization efforts.

We rely, and expect to continue to rely, on third parties for the manufacture of our product candidates for preclinical and clinical testing, as well as for commercial manufacture if any of our product candidates receive marketing approval.

This reliance on third parties increases the risk that we will not have sufficient quantities of our product candidates on a timely basis or at all, or that such quantities will be available at an acceptable cost or quality, which could delay, prevent or impair our development or commercialization efforts.

We may be unable to establish any agreements with third-party manufacturers on acceptable terms or at all. Even if we are able to establish agreements with third-party manufacturers, reliance on third-party manufacturers entails additional risks, including:

- failure of third-party manufacturers to comply with regulatory requirements and maintain quality assurance;
- breach of manufacturing agreements by the third-party manufacturers;
- failure to manufacture our product according to our specifications;
- failure to manufacture our product according to our schedule or at all;
- misappropriation or disclosure of our proprietary information, including our trade secrets and know-how; and
- termination or nonrenewal of agreements by third-party manufacturers at times that are costly or inconvenient for us.

Third-party manufacturers may not be able to comply with current Good Manufacturing Practices ("cGMP") regulations or similar regulatory requirements outside the United States. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including clinical holds, fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocations, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our products. The contract manufacturers we rely on to produce our product candidates have never produced a FDA-approved therapeutic. If our contract manufacturers are unable to comply with cGMP regulation or if the FDA does not approve their facility upon a pre-approval inspection, our product candidates may not be approved or may be delayed in obtaining approval. In addition, there are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing our products. Therefore, our product candidates and any future product candidates that we may develop may compete with other products for access to manufacturing facilities. Any failure to gain access to these limited manufacturing facilities could severely impact the clinical development, marketing approval and commercialization of our product candidates.

Any performance failure on the part of our existing or future manufacturers could delay clinical development or marketing approval. We do not currently have arrangements in place for redundant supply or a second source for required raw materials used in the manufacture of our product candidates or for the manufacture of finished product. If our current contract manufacturers cannot perform as agreed, we may be required to replace such manufacturers and we may be unable to replace them on a timely basis or at all. Our current and anticipated future dependence upon others for the manufacture of our product candidates or products could delay, prevent or impair our development and commercialization efforts.

We have no experience manufacturing our product candidates at commercial scale, and if we decide to establish our own manufacturing facility, we cannot assure you that we can manufacture our product

candidates in compliance with regulations at a cost or in quantities necessary to make them commercially viable.

We may establish a manufacturing facility for our product candidates for production at a commercial scale. We have no experience in commercial-scale manufacturing of our product candidates. We currently intend to develop our manufacturing capacity in part by expanding our current facility or building additional facilities. This activity will require substantial additional funds and we would need to hire and train a significant number of qualified employees to staff these facilities. We may not be able to develop commercial-scale manufacturing facilities that are adequate to produce materials for additional later-stage clinical trials or commercial use.

The equipment and facilities employed in the manufacture of pharmaceuticals are subject to stringent qualification requirements by regulatory agencies, including validation of facility, equipment, systems, processes and analytics. We may be subject to lengthy delays and expense in conducting validation studies, if we can meet the requirements at all.

Risks Related to Commercialization of Our Product Candidates and Other Legal Compliance Matters

Even if any of our product candidates receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, hospitals, third-party payors and others in the medical community necessary for commercial success.

If any of our product candidates receives marketing approval, it may nonetheless fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community. For example, current psoriasis treatment involves the use of steroids and biologics that are well established in the medical community, and physicians may continue to rely on these treatments. If our product candidates receive approval but do not achieve an adequate level of acceptance, we may not generate significant product revenue and we may not become profitable. The degree of market acceptance of our approved product candidates, if any, will depend on a number of factors, including:

- their efficacy, safety and other potential advantages compared to alternative treatments;
- the clinical indications for which our products are approved;
- our ability to offer them for sale at competitive prices;
- their convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support;
- the availability of third-party coverage and adequate reimbursement for our product candidates;
- the prevalence and severity of their side effects and their overall safety profiles;
- any restrictions on the use of our products together with other medications;
- interactions of our products with other medicines patients are taking; and
- the inability of certain types of patients to take our product.

We currently have no sales organization. If we are unable to establish effective sales, marketing and distribution capabilities or enter into agreements with third parties with such capabilities, we may not be successful in commercializing our product candidates if and when they are approved.

We do not have a sales or marketing infrastructure and have no experience in the sale, marketing or distribution of our product candidates. To achieve commercial success for any product for which we obtain marketing approval, we will need to establish a sales and marketing organization or make arrangements with third parties to perform sales and marketing functions and we may not be successful in doing so.

In the future, we expect to build a focused sales and marketing infrastructure to market or promote our product candidates in the United States and potentially elsewhere, if and when they are approved. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force is expensive and time consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our products on our own include:

- our inability to recruit, train and retain an adequate number of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to or educate physicians on the benefits of our products;
- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines;
- unforeseen costs and expenses associated with creating an independent sales and marketing organization; and
- the inability to obtain sufficient coverage and reimbursement from third-party payors and governmental agencies.

Outside the United States, we may rely on third parties to sell, market and distribute our product candidates. We may not be successful in entering into arrangements with such third parties or may be unable to do so on terms that are favorable to us. In addition, our product revenue and our profitability, if any, may be lower if we rely on third parties for these functions than if we were to market, sell and distribute any products that we develop ourselves. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

We face substantial competition, which may result in others discovering, developing or commercializing competing products before or more successfully than we do.

The development and commercialization of new drug and biologic products is highly competitive and is characterized by rapid and substantial technological development and product innovations. We face competition with respect to our current product candidates and will face competition with respect to product candidates that we may seek to develop or commercialize in the future, from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. We are aware of a number of large pharmaceutical and biotechnology companies, including AbbVie Inc., Agenus Inc., AstraZeneca plc, Bristol-Myers Squibb, Celgene Corporation, F. Hoffmann-La Roche A.G., Gilead Sciences, Inc., Incyte Corporation, Johnson & Johnson, Merck, Novartis International A.G., Pfizer Inc. and Regeneron Pharmaceuticals, Inc., as well as smaller, early-stage companies, that are pursuing the development of products, including microbial-based therapeutics in some instances, for disease indications we are targeting. Some of these competitive products and therapies are based on scientific approaches that are the same as or similar to our approach, and others may be based on entirely different approaches. Potential competitors also include academic institutions, government agencies and other public and private research organizations.

Many of the companies against which we are competing or against which we may compete in the future have significantly greater financial resources, established presence in the market and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and reimbursement and marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors.

These third parties compete with us in recruiting and retaining qualified scientific, sales and marketing and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we may develop. Our competitors also may obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could delay us from obtaining FDA approval to market our product candidates and result in our competitors establishing a strong market position before we are able to enter the market, especially for any competitor developing a microbial-based therapeutic which will likely share our same regulatory approval requirements. For more information, please see "Risk Factors-Our product candidates for which we intend to seek approval as a biologic products may face competition sooner than anticipated, which may delay us from marketing our product candidates." In addition, our ability to compete may be affected in many cases by insurers or other third-party payors seeking to encourage the use of generic or biosimilar products.

Even if we are able to commercialize any product candidates, the products may become subject to unfavorable pricing regulations or third-party coverage and reimbursement policies, any of which could harm our business.

Our ability to commercialize any product candidates successfully will depend, in part, on the extent to which coverage and reimbursement for these products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and impact reimbursement levels.

Obtaining and maintaining adequate reimbursement for our products may be difficult. We cannot be certain if and when we will obtain an adequate level of reimbursement for our products by third-party payors. Even if we do obtain adequate levels of reimbursement, third-party payors, such as government or private healthcare insurers, carefully review and increasingly question the coverage of, and challenge the prices charged for, drugs. Reimbursement rates from private health insurance companies vary depending on the company, the insurance plan and other factors. A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for drugs. We may also be required to conduct expensive pharmacoeconomic studies to justify coverage and reimbursement or the level of reimbursement relative to other therapies. If coverage and reimbursement are not available or reimbursement is available only to limited levels, we may not be able to successfully commercialize any product candidate for which we obtain marketing approval, and the royalties resulting from the sales of those products may also be adversely impacted.

There may be significant delays in obtaining reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or similar regulatory authorities outside the United States. Moreover, eligibility for reimbursement does not imply that a drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Interim reimbursement levels for new drugs, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs and may be incorporated into existing payments for other services. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

The regulations that govern marketing approvals, pricing, coverage and reimbursement for new drug products vary widely from country to country. Current and future legislation may significantly change the approval requirements in ways that could involve additional costs and cause delays in obtaining approvals. Some countries require approval of the sale price of a drug before it can be reimbursed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription drug pricing remains subject to continuing governmental control, including possible price reductions, even after initial approval is granted. As a result, we might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if our product candidates obtain marketing approval. There can

be no assurance that our product candidates, if they are approved for sale in the United States or in other countries, will be considered medically necessary or cost-effective for a specific indication, or that coverage or an adequate level of reimbursement will be available.

Product liability lawsuits against us could cause us to incur substantial liabilities and limit commercialization of any products that we may develop.

We face an inherent risk of product liability exposure related to the testing of our product candidates in clinical trials and will face an even greater risk if we commercially sell any products that we develop. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- regulatory investigations, product recalls or withdrawals, or labeling, marketing or promotional restrictions;
- decreased demand for any product candidates or products that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to commercialize any products that we may develop.

Our current product liability insurance coverage and any product liability insurance coverage that we acquire in the future may not be adequate to cover all liabilities that we may incur. We may need to increase our insurance coverage as we expand our clinical trials or if we commence commercialization of our product candidates. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

Our product candidates for which we intend to seek approval as biological products may face competition sooner than anticipated, which may delay us from marketing our product candidates.

Even if we are successful in achieving regulatory approval to commercialize a product candidate faster than our competitors, we may face competition from biosimilars. The Patient Protection and Affordable Care Act ("Affordable Care Act") signed into law on March 23, 2010, includes a subtitle called the Biologics Price Competition and Innovation Act of 2009 ("BPCIA") which created an abbreviated approval pathway for biological products that are biosimilar to or interchangeable with an FDA-licensed reference biological product. Under the BPCIA, an application for a biosimilar product may not be submitted to the FDA until four years following the date that the reference product was first licensed by the FDA. In addition, the approval of a biosimilar product may not be made effective by the FDA until 12 years from the date on which the reference product was first licensed. During this 12-year period of exclusivity, another company may still market a competing version of the reference product if the FDA approves a full BLA for the competing product containing the sponsor's own preclinical data and data from adequate and well-controlled clinical trials to demonstrate the safety, purity and potency of their product. The law is complex and is still being interpreted and implemented by the FDA. As a result, its ultimate impact, implementation, and meaning are subject to uncertainty. While it is uncertain when such processes intended to implement BPCIA may be fully adopted by the FDA, any such processes could have a material adverse effect on the future commercial prospects for our biological products.

We believe that any of our product candidates approved as a biological product under a BLA should qualify for the 12-year period of exclusivity. However, there is a risk that this exclusivity could be shortened due to congressional action or otherwise, or that the FDA will not consider our product candidates to be reference products for competing products, potentially creating the opportunity for generic competition sooner than anticipated. Other aspects of the BPCIA, some of which may impact the BPCIA exclusivity provisions, have also been the subject of recent litigation. Moreover, the

extent to which a biosimilar, once approved, will be substituted for any one of our reference products in a way that is similar to traditional generic substitution for non-biological products is not yet clear, and will depend on a number of marketplace and regulatory factors that are still developing.

In Europe, the European Commission has granted marketing authorizations for biosimilars pursuant to a set of general and product class-specific guidelines for biosimilar approvals issued over the past few years. In Europe, a competitor may reference data supporting approval of an innovative biological product, but will not be able to get on the market until 10 years after the time of approval of the innovative product. This 10-year marketing exclusivity period will be extended to 11 years if, during the first eight of those 10 years, the marketing authorization holder obtains an approval for one or more new therapeutic indications that bring significant clinical benefits compared with existing therapies. In addition, companies may be developing biosimilars in other countries that could compete with our products. If competitors are able to obtain marketing approval for biosimilars referencing our products, our products may become subject to competition from such biosimilars, with the attendant competitive pressure and consequences.

Failure to obtain marketing approval in international jurisdictions would prevent our product candidates from being marketed abroad.

In order to market and sell our product candidates in the European Union and many other jurisdictions, we or our collaborators must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval in foreign countries may differ substantially from that required to obtain FDA, EMA or other applicable regulatory approval. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA, EMA or other applicable regulatory approval. In addition, in many countries outside the United States, it is required that the product be approved for reimbursement before the product can be approved for sale in that country. We or our collaborators may not obtain approvals for our product candidates from regulatory authorities outside the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA. However, a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. We may not be able to file for marketing approvals and may not receive necessary approvals to commercialize our products in any market.

Any product candidate for which we obtain marketing approval could be subject to post-marketing restrictions or withdrawal from the market, and we may be subject to penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with our products, when and if any of them are approved.

Any product candidate for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such product, will be subject to the continual requirements of and review by the FDA and other regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, cGMP requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. We and our contract manufacturers will also be subject to continual review and periodic inspections to assess compliance with cGMP. Accordingly, we and others with whom we work must continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control.

Even if marketing approval of a product candidate is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to specific conditions of approval, including a requirement to implement a risk evaluation and mitigation strategy, which could include requirements for a medication guide, communication plan, or restricted distribution system. If any of our product candidates receives marketing approval, the accompanying label may limit the approved use of our drug, which could limit sales of the product.

The FDA may also impose requirements for costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of our approved products. The FDA closely regulates the post-approval marketing and promotion of drugs and biologics to ensure they are marketed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA imposes stringent restrictions on manufacturers' communications regarding off-label use, and if we market our products outside of their approved indications, we may be subject to

enforcement action for off-label marketing. Violations of the FDA's restrictions relating to the promotion of prescription drugs may also lead to investigations alleging violations of federal and state health care fraud and abuse laws, as well as state consumer protection laws.

In addition, if a regulatory agency or we later discover previously unknown problems with our products, such as adverse events of unanticipated severity or frequency, problems with manufacturers or manufacturing processes, or failure to comply with regulatory requirements, the regulatory agency may impose restrictions on the products or us, including requiring withdrawal of the product from the market. Any failure to comply with applicable regulatory requirements may yield various results, including:

- litigation involving patients taking our products;
- restrictions on such products, manufacturers or manufacturing processes;
- restrictions on the labeling or marketing of a product;
- restrictions on product distribution or use;
- requirements to conduct post-marketing studies or clinical trials;
- warning letters;
- withdrawal of products from the market;
- suspension or termination of ongoing clinical trials;
- refusal to approve pending applications or supplements to approved applications that we submit;
- recall of products;
- fines, restitution or disgorgement of profits or revenues;
- suspension or withdrawal of marketing approvals;
- damage to relationships with potential collaborators;
- unfavorable press coverage and damage to our reputation;
- refusal to permit the import or export of our products;
- product seizure or detention;
- injunctions; or
- imposition of civil or criminal penalties.

Noncompliance with similar European Union requirements regarding safety monitoring or pharmacovigilance can also result in significant financial penalties. Similarly, failure to comply with U.S. and foreign regulatory requirements regarding the development of products for pediatric populations and the protection of personal health information can also lead to significant penalties and sanctions.

Any government investigation of alleged violations of law could require us to expend significant time and resources in response and could generate negative publicity. In addition, the FDA's regulations, policies or guidance may change and new or additional statutes or government regulations may be enacted that could prevent or delay regulatory approval of our product candidates or further restrict or regulate post-approval activities. Any failure to comply with ongoing regulatory requirements may significantly and adversely affect our ability to commercialize and generate revenues. If regulatory sanctions are applied or if regulatory approval is withheld or withdrawn, the value of our company and our operating results will be adversely affected.

We also cannot predict the likelihood, nature or extent of adverse government regulation that may arise from pending or future legislation or administrative action, either in the United States or abroad. For example, certain policies of the current presidential administration may impact our business and industry. Namely, the current presidential administration has taken several executive actions, including the issuance of a number of Executive Orders, that could impose significant burdens on, or otherwise materially delay, the FDA's ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance, and review and approval of marketing applications. It is difficult to predict how these requirements will be implemented, and the extent to which they will impact the FDA's ability to exercise its regulatory authority. If these executive actions impose constraints on the FDA's ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

Our relationships with customers, physicians and third-party payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, exclusion from governmental healthcare programs, contractual damages, reputational harm and diminished profits and future earnings.

Healthcare providers, physicians and third-party payors will play a primary role in the recommendation and prescription of any product candidates for which we obtain marketing approval. Our future arrangements with third-party payors, physicians and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may restrict the business or financial arrangements and relationships through which we market, sell and distribute any products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations include the following:

- the federal Anti-Kickback Statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under a federal healthcare program, such as Medicare and Medicaid; a person or entity does not need to have actual knowledge of the statute or specific intent to violate the statute to have committed a violation. In addition, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act (described below);
- the false claims and civil monetary penalties laws, including the federal False Claims Act, which, among other things, impose criminal and civil penalties, including through civil whistleblower or qui tam actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent, knowingly making, using or causing to be made or used, a false record or statement material to a false or fraudulent claim or from knowingly or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- the federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA") imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters; similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of these statutes or specific intent to violate them to have committed a violation;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act and its implementing regulations, also imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the federal Physician Payment Sunshine Act requires applicable manufacturers of covered drugs to report payments and other transfers of value to physicians and teaching hospitals, and ownership and investment interests held by physicians and their immediate family members; manufacturers are required to submit subsequent reports to the government by the 90th day of each calendar year;
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, may apply to our business practices, including but not limited to, research, distribution, sales or marketing arrangements and claims involving healthcare items or services reimbursed by non- governmental third-party payors, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government and may require drug manufacturers to report information related to payments and

other transfers of value to physicians and other healthcare providers, pricing information or marketing expenditures; and

- state and foreign laws that govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. The shifting compliance environment and the need to build and maintain a robust system to comply with multiple jurisdictions with different compliance and reporting requirements increases the possibility that a healthcare company may violate one or more of the requirements.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental laws and regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, imprisonment, exclusion from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations.

Recently enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval for and commercialize our product candidates and affect the prices we may obtain.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of our product candidates, restrict or regulate post-approval activities and affect our ability to profitably sell any product candidates for which we obtain marketing approval.

In the United States, President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively the "Affordable Care Act"), a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for the healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms.

Among the provisions of the Affordable Care Act that are of importance to our potential product candidates are the following:

- establishment of a new pathway for approval of lower-cost biosimilars to compete with biologic products, such as those we are developing;
- an annual, nondeductible fee payable by any entity that manufactures or imports specified branded prescription drugs and biologic agents;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program;
- expansion of healthcare fraud and abuse laws, including the False Claims Act and the Anti-Kickback Statute, new government investigative powers and enhanced penalties for noncompliance;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices;
- extension of manufacturers' Medicaid rebate liability;
- expansion of eligibility criteria for Medicaid programs;

- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- new requirements to report financial arrangements with physicians and teaching hospitals;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians; and
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in and conduct comparative clinical effectiveness research, along with funding for such research.

There have been judicial and Congressional challenges to certain aspects of the Affordable Care Act, and we expect there will be additional challenges and amendments to the Affordable Care Act in the future, particularly in light of the new presidential administration and U.S. Congress. At this time, the full effect that the Affordable Care Act would have on our business remains unclear.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. In August 2011, the Budget Control Act of 2011, among other things, created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013 and, due to subsequent legislative amendments, will remain in effect through 2025 unless additional Congressional action is taken. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several providers, including hospitals, and an increase in the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding and otherwise affect the prices we may obtain.

We expect that the Affordable Care Act, as well as other healthcare reform measures that may be adopted in the future, may result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, new payment methodologies and in additional downward pressure on the price that we receive for any approved product. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our product candidates, if approved.

Moreover, there has recently been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products. Individual states in the United States have become increasingly aggressive in implementing regulations designed to contain pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures. Legally mandated price controls on payment amounts by third-party payors or other restrictions could harm our business, results of operations, financial condition and prospects. In addition, regional healthcare authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other healthcare programs. This could reduce the ultimate demand for our product candidates, if approved, or put pressure on our product pricing, which could negatively affect our business, results of operations, financial condition and prospects.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be. In addition, increased scrutiny by Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject us to more stringent product labeling and post-marketing testing and other requirements.

Governments outside the United States tend to impose strict price controls, which may adversely affect our revenues, if any.

In some countries, particularly the countries of the European Union, the pricing of prescription drugs is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. In addition, there can be considerable pressure by governments and other stakeholders on prices and reimbursement levels, including as part of cost containment measures. Political,

economic and regulatory developments may further complicate pricing negotiations, and pricing negotiations may continue after coverage and reimbursement have been obtained. Reference pricing used by various European Union member states and parallel distribution or arbitrage between low-priced and high-priced member states, can further reduce prices. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies. If coverage and reimbursement of our products are unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be harmed, possibly materially.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials such as human stool. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations.

Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Our failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Risks Related to Our Intellectual Property

If we are unable to adequately protect our proprietary technology, or obtain and maintain issued patents which are sufficient to protect our product candidates, others could compete against us more directly, which would have a material adverse impact on our business, results of operations, financial condition and prospects.

Our success depends in large part on our ability to obtain and maintain patent and other intellectual property protection in the United States and other countries with respect to our proprietary technology and products. We seek to protect our proprietary position by filing patent applications in the United States and abroad related to our novel technologies and product candidates. We also rely on trade secrets to protect aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection.

The patent prosecution process is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost, in a timely manner, or in all jurisdictions. Prosecution of our patent portfolio is at a very early stage, and we are just beginning to reach the statutory deadlines for deciding whether and where to initiate prosecution in specific foreign jurisdictions by filing national stage applications based on our Patent Cooperation Treaty applications. As those deadlines come due, we will have to decide whether and where to pursue patent protection for the various inventions claimed in our patent portfolio, and we will only have the opportunity to obtain patents in those jurisdictions where we pursue protection. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. It is possible that defects of form in the preparation or filing of our patents or patent applications may exist, or may arise in the future, such as, with respect to proper priority claims, inventorship, claim scope or patent term adjustments. If there are material defects in the form or preparation of our patents or patent applications, such patents or applications may be invalid and unenforceable. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. Any of these outcomes could impair our ability to prevent competition from third parties, which may have an adverse impact on our business, financial condition and operating results.

Pursuant to our current and future license agreements with third parties, in some circumstances, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering

technology that we license from third parties. We may also require the cooperation of our licensors to enforce any licensed patent rights, and such cooperation may not be provided. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business.

Our patent portfolio is in the early stages of prosecution. We currently have seven issued U.S. patents. Although we have numerous patent applications pending, substantive prosecution has begun in only a small number of those applications. We cannot provide any assurances that any of our pending patent applications will mature into issued patents and, if they do, that such patents or our current patents will include claims with a scope sufficient to protect our product candidates or otherwise provide any competitive advantage. For example, we are pursuing claims to compositions of certain bacterial populations. Any claims that are issued may provide coverage for such compositions and/or their use. However, such claims would not prevent a third party from commercializing alternative compositions that do not include the bacterial populations claimed in pending applications, potential applications or patents that have or may issue. There can be no assurance that any such alternative composition will not be equally effective. These and other factors may provide opportunities for our competitors to design around our patents, should they issue.

Moreover, other parties have developed technologies that may be related or competitive to our approach, and may have filed or may file patent applications and may have received or may receive patents that may overlap or conflict with our patent applications, either by claiming similar methods or by claiming subject matter that could dominate our patent position. In addition, given the early stage of prosecution of our portfolio, it may be some time before we understand how patent offices react to our patent claims and whether they identify prior art of relevance that we have not already considered, which could be an impediment to our patents issuing.

Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot know with certainty whether we were the first to make the inventions claimed in any owned patents or pending patent applications, or that we were the first to file for patent protection of such inventions, nor can we know whether those from whom we may license patents were the first to make the inventions claimed or were the first to file. For these and other reasons, the issuance, scope, validity, enforceability and commercial value of our patent rights are subject to a level of uncertainty. Our pending and future patent applications may not result in patents being issued which protect our technology or products, in whole or in part, or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection.

We may be subject to a third-party pre-issuance submission of prior art to the United States Patent and Trademark Office ("USPTO") or become involved in opposition, derivation, reexamination, inter partes review, post-grant review or interference proceedings challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights. For example, in April 2019, the USPTO granted Genome & Co.'s petition to initiate a post grant review of a patent issued to the University of Chicago, to which we have an exclusive license from the University of Chicago. Although the outcome of the post grant review is uncertain, there is a possibility that the USPTO could invalidate the subject patent or require the University of Chicago to narrow the claims contained in the patent. Any limitation on the protection of the subject technology could hinder our ability to develop and commercialize applicable product candidates.

In addition, if the breadth or strength of protection provided by our patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates. Furthermore, an adverse decision in an interference proceeding can result in a third party receiving the patent right sought by us, which in turn could affect our ability to develop, market or otherwise commercialize our product candidates. The issuance, scope, validity, enforceability and commercial value of our patents are subject to a level of uncertainty.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. Due to legal standards relating to patentability, validity, enforceability and claim scope of patents covering biotechnological and pharmaceutical inventions, our ability to obtain, maintain and enforce patents is uncertain and involves complex legal and factual questions. Even if issued, a patent's validity, inventorship, ownership or enforceability is not conclusive. Accordingly, rights under any existing patent or any patents we might obtain or license may not cover our product candidates, or

may not provide us with sufficient protection for our product candidates to afford a commercial advantage against competitive products or processes, including those from branded and generic pharmaceutical companies.

The degree of future protection for our proprietary rights is uncertain, and we cannot ensure that:

- any of our pending patent applications, if issued, will include claims having a scope sufficient to protect our product candidates or any other products or product candidates;
- any of our pending patent applications will issue as patents;
- we will be able to successfully commercialize our product candidates, if approved, before our relevant patents expire;
- we were the first to make the inventions covered by any existing patent and pending patent applications;
- we were the first to file patent applications for these inventions;
- others will not develop similar or alternative technologies that do not infringe or design around our patents;
- others will not use pre-existing technology to effectively compete against us;
- any of our patents, if issued, will be found to ultimately be valid and enforceable;
- third parties will not compete with us in jurisdictions where we do not pursue and obtain patent protection;
- we will be able to obtain and/or maintain necessary or useful licenses on reasonable terms or at all;
- any patents issued to us will provide a basis for an exclusive market for our commercially viable products, will provide us with any competitive advantages or will not be challenged by third parties;
- we will develop additional proprietary technologies or product candidates that are separately patentable; or
- our commercial activities or products will not infringe upon the patents or proprietary rights of others.

Any litigation to enforce or defend our patent rights, even if we were to prevail, could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded if we were to prevail may not be commercially meaningful. Even if we are successful, domestic or foreign litigation, or USPTO or foreign patent office proceedings, may result in substantial costs and distraction to our management. We may not be able, alone or with our licensors or potential collaborators, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation or other proceedings, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation or other proceedings. In addition, during the course of this kind of litigation or proceedings, there could be public announcements of the results of hearings, motions or other interim proceedings or developments or public access to related documents. If investors perceive these results to be negative, the market price for our common stock could be significantly harmed.

If we fail to comply with our obligations in the agreements under which we may license intellectual property rights from third parties or otherwise experience disruptions to our business relationships with our licensors, we could lose rights that are important to our business.

We have entered into and may be required to enter into in the future, intellectual property license agreements that are important to our business. These license agreements may impose various diligence, milestone payment, royalty and other obligations on us. For example, we have entered into exclusive license agreements with the University of Chicago and Mayo Clinic pursuant to which we are required to use efforts to engage in various development and commercialization activities with respect to licensed products and are required to satisfy specified milestone and royalty payment obligations. If we fail to comply with any obligations under our agreements with licensors, we may be subject to termination of the license agreement in whole or in part or increased financial obligations to our licensors, in which case our ability to develop or commercialize products covered by the license agreement will be impaired. Further, we

may need to outsource and rely on third parties for many aspects of the clinical development, sales and marketing of our products covered under our current and future license agreements. Delay or failure by these third parties could adversely affect the continuation of our license agreements with our licensors.

In addition, disputes may arise regarding intellectual property subject to a license agreement, including:

- the scope of rights granted under the license agreement and other interpretation-related issues;
- the extent to which our technology and processes infringe on intellectual property of the licensor that is not subject to the licensing agreement; and
- our diligence obligations under the license agreement and what activities satisfy those obligations.

If disputes over intellectual property that we have licensed prevent or impair our ability to maintain our current licensing arrangements on acceptable terms, we may be unable to successfully develop and commercialize the affected product candidates.

The intellectual property which we have licensed from the University of Chicago and Mayo Clinic was discovered through government funded programs and thus may be subject to federal regulations such as “march-in” rights, certain reporting requirements, and a preference for U.S. industry. Compliance with such regulations may limit our exclusive rights, subject us to expenditure of resources with respect to reporting requirements, and limit our ability to contract with non-U.S. manufacturers.

We have licensed certain intellectual property from the University of Chicago and Mayo Clinic. These agreements indicate that the rights licensed to us are subject to the obligations to and the rights of the U.S. government, including those set forth in the Bayh-Dole Act of 1980 (the “Bayh-Dole Act”). As a result, the U.S. government may have certain rights to intellectual property embodied in our current or future therapeutics based on the licensed intellectual property. These U.S. government rights in certain inventions developed under a government-funded program include a non-exclusive, non-transferable, irrevocable worldwide license to use inventions for any governmental purpose. In addition, the U.S. government has the right to require us to grant exclusive, partially exclusive, or nonexclusive licenses to any of these inventions to a third party if it determines that: (i) adequate steps have not been taken to commercialize the invention; (ii) government action is necessary to meet public health or safety needs; or (iii) government action is necessary to meet requirements for public use under federal regulations, also referred to as “march-in rights.” While the U.S. government has sparingly used, and to our knowledge never successfully exercised, such march-in rights, any exercise of the march-in rights by the U.S. government could harm our competitive position, business, financial condition, results of operations, and prospects. If the U.S. government exercises such march-in rights, we may receive compensation that is deemed reasonable by the U.S. government in its sole discretion, which may be less than what we might be able to obtain in the open market. Intellectual property generated under a government funded program is also subject to certain reporting requirements, compliance with which may require us to expend substantial resources.

In addition, the U.S. government requires that any therapeutics embodying any invention generated through the use of U.S. government funding be manufactured substantially in the United States. The manufacturing preference requirement can be waived if the owner of the intellectual property can show that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible. This preference for U.S. manufacturers may limit our ability to contract with non-U.S. therapeutic manufacturers for therapeutics covered by such intellectual property.

If we are unable to protect the confidentiality of our trade secrets and know-how, our business and competitive position would be harmed.

In addition to seeking patents for some of our technology and product candidates, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also seek to enter into confidentiality and invention or patent assignment agreements with our employees, advisors and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Our trade secrets may also be obtained by third

parties by other means, such as breaches of our physical or computer security systems. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. Moreover, if any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed.

Changes in U.S. patent law could diminish the value of patents in general, thereby impairing our ability to protect our products.

As is the case with other biotechnology companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biotechnology industry involves both technological and legal complexity, and is therefore costly, time-consuming and inherently uncertain. In addition, patent reform legislation could further increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. On September 16, 2011, the Leahy-Smith America Invents Act (the "Leahy-Smith Act") was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted and may also affect patent litigation. The USPTO has also developed regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, in particular the first to file provisions, only became effective on March 16, 2013. A third party that files a patent application in the USPTO after that date but before us could therefore be awarded a patent covering an invention of ours even if we had made the invention before it was made by the third party. This will require us to be cognizant going forward of the time from invention to filing of a patent application. Thus, for our U.S. patent applications containing a priority claim after March 16, 2013, there is a greater level of uncertainty in the patent law.

Moreover, some of the patent applications in our portfolio will be subject to examination under the pre-Leahy-Smith Act law and regulations, while other patents applications in our portfolio will be subject to examination under the law and regulations, as amended by the Leahy-Smith Act. This introduces additional complexities into the prosecution and management of our portfolio.

In addition, the Leahy-Smith Act limits where a patentee may file a patent infringement suit and provides opportunities for third parties to challenge any issued patent in the USPTO. These provisions apply to all of our U.S. patents, even those issued before March 16, 2013. Because of a lower evidentiary standard in USPTO proceedings compared to the evidentiary standard in U.S. federal court necessary to invalidate a patent claim, a third party could potentially provide evidence in a USPTO proceeding sufficient for the USPTO to hold a claim invalid even though the same evidence would be insufficient to invalidate the claim if first presented in a federal court action. Accordingly, a third party may attempt to use the USPTO procedures to invalidate our patent claims because it may be easier for them to do so relative to challenging the patent in a federal court action. It is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

In addition, recent United States Supreme Court rulings have narrowed the scope of patent protection available in certain circumstances and weakened the rights of patent owners in certain situations. From time to time, the U.S. Supreme Court, other federal courts, the United States Congress, or the USPTO, may change the standards of patentability and any such changes could have a negative impact on our business.

A number of cases decided by the Supreme Court have involved questions of when claims reciting abstract ideas, laws of nature, natural phenomena and/or natural products are eligible for a patent, regardless of whether the claimed subject matter is otherwise novel and inventive. These cases include *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 569 U.S. 12-398 (2013) or *Myriad*; *Alice Corp. v. CLS Bank International*, 573 U.S. 13-298 (2014); and *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, or *Prometheus*, 566 U.S. 10-1150 (2012). In response to these cases, the USPTO has issued guidance to the examining corps.

The full impact of these decisions is not yet known. The *Myriad* decision, issued on June 13, 2013, is the most recent Supreme Court decision to address patent eligibility of natural products. Our current product candidates include natural products, therefore, this decision and its interpretation by the courts and the USPTO may impact prosecution, defense and enforcement of our patent portfolio. In *Myriad*, the Court held that claims to isolated genomic DNA are not patentable,

but claims to complementary DNA, or cDNA, molecules, which are not genomic sequences, may be patent eligible because they are not a natural product. The effect of the decision on patents for other isolated natural products is uncertain. However, on March 4, 2014, the USPTO issued a memorandum to patent examiners providing guidance for examining claims that recite laws of nature, natural phenomena or natural products under the *Myriad* and *Prometheus* decisions. The guidance did not limit the application of *Myriad* to DNA but, rather, applied the decision broadly to other natural products, which may include our product candidates. The March 4, 2014 memorandum and the USPTO's interpretation of the cases and announced examination rubric received widespread criticism from stakeholders during a public comment period and was superseded by interim guidance published on December 15, 2014. The USPTO's interpretation of the case law and new guidelines for examination may influence, possibly adversely, prosecution and defense of certain types of claims in our portfolio.

In addition to increasing uncertainty with regard to our ability to obtain future patents, this combination of events has created uncertainty with respect to the value of patents, once obtained. Depending on these and other decisions by Congress, the federal courts and the USPTO, the laws and regulations governing patents could change or be interpreted in unpredictable ways that would weaken our ability to obtain new patents or to enforce any patents that may issue to us in the future. In addition, these events may adversely affect our ability to defend any patents that may issue in procedures in the USPTO or in courts.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability, and the ability of our collaborators, to develop, manufacture, market and sell our product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. There is considerable intellectual property litigation in the biotechnology and pharmaceutical industries. While no such litigation has been brought against us and we have not been held by any court to have infringed a third party's intellectual property rights, we cannot guarantee that our technology, products or use of our products do not infringe third-party patents.

Numerous patents and pending applications are owned by third parties in the fields in which we are developing product candidates, both in the United States and elsewhere. It is also possible that we have failed to identify relevant third-party patents or applications. For example, applications filed before November 29, 2000 and certain applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Moreover, it is difficult for industry participants, including us, to identify all third-party patent rights that may be relevant to our product candidates and technologies because patent searching is imperfect due to differences in terminology among patents, incomplete databases and the difficulty in assessing the meaning of patent claims. We may fail to identify relevant patents or patent applications or may identify pending patent applications of potential interest but incorrectly predict the likelihood that such patent applications may issue with claims of relevance to our technology. In addition, we may be unaware of one or more issued patents that would be infringed by the manufacture, sale or use of a current or future product candidate, or we may incorrectly conclude that a third-party patent is invalid, unenforceable or not infringed by our activities. Additionally, pending patent applications that have been published can, subject to certain limitations, be later amended in a manner that could cover our technologies, our products or the use of our products. We are aware of several pending patent applications containing one or more claims that could be construed to cover some of our product candidates or technology, should those claims issue in their original form or in the form presently being pursued.

The biotechnology and pharmaceutical industries are characterized by extensive litigation regarding patents and other intellectual property rights. Other parties may allege that our product candidates or the use of our technologies infringe patent claims or other intellectual property rights held by them or that we are employing their proprietary technology without authorization. We may become party to, or threatened with, future adversarial proceedings or litigation regarding intellectual property rights with respect to our products and technology, including interference or derivation proceedings before the USPTO and similar bodies in other countries. Third parties may assert infringement claims against us based on existing intellectual property rights and intellectual property rights that may be granted in the future. If we were to challenge the validity of an issued U.S. patent in court, such as an issued U.S. patent of potential relevance to some of our product candidates or methods of use, we would need to overcome a statutory presumption of validity that attaches to every U.S. patent. This means that in order to prevail, we would have to present clear and convincing evidence as to the invalidity of the patent's claims. There is no assurance that a court would find in our favor on questions of infringement or validity.

Patent and other types of intellectual property litigation can involve complex factual and legal questions, and their outcome is uncertain. If we are found or believe there is a risk we may be found, to infringe a third party's intellectual property rights, we could be required or may choose to obtain a license from such third party to continue developing and marketing our products and technology. However, we may not be able to obtain any such license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could materially harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

Even if we are successful in these proceedings, we may incur substantial costs and divert management time and attention in pursuing these proceedings, which could have a material adverse effect on us. If we are unable to avoid infringing the patent rights of others, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court, or redesign our products. Patent litigation is costly and time-consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, intellectual property litigation or claims could force us to do one or more of the following:

- cease developing, selling or otherwise commercializing our product candidates;
- pay substantial damages for past use of the asserted intellectual property;
- obtain a license from the holder of the asserted intellectual property, which license may not be available on reasonable terms, if at all; and
- in the case of trademark claims, redesign or rename some or all of our product candidates or other brands to avoid infringing the intellectual property rights of third parties, which may not be possible and, even if possible, could be costly and time-consuming.

Any of these risks coming to fruition could have a material adverse effect on our business, results of operations, financial condition and prospects.

Issued patents covering our product candidates could be found invalid or unenforceable or could be interpreted narrowly if challenged in court.

Competitors may infringe our intellectual property, including our patents or the patents of our licensors. As a result, we may be required to file infringement claims to stop third-party infringement or unauthorized use. This can be expensive, particularly for a company of our size, and time-consuming. If we initiated legal proceedings against a third party to enforce a patent, if and when issued, covering one of our product candidates, the defendant could counterclaim that the patent covering our product candidate is invalid and/or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge include alleged failures to meet any of several statutory requirements, including lack of novelty, obviousness or non-enablement, or failure to claim patent eligible subject matter. Grounds for unenforceability assertions include allegations that someone connected with prosecution of the patent withheld relevant information from the USPTO, or made a misleading statement, during prosecution. Third parties may also raise similar claims before administrative bodies in the United States or abroad, even outside the context of litigation. Such mechanisms include re-examination, post grant review and equivalent proceedings in foreign jurisdictions, such as opposition proceedings. Such proceedings could result in revocation or amendment of our patents in such a way that they no longer cover our product candidates or competitive products. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to validity, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the patent protection on our product candidates. Moreover, even if not found invalid or unenforceable, the claims of our patents could be construed narrowly or in a manner that does not cover the allegedly infringing technology in question. Such a loss of patent protection would have a material adverse impact on our business.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for noncompliance with these requirements.

Periodic maintenance fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent and, in some jurisdictions, during the pendency of a patent application. The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Noncompliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In such an event, our competitors might be able to enter the market, which would have a material adverse effect on our business.

We may be subject to claims challenging the inventorship or ownership of our patents and other intellectual property.

It is our policy to enter into confidentiality and intellectual property assignment agreements with our employees, consultants, contractors and advisors. These agreements generally provide that inventions conceived by the party in the course of rendering services to us will be our exclusive property. However, these agreements may not be honored and may not effectively assign intellectual property rights to us. For example, even if we have a consulting agreement in place with an academic advisor pursuant to which such academic advisor is required to assign any inventions developed in connection with providing services to us, such academic advisor may not have the right to assign such inventions to us, as it may conflict with his or her obligations to assign all such intellectual property to his or her employing institution.

Litigation may be necessary to defend against these and other claims challenging inventorship or ownership. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on our business. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. We may also engage advisors and consultants who are concurrently employed at universities or other organizations or who perform services for other entities. Although we try to ensure that our employees, advisors and consultants do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or our employees, advisors or consultants have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such party's former or current employer or in violation of an agreement with another party. Although we have no knowledge of any such claims being alleged to date, if such claims were to arise, litigation may be necessary to defend against any such claims.

In addition, while it is our policy to require our employees, consultants, advisors and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. Our and their assignment agreements may not be self-executing or may be breached, and we may be forced to bring claims against third parties, or defend claims they may bring against us, to determine the ownership of what we regard as our intellectual property. Similarly, we may be subject to claims that an employee, advisor or consultant performed work for us that conflicts with that person's obligations to a third party, such as an employer, and thus, that the third party has an ownership interest in the intellectual property arising out of work performed for us. Litigation may be necessary to defend against these claims. Although we have no knowledge of any such claims being alleged to date, if such claims were to arise, litigation may be necessary to defend against any such claims.

If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to management.

If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names, which we need to build name recognition among potential collaborators or customers in our markets of interest. At times, competitors may adopt trade names or trademarks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered or unregistered trademarks or trade names. Over the long term, if we are unable to establish name recognition based on our trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected. Our efforts to enforce or protect our proprietary rights related to trademarks, trade names, domain names or other intellectual property may be ineffective and could result in substantial costs and diversion of resources and could adversely impact our financial condition or results of operations.

We will not seek to protect our intellectual property rights in all jurisdictions throughout the world and we may not be able to adequately enforce our intellectual property rights even in the jurisdictions where we seek protection.

Filing, prosecuting and defending patents on product candidates in all countries and jurisdictions throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States could be less extensive than in the United States, assuming that rights are obtained in the United States and assuming that rights are pursued outside the United States. The statutory deadlines for pursuing patent protection in individual foreign jurisdictions are based on the priority date of each of our patent applications. For all of the patent families in our portfolio, including the families that may provide coverage for our lead product candidates, the relevant statutory deadlines have not yet expired. Therefore, for each of the patent families that we believe provide coverage for our lead product candidates, we will need to decide whether and where to pursue protection outside the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. Consequently, even if we do elect to pursue patent rights outside the United States, we may not be able to obtain relevant claims and/or we may not be able to prevent third parties from practicing our inventions in all countries outside the United States, or from selling or importing products made using our inventions in and into the United States or other jurisdictions.

Competitors may use our technologies in jurisdictions where we do not pursue and obtain patent protection to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our products and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Even if we pursue and obtain issued patents in particular jurisdictions, our patent claims or other intellectual property rights may not be effective or sufficient to prevent third parties from so competing.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, particularly developing countries, do not favor the enforcement of patents and other intellectual property protection, especially those relating to biotechnology. This could make it difficult for us to stop the infringement of our patents, if obtained, or the misappropriation of our other intellectual property rights. For example, many foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, many countries limit the enforceability of patents against third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit. Patent protection must ultimately be sought on a country-by-country basis, which is an expensive and time-consuming process with uncertain outcomes. Accordingly, we may choose not to seek patent protection in certain countries, and we will not have the benefit of patent protection in such countries.

If our ability to obtain and, if obtained, enforce our patents to stop infringing activities is inadequate, third parties may compete with our products, and our patents or other intellectual property rights may not be effective or sufficient to

prevent them from competing. Accordingly, our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property we develop or license.

Risks Related to Employee Matters and Managing Growth and Other Risks Related to Our Business

Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.

We are highly dependent on Balkrishan (Simba) Gill, our President and Chief Executive Officer, as well as the other principal members of our management, scientific and clinical team. Although we have entered into employment agreements with our executive officers, each of them may terminate their employment with us at any time. We do not maintain “key person” insurance for any of our executives or other employees.

Recruiting and retaining qualified scientific, clinical, manufacturing and sales and marketing personnel will also be critical to our success. The loss of the services of our executive officers or other key employees could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy. Furthermore, replacing executive officers and key employees may be difficult and may take an extended period of time due to the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, gain regulatory approval of and commercialize products. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these key personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us. If we are unable to continue to attract and retain high quality personnel, our ability to pursue our growth strategy will be limited.

We expect to expand our development and regulatory capabilities and potentially implement sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of product development, regulatory affairs, clinical affairs and manufacturing and, if any of our product candidates receives marketing approval, sales, marketing and distribution. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and the limited experience of our management team in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

A variety of risks associated with operating internationally could materially adversely affect our business.

We currently have limited international operations, but our business strategy incorporates potentially expanding internationally if any of our product candidates receive regulatory approval. Doing business internationally involves a number of risks, including but not limited to:

- multiple, conflicting and changing laws and regulations, such as privacy regulations, tax laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits and licenses;
- failure by us to obtain and maintain regulatory approvals for the use of our products in various countries;
- additional potentially relevant third-party patent rights;
- complexities and difficulties in obtaining protection and enforcing our intellectual property;
- difficulties in staffing and managing foreign operations;

- complexities associated with managing multiple payor reimbursement regimes, government payors or patient self-pay systems;
- limits in our ability to penetrate international markets;
- financial risks, such as longer payment cycles, difficulty collecting accounts receivable, the impact of local and regional financial crises on demand and payment for our products and exposure to foreign currency exchange rate fluctuations;
- natural disasters, political and economic instability, including wars, terrorism and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions;
- certain expenses including, among others, expenses for travel, translation and insurance; and
- regulatory and compliance risks that relate to maintaining accurate information and control over sales and activities that may fall within the purview of the U.S. Foreign Corrupt Practices Act, its books and records provisions, or its anti-bribery provisions.

Any of these factors could significantly harm our future international expansion and operations and, consequently, our results of operations.

The United Kingdom's proposed withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

Following a national referendum in which a majority of voters in the United Kingdom elected to withdraw from the European Union, the government of the United Kingdom formally initiated the process for withdrawal in March 2017 ("Brexit"). The terms of any withdrawal are subject to a complex and ongoing negotiation between the United Kingdom and the European Union whose result and timing remain unclear and which has created significant political and economic uncertainty about the future trading relationship between the United Kingdom and the European Union in the event of a withdrawal, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal and particularly in light of the possibility that a withdrawal could occur without a negotiated agreement

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations and reduce the price of common stock.

Depending on the terms of Brexit, the United Kingdom could lose its present rights or terms of access to the single EU market and EU customs areas and to the global trade deals negotiated by the European Union on behalf of its members. The uncertainty regarding new or modified arrangements, or initially the absence of such arrangements, between the United Kingdom and other countries following Brexit may have a material adverse effect on the movement of goods between the United Kingdom and members of the European Union and the United States, including the interruption of or delays in imports into the United Kingdom of goods originating within the European Union and exports from the United Kingdom of goods originating there. For example, shipments into the United Kingdom of drug substance manufactured for the Company in the European Union may be interrupted or delayed and thereby prevent or delay the manufacture in the United Kingdom of drug product. Similarly, shipments out of the United Kingdom of drug product to the United States or the European Union may be interrupted or delayed and thereby prevent or delay the delivery of drug product to clinical sites. Such a situation could hinder our ability to conduct current and planned clinical trials and have an adverse effect on our business.

Our business and operations would suffer in the event of information technology and other system failures or security breaches of or unauthorized access to our systems.

Despite the implementation of security measures, our internal computer systems and those of our current and future contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, malware, natural disasters, terrorism, war, telecommunication and electrical failures, cyber-attacks or cyber-intrusions over the Internet, or to attachments to emails and other security breaches or unauthorized access by persons inside our organization or with access to our internal systems. The risk of a security breach or disruption, particularly through cyber-attacks or cyber-intrusions, including by computer hackers, foreign governments and cyber terrorists, generally has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. In addition, our systems safeguard important confidential personal data regarding patients enrolled in our clinical trials. While we are not aware of any such material system failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption to our product development programs and our business operations. For example, the loss of clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Likewise, we rely on third parties to manufacture our product candidates and conduct clinical trials, and similar events relating to their computer systems could also have a material adverse effect on our business. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development and commercialization of our product candidates could be delayed.

We rely on a set of cloud-based software services and access these services via the Internet for the vast majority of our computing, storage, bandwidth, and other services. Any disruption of or interference with our use of our cloud-based services would negatively affect our operations and could seriously harm our business.

We use several distributed computing infrastructure platforms for business operations, or what is commonly referred to as “cloud” computing services and we access these services via the Internet. Any transition of the cloud services currently provided by an existing vendor to another cloud provider would be difficult to implement and will cause us to incur significant time and expense. Given this, any significant disruption of or interference with our use of these cloud computing services would negatively impact our operations and our business would be seriously harmed. If our employees or partners are not able to access our cloud computing services or encounter difficulties in doing so, we may experience business disruption. The level of service provided by our cloud computing vendors, including the ability to secure our confidential information and the confidential information of third parties that is shared with us, may also impact the perception of our company and could seriously harm our business and reputation and create liability for us. If a cloud computing service that we use experiences interruptions in service regularly or for a prolonged basis, or other similar issues, our business could be seriously harmed.

In addition, a cloud computing service may take actions beyond our control that could seriously harm our business, including:

- discontinuing or limiting our access to its platform;
- increasing pricing terms;
- terminating or seeking to terminate our contractual relationship altogether;
- establishing more favorable relationships with one or more of our competitors; or
- modifying or interpreting its terms of service or other policies in a manner that impacts our ability to run our business and operations.

Our cloud computing services have broad discretion to change and interpret its terms of service and other policies with respect to us, and those actions may be unfavorable to us. Our cloud computing services may also alter how we are able to process data on the platform. If a cloud computing services makes changes or interpretations that are unfavorable to us, our business could be seriously harmed.

Our efforts to protect the information shared with us may be unsuccessful due to the actions of third parties, software bugs, or other technical malfunctions, employee error or malfeasance, or other factors. In addition, third parties may attempt to fraudulently induce employees or users to disclose information to gain access to our data or third-party data

entrusted to us. If any of these events occur, our or third-party information could be accessed or disclosed improperly. Some partners or collaborators may store information that we share with them on their own computing system. If these third parties fail to implement adequate data-security practices or fail to comply with our policies, our data may be improperly accessed or disclosed. And even if these third parties take all these steps, their networks may still suffer a breach, which could compromise our data.

Any incidents where our information is accessed without authorization, or is improperly used, or incidents that violate our policies, could damage our reputation and our brand and diminish our competitive position. In addition, affected parties or government authorities could initiate legal or regulatory action against us over those incidents, which could cause us to incur significant expense and liability or result in orders or consent decrees forcing us to modify our business practices. Concerns over our privacy practices, whether actual or unfounded, could damage our reputation and brand and deter users, advertisers, and partners from using our products and services. Any of these occurrences could seriously harm our business.

We are also subject to many federal, state, and foreign laws and regulations, including those related to privacy, rights of publicity, data protection, content regulation, intellectual property, health and safety, competition, protection of minors, consumer protection, employment, and taxation. These laws and regulations are constantly evolving and may be interpreted, applied, created, or amended in a manner that could seriously harm our business.

Changes in funding for the FDA, the SEC and other government agencies could hinder their ability to hire and retain key leadership and other personnel, and prevent those agencies from performing normal functions on which the operation of our business may rely, which could negatively impact our business.

The ability of the FDA to take action with respect to regulatory matters can be affected by a variety of factors, including government budget and funding levels, ability to hire and retain key personnel and accept payment of user fees and statutory, regulatory and policy changes. In addition, government funding of the FDA, the SEC and other government agencies on which our operations may rely is subject to the political process, which is inherently fluid and unpredictable.

Disruptions at the FDA and other agencies may also slow the time necessary for regulatory submissions to be reviewed or approved, or for other actions to be taken, by relevant government agencies, which would adversely affect our business. For example, over the last several years, including as recently as December 22, 2018, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA and the SEC, have had to furlough critical FDA, SEC and other government employees and stop critical activities. If a prolonged government shutdown occurs, it could significantly impact the ability of the FDA to timely review and process our regulatory submissions, which could have a material adverse effect on our business. Similarly, a prolonged government shutdown could prevent the timely review of our patent applications by the USPTO, which could delay the issuance of any U.S. patents to which we might otherwise be entitled. Additionally, government shutdowns could impact our ability to access the public markets and obtain necessary capital in order to properly fund our business.

Acquisitions or joint ventures could disrupt our business, cause dilution to our stockholders and otherwise harm our business.

We may acquire other businesses, products or technologies as well as pursue strategic alliances, joint ventures, technology licenses or investments in complementary businesses. We have only made one acquisition to date, and our ability to do so successfully is unproven beyond this instance. Any of these transactions could be material to our financial condition and operating results and expose us to many risks, including:

- disruption in our relationships with future customers or with current or future distributors or suppliers as a result of such a transaction;
- unanticipated liabilities related to acquired companies;
- difficulties integrating acquired personnel, technologies and operations into our existing business;
- diversion of management time and focus from operating our business to acquisition integration challenges;
- increases in our expenses and reductions in our cash available for operations and other uses;
- possible write-offs or impairment charges relating to acquired businesses; and

- inability to develop a sales force for any additional product candidates.

Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

Also, the anticipated benefit of any acquisition may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses or write-offs of goodwill, any of which could harm our financial condition. We cannot predict the number, timing or size of future joint ventures or acquisitions, or the effect that any such transactions might have on our operating results.

Risks Related to Our Common Stock

The price of our common stock may be volatile and fluctuate substantially, which could result in substantial losses for purchasers of our common stock, and we could be subject to securities class action litigation as a result.

Our stock price is likely to be volatile. The stock market in general and the market for smaller biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, you may not be able to sell your shares of common stock at or above the price at which you purchase the shares. The market price for our common stock may be influenced by many factors, including:

- the success of competitive products or technologies;
- actual or anticipated changes in our growth rate relative to our competitors;
- results of clinical trials of our product candidates or those of our competitors;
- developments related to any future collaborations;
- regulatory or legal developments in the United States and other countries;
- adverse actions taken by regulatory agencies with respect to our preclinical studies or clinical trials, manufacturing or sales and marketing activities;
- any adverse changes to our relationship with third party contractors or manufacturers;
- development of new product candidates that may address our markets and may make our existing product candidates less attractive;
- changes in physician, hospital or healthcare provider practices that may make our product candidates less useful;
- announcements by us, our collaborators or our competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;
- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to any of our product candidates or product development programs;
- failure to meet or exceed financial estimates and projections of the investment community or that we provide to the public;
- press reports or other negative publicity, whether or not true, about our business;

- the results of our efforts to discover, develop, acquire or in-license additional product candidates or products;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors;
- general economic, industry and market conditions; and
- the other factors described in this “Risk Factors” section.

Any of these factors may result in large and sudden changes in the volume and trading price of our common stock. In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biopharmaceutical companies have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management’s attention and resources, which could harm our business.

Our executive officers, directors and principal stockholders, if they choose to act together, have the ability to control or significantly influence all matters submitted to stockholders for approval.

Based on the number of shares of common stock outstanding as of July 31, 2019, our executive officers, directors and stockholders who own more than 5% of our outstanding common stock and their respective affiliates hold, in the aggregate, shares representing approximately 73% of our outstanding voting stock. As a result, if these stockholders were to choose to act together, they would be able to control or significantly influence all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these persons, if they choose to act together, would control or significantly influence the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. They may also have interests that differ from yours and may vote in a way with which you disagree, and which may be adverse to your interests. This concentration of ownership control may have the effect of delaying, deferring or preventing a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

A significant portion of our total outstanding shares are eligible to be sold into the market, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. For example, in November 2018, holders of approximately 28.3 million shares of our common stock formerly subject to a lock-up agreement entered into in connection with our IPO became eligible to resell their shares in the open market (subject to volume limitations as to resales by affiliates of the Company pursuant to Rule 144 of the Securities Act). Moreover, holders of an aggregate of approximately 18.4 million shares of our common stock have rights, subject to specified conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders, including entities affiliated with Flagship Pioneering, until such shares can otherwise be sold without restriction under Rule 144 of the Securities Act or until the rights terminate pursuant to the terms of the investors’ rights agreement between us and such holders. We have also registered and intend to continue to register all shares of common stock that we may issue under our equity compensation plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates.

We are an “emerging growth company” and a “smaller reporting company,” and the reduced disclosure requirements applicable to emerging growth companies and smaller reporting companies may make our common stock less attractive to investors.

We are an “emerging growth company” as that term is used in the JOBS Act, and may remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of the

initial public offering of our common stock, (b) in which we have total annual gross revenue of at least \$1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our outstanding common stock that are held by non-affiliates exceeds \$700 million as of the prior June 30, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three year period. For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure;
- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of these accounting standards until they would otherwise apply to private companies. We have elected to take advantage of this extended transition period.

We are also a smaller reporting company, and we will remain a smaller reporting company until the fiscal year following the determination that our voting and non-voting common shares held by non-affiliates is more than \$250 million measured on the last business day of our second fiscal quarter, or our annual revenues are more than \$100 million during the most recently completed fiscal year and our voting and non-voting common shares held by non-affiliates is more than \$700 million measured on the last business day of our second fiscal quarter. Similar to emerging growth companies, smaller reporting companies are able to provide simplified executive compensation disclosure, are exempt from the auditor attestation requirements of Section 404, and have certain other reduced disclosure obligations, including, among other things, being required to provide only two years of audited financial statements and not being required to provide selected financial data, supplemental financial information or risk factors.

We have elected to take advantage of certain of the reduced reporting obligations. We cannot predict whether investors will find our common stock less attractive if we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be reduced or more volatile.

We have incurred and expect to continue to incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives and corporate governance practices.

As a public company, and particularly after we are no longer an emerging growth company, we have incurred and expect to continue to incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of The Nasdaq Global Select Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives.

Moreover, these rules and regulations have increased our legal and financial compliance costs and made some activities more time consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to maintain director and officer liability insurance, which in turn could make it more difficult for us to attract and retain qualified members of our board of directors.

We are evaluating these rules and regulations, and cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. These rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we will be required to furnish a report by our management on our internal control over financial reporting. However, while we remain an emerging growth company, we will not be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we will be engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude, within the prescribed timeframe or at all, that our internal control over financial reporting is effective as required by Section 404. If we identify one or more material weaknesses, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our consolidated financial statements.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our business stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our target preclinical studies or clinical studies and/or operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Provisions in our restated certificate of incorporation and amended and restated bylaws could make an acquisition of our company, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our restated certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control of our company that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Among other things, these provisions include those establishing:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from filling vacancies on our board of directors;
- the ability of our board of directors to authorize the issuance of shares of preferred stock and to determine the terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the ability of our board of directors to alter our bylaws without obtaining stockholder approval;
- the required approval of the holders of at least two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or repeal the provisions of our restated certificate of incorporation regarding the election and removal of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, the president or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

Our restated certificate of incorporation provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our restated certificate of incorporation specifies that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for most legal actions involving any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of fiduciary duty owed by any director, officer, employee or stockholder to us or our stockholders, any action asserting a claim arising pursuant to any provision of the General Corporation Law of the State of Delaware or any action asserting a claim governed by the internal affairs doctrine. We believe these provisions benefit us by providing increased consistency in the application of Delaware law by chancellors particularly experienced in resolving corporate disputes, efficient administration of cases on a more expedited schedule relative to other forums and protection against the burdens of multi-forum litigation. The provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes, and may have the effect of discouraging lawsuits, including those against our directors and officers. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our restated certificate of incorporation to be inapplicable or unenforceable in such action. If a court were to find the choice of forum provision contained in our restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs

associated with resolving such action in other jurisdictions, which could adversely affect our results of operations and financial condition.

Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the operation and expansion of our business. Therefore, you should not rely on an investment in our common stock as a source for any future dividend income.

Our board of directors has significant discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our common stock will likely depend entirely on any future capital appreciation, if any, of our common stock. There is no guarantee that our common stock will appreciate in value or even maintain the price at which you purchased our common stock.

Our ability to use net operating losses and research and development credits to offset future taxable income may be subject to certain limitations.

As of December 31, 2018, we had federal and state net operating loss carryforwards of \$98.0 million and \$91.2 million, respectively. A portion of the federal net operating losses will begin to expire at various dates through 2037. The state net operating losses will begin to expire at various dates through 2038. As of December 31, 2018, we also had federal research and development tax credit carryforwards of \$2.1 million and state research and development tax credit carryforwards of \$0.8 million, which begin to expire in 2033. These net operating loss and tax credit carryforwards could expire unused and be unavailable to offset future income tax liabilities. In addition, in general, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses or tax credits, or NOLs or credits, to offset future taxable income or taxes. For these purposes, an ownership change generally occurs where the aggregate stock ownership of one or more stockholders or groups of stockholders who owns at least 5% of a corporation's stock increases its ownership by more than 50 percentage points over its lowest ownership percentage within a specified testing period. Our existing NOLs or credits may be subject to limitations arising from previous ownership changes, and if we undergo an ownership change in the future, our ability to utilize NOLs or credits could be further limited by Sections 382 and 383 of the Code. In addition, future changes in our stock ownership, many of which are outside of our control, could result in an ownership change under Sections 382 and 383 of the Code. Our NOLs or credits may also be impaired under state law. Accordingly, we may not be able to utilize a material portion of our NOLs or credits. The reduction of the corporate tax rate under the Tax Cuts and Jobs Act of 2017 (the "TCJA") may cause a reduction in the economic benefit of our net operating loss carryforwards and other deferred tax assets available to us. Furthermore, under the TCJA, although the treatment of NOLs generated before December 31, 2017 has generally not changed, NOLs generated in calendar year 2018 and beyond will not be subject to expiration but will only be able to offset 80% of taxable income. This change may require us to pay federal income taxes even if we have NOL carryforwards that could otherwise offset our taxable income.

Recent U.S. tax legislation may materially adversely affect our financial condition, results of operations and cash flows.

The TCJA has significantly changed the U.S. federal income taxation of U.S. corporations, including by reducing the U.S. corporate income tax rate, limiting interest deductions, modifying or repealing many business deductions and credits (including reducing the business tax credit for certain clinical testing expenses incurred in the testing of certain drugs for rare diseases or conditions generally referred to as "orphan drugs"), adopting elements of a territorial tax system, imposing a one-time transition tax, or repatriation tax, on all undistributed earnings and profits of certain U.S.-owned foreign corporations, revising the rules governing net operating losses and the rules governing foreign tax credits, and introducing new anti-base erosion provisions. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities.

While some of the changes made by the TCJA may adversely affect us in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis. We continue to work with our tax advisors

and auditors to determine the full impact that the TCJA will have on us. We urge our investors to consult with their legal and tax advisors with respect to the TCJA.

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

Use of Proceeds from the Sale of Registered Securities

On May 11, 2018, we completed our IPO and issued and sold 5,312,500 shares of our common stock at a public offering price of \$16.00 per share.

The offer and sale of all of the shares in the offering was registered under the Securities Act pursuant to a registration on Form S-1 (Reg. No. 333-224278), as amended, which was declared effective by the Securities and Exchange Commission (the "SEC") on May 8, 2018.

The net proceeds of approximately \$75.8 million from our initial public offering have been invested in government backed \$1 net asset value money market funds and U.S. treasury securities. There has been no material change in the expected use of the net proceeds from our initial public offering as described in our Prospectus. As of June 30, 2019, we had used all of the net proceeds from our IPO.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				
		Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Restated Certificate of Incorporation of Evelo Biosciences, Inc.	8-K	001-38473	3.1	5/11/2018	
3.2	Amended and Restated Bylaws of Evelo Biosciences, Inc.	8-K	001-38473	3.2	5/11/2018	
10.1	Loan and Security Agreement between Pacific Western Bank and Evelo Biosciences, Inc., dated August 15, 2016, as amended on June 14, 2017, August 18, 2017, February 7, 2018, March 14, 2018 and April 18, 2019.					*
10.2	Terms and Conditions of Employment between Evelo Biosciences (UK) Limited and Duncan McHale, M.B.B.S., Ph.D., effective as of May 1, 2019.	8-K	001-38473	10.1	4/25/2019	
10.3	Loan and Security Agreement by and among Evelo Biosciences, Inc. and the other borrowers party thereto, the lenders party thereto, K2 HealthVentures LLC, as administrative agent for such lenders, and Ankura Trust Company, LLC, as collateral agent for such lenders, dated July 19, 2019, as amended.					*
10.4 †	Collaboration Agreement between Evelo Biosciences, Inc. and Sacco S.r.l., dated July 9, 2019.					*
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					**
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					**
101.INS	XBRL Instance Document					*

Exhibit Number	Exhibit Description	Incorporated by Reference				
		Form	File No.	Exhibit	Filing Date	Filed Herewith
101.SCH	XBRL Taxonomy Extension Schema Document					*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					*

* Filed herewith.

** Furnished herewith.

† Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K

EVELO BIOSCIENCES, INC.
LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT (the "Agreement") is entered into as of August 15, 2016, by and between PACIFIC WESTERN BANK, a California state chartered bank ("Bank") and EVELO BIOSCIENCES, INC., a Delaware corporation ("Borrower").

RECITALS

Borrower wishes to obtain credit from time to time from Bank, and Bank desires to extend credit to Borrower. This Agreement sets forth the terms on which Bank will advance credit to Borrower, and Borrower will repay the amounts owing to Bank.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 **Definitions.** As used in this Agreement, all capitalized terms shall have the definitions set forth on Exhibit A. Any term used in the Code and not defined herein shall have the meaning given to the term in the Code.

1.2 **Accounting Terms.** Any accounting term not specifically defined on Exhibit A shall be construed in accordance with GAAP and all calculations shall be made in accordance with GAAP (except for non-compliance with FAS 123R in monthly reporting). The term "financial statements" shall include the accompanying notes and schedules.

2. LOAN AND TERMS OF PAYMENT.

2.1. Credit Extensions.

(a) **Promise to Pay.** Borrower promises to pay to Bank, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrower, together with interest on the unpaid principal amount of such Credit Extensions at rates in accordance with the terms hereof.

(b) Term Loans.

(i) Subject to and upon the terms and conditions of this Agreement Bank shall make term loans to Borrower in two Tranches, "Tranche A" and "Tranche B". On the Closing Date, or as soon thereafter as all conditions precedent to the making thereof have been met, Bank shall make one (1) term loan to Borrower under Tranche A in an aggregate principal amount equal to \$3,000,000 (the "Initial Term Loan"). Thereafter, on or prior to the Availability End Date, Borrower may request and Bank agrees to make one (1) or more additional term loans to Borrower under Tranche A in an aggregate principal amount not to exceed \$7,000,000 (each a "Tranche A Term Loan" and together with the Initial Term Loan, the "Tranche A Term Loans"). At any time after Borrower's achievement of the Equity Milestone through the Availability End Date, Borrower may request and Bank agrees to make one (1) or more additional term loans to Borrower in an aggregate principal amount not to exceed \$5,000,000 (each a "Tranche B Term Loan" and collectively, the "Tranche B Term Loans" and together with the Tranche A Term Loans, each a "Term Loan" and collectively, the "Term Loans"). The proceeds of the Initial Term Loan shall be used to refinance all obligations owing from Borrower to Bank as of the Closing Date. The proceeds of any subsequent Tranche A Term Loans and the Tranche B Term Loans shall be used for general working capital purposes and for capital expenditures.

(ii) Interest shall accrue from the date of each Term Loan at the rate specified in Section 2.3(a) and shall be payable monthly in arrears beginning on the ___ day of the month next following the date such Term Loan is funded and continuing on the same day of each month thereafter. Any Term Loans that are outstanding on the Availability End Date shall be payable in equal monthly installments of principal, plus all accrued but unpaid interest, beginning on the Amortization Start Date and continuing on the same day of each month thereafter through the Term Loan Maturity Date, at which time all outstanding amounts due in connection with the Term Loans and any other outstanding amounts due under this Agreement shall be immediately due and payable. Term Loans, once repaid, may not be reborrowed. Borrower may prepay any Term Loan without penalty or premium.

(iii) When Borrower desires to obtain a Term Loan, Borrower shall notify Bank (which notice shall be irrevocable) by facsimile transmission to be received no later than 3:30 p.m. Eastern time on the Business Day prior to the date on which the Term Loan is to be made. Such notice shall be substantially in the form of Exhibit C. The notice shall be signed by an Authorized Officer.

(c) Usage of Credit Card Services Under the Credit Card Line.

(i) **Usage Period.** Subject to and upon the terms and conditions of this Agreement, at any time from the Closing Date through the Credit Card Maturity Date, Borrower may use the Credit Card Services (as defined below) in amounts and upon terms as provided in Section 2.1(c)(ii) below.

(ii) **Credit Card Services.** Subject to and upon the terms and conditions of this Agreement, Borrower may request corporate credit cards and standard e-commerce merchant account services from Bank (collectively, the "Credit Card Services"). The aggregate limit of the corporate credit cards and merchant credit card processing reserves shall not exceed the Credit Card Line. The terms and conditions (including repayment and fees) of such Credit Card Services shall be subject to the terms and conditions of Bank's standard forms of application and agreement for the Credit Card Services, which Borrower hereby agrees to execute.

(iii) **Collateralization of Obligations Extending Beyond Maturity.** If Borrower has not cash secured its obligations with respect to any Credit Card Services by the Credit Card Maturity Date, then, effective as of such date, the balance in any deposit accounts held by Bank and the certificates of deposit or time deposit accounts issued by Bank in Borrower's name (and any interest paid thereon or proceeds thereof, including any amounts payable upon the maturity or liquidation of such certificates or accounts), shall automatically secure such obligations to the extent of the then continuing or outstanding Credit Card Services. Borrower authorizes Bank to hold such balances in pledge and to decline to honor any drafts thereon or any requests by Borrower or any other Person to pay or otherwise transfer any part of such balances for so long as the applicable Credit Card Services are outstanding or continue.

2.2. **Intentionally Omitted.**

2.3. **Interest Rates, Payments, and Calculations.**

(a) **Interest Rate.** Except as set forth in Section 2.3(b), the Term Loans shall bear interest, on the outstanding daily balance thereof, at a variable annual rate equal to the greater of (A) 0.25% above the Prime Rate then in effect, or (B) 3.75%.

(b) **Late Fee; Default Rate.** If any payment is not made within 15 days after the date such payment is due, at Bank's election, Borrower shall pay Bank a late fee equal to the lesser of (i) 5% of the amount of such unpaid amount or (ii) the maximum amount permitted to be charged under applicable law. At Bank's election, all Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a rate equal to 5 percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

(c) **Payments.** Interest on the Term Loans shall be due and payable on the ___ calendar day of each month during the term hereof. Bank shall, at its option, charge such interest, all Bank Expenses, and all Periodic Payments, in each case if and when due, against, first, a deposit account designated by Borrower in writing, and second, if insufficient funds remain in such account, any of Borrower's other deposit accounts. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

(d) **Computation.** In the event the Prime Rate is changed from time to time hereafter, the applicable rate of interest hereunder shall be increased or decreased, effective as of the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate. All interest chargeable under the Loan Documents shall be computed on the basis of a 360 day year for the actual number of days elapsed.

2.4. **Crediting Payments.** Prior to the occurrence of an Event of Default that is continuing, Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence and during the continuance of an Event of Default, Bank shall have the right, in its reasonable discretion, to immediately apply any wire transfer of funds, check, or other item of payment Bank may receive to conditionally reduce Obligations, but such applications of funds shall not be considered a payment on account unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Bank after 5:30 p.m. Eastern time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.5. **Bank Expenses.** On the Closing Date, Borrower shall pay to Bank all Bank Expenses incurred through the Closing Date, and, after the Closing Date, all Bank Expenses, as and when they become due.

2.6. **Term.** This Agreement shall become effective on the Closing Date and, subject to Section 12.7, shall continue in full force and effect for so long as any Obligations (other than inchoate indemnity obligations) remain outstanding or Bank has any obligation to make Credit Extensions under this Agreement. Notwithstanding the foregoing, Bank shall have the right to terminate its obligation to make Credit Extensions under this Agreement immediately and without notice upon the occurrence and during the continuance of an Event of Default. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) Borrower may simultaneously with such payment terminate this agreement upon three (3) Business Days written notice to Bank. Following such payment in full in cash of the Obligations (other than inchoate indemnity obligations) at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall release its Liens in the Collateral and Bank shall promptly take such action reasonably requested by Borrower, at Borrower's sole cost and expense, in order to cause such Liens to be terminated of record (including by filing UCC-3 or similar termination statements with respect to such Liens), and all rights therein shall revert to Borrower.

3. **CONDITIONS OF LOANS.**

3.1 **Conditions Precedent to Closing.** The agreement of Bank to enter into this Agreement on the Closing Date is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, each of the following items and completed each of the following requirements:

- (a) this Agreement;
- (b) an officer's certificate of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Agreement;
- (c) a financing statement (Form UCC-1);
- (d) payment of the Bank Expenses then due specified in Section 2.5, which may be debited from any of Borrower's accounts with Bank;
- (e) current SOS Reports indicating that except for Permitted Liens, there are no other security interests or Liens of record in the Collateral;
- (f) current financial statements, including company prepared statements for Borrower's most recently ended fiscal year, company prepared consolidated balance sheets, income statements and statements of cash flows for the most recently ended month in accordance with Section 6.2, and such other updated financial information as Bank may reasonably request;
- (g) current Compliance Certificate in accordance with Section 6.2;
- (h) a warrant to purchase Borrower's Series A-3 preferred stock issued by Borrower in favor of Bank;
- (i) an amended and restated warrant to purchase Borrower's Series A-1 preferred stock issued by Borrower in favor of Bank;
- (j) a Borrower Information Certificate;
- (k) such other documents or certificates, and completion of such other matters, as Bank may reasonably request; and
- (l) Borrower shall have opened and funded not less than \$50,000 in deposit accounts held with Bank.

3.2 **Conditions Precedent to all Credit Extensions.** The obligation of Bank to make each Credit Extension, including the initial Credit Extension, is contingent upon the Borrower's compliance with Section 3.1 above, and is further subject to the following conditions:

- (a) timely receipt by Bank of the Loan Advance/Paydown Request Form as provided in Section 2.1;
- (b) Borrower shall be in compliance with Section 6.6 hereof;
- (c) in Bank's sole, but reasonable, discretion, there has not been a Material Adverse Effect; and
- (d) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Loan Advance/Paydown Request Form and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would exist after giving effect to such Credit Extension (provided, however, that those representations

and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date). The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2.

3.3 Post-Closing Conditions.

(a) On the date that Bank makes a Tranche B Term Loan to Borrower, Borrower shall deliver to Bank a warrant to purchase stock in the form attached hereto as Exhibit E.

(b) As soon as possible, but no later than thirty (30) days after the Closing Date, Borrower shall deliver to Bank evidence satisfactory to Bank that the insurance policies required by Section 6.5 hereof are in full force and effect together with evidence showing loss payable and additional insured clauses or endorsements in favor of Bank.

4. CREATION OF SECURITY INTEREST.

4.1 **Grant of Security Interest.** Borrower grants and pledges to Bank a continuing security interest in the Collateral to secure prompt repayment of any and all Obligations and to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Except for Permitted Liens or as disclosed in the Schedule, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in later-acquired Collateral. Borrower also hereby agrees not to sell, transfer, assign, mortgage, pledge, lease, grant a security interest in, or encumber any of its Intellectual Property, other than Permitted Liens. Notwithstanding any termination of this Agreement or of any filings undertaken related to Bank's rights under the Code, Bank's Lien on the Collateral shall remain in effect for so long as any Obligations (other than inchoate indemnity obligations) are outstanding. Upon request by Borrower and payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall release its liens and interests in the Collateral and Bank shall take such actions as reasonably requested by Borrower in order to cause such Liens to be terminated of record (including filing UCC-3 or similar termination statements with respect to such Liens).

4.2 **Perfection of Security Interest.** Borrower authorizes Bank to file at any time financing statements, continuation statements, and amendments thereto that (i) either specifically describe the Collateral or describe the Collateral as all assets of Borrower of the kind pledged hereunder, and (ii) contain any other information required by the Code for the sufficiency of filing office acceptance of any financing statement, continuation statement, or amendment, including whether Borrower is an organization, the type of organization and any organizational identification number issued to Borrower, if applicable. Borrower shall have possession of the Collateral, except goods transferred in the ordinary course of business where expressly otherwise provided in this Agreement or where Bank chooses to perfect its security interest by possession in addition to the filing of a financing statement. Where Collateral is in possession of a third party bailee, Borrower shall use commercially reasonable efforts as Bank reasonably requests for Bank to (i) subject to Section 7.11 below, obtain an acknowledgment, in form and substance reasonably satisfactory to Bank, of the bailee that the bailee holds such Collateral for the benefit of Bank, and (ii) subject to Section 6.6, obtain "control" of any Collateral consisting of investment property, deposit accounts, letter-of-credit rights or electronic chattel paper (as such items and the term "control" are defined in Revised Article 9 of the Code) by causing the securities intermediary or depository institution or issuing bank to execute a control agreement in form and substance reasonably satisfactory to Bank. Borrower will not create any chattel paper without placing a legend on the chattel paper acceptable to Bank indicating that Bank has a security interest in the chattel paper. Borrower from time to time may deposit with Bank specific cash collateral to secure specific Obligations; Borrower authorizes Bank to hold such specific balances in pledge and to decline to honor any drafts thereon or any request by Borrower or any other Person to pay or otherwise transfer any part of such balances for so long as such specific Obligations are outstanding. Borrower shall take such other actions as Bank reasonably requests to perfect its security interests granted under this Agreement.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1. **Due Organization and Qualification.** Borrower and each Subsidiary is duly existing under the laws of the state in which it is organized and qualified and licensed to do business in any state in which the conduct of its business or its ownership of property requires that it be so qualified, except where the failure to do so would not reasonably be expected to cause a Material Adverse Effect.

5.2. **Due Authorization; No Conflict.** The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Certificate of Incorporation or Bylaws, nor will they constitute an event of default

under any material agreement by which Borrower is bound. Borrower is not in default under any agreement by which it is bound, except to the extent such default would not reasonably be expected to cause a Material Adverse Effect.

5.3. **Collateral.** Borrower has rights in or the power to transfer the Collateral, and its title to the Collateral is free and clear of Liens, adverse claims, and restrictions on transfer or pledge except for Permitted Liens. Other than movable items of personal property such as laptop computers, all Collateral having an aggregate book value in excess of \$250,000 is located solely in the Collateral States. All Inventory is in all material respects of good and merchantable quality, free from all material defects, except for Inventory for which adequate reserves have been made. Except as set forth in the Schedule or as permitted under Section 6.6, none of the Borrower's Cash is maintained or invested with a Person other than Bank or Bank's affiliates.

5.4. **Intellectual Property.** Borrower's Intellectual Property is set forth on Schedule 5.4 hereto. Borrower is the sole owner of the intellectual property created or purchased by Borrower, except for (a) licenses permitted hereunder or granted by Borrower to its customers in the ordinary course of business and (b) over the counter software that is commercially available to the public. To the best of Borrower's knowledge, each of the copyrights, trademarks and patents created or purchased by Borrower is valid and enforceable, and no part of the intellectual property created or purchased by Borrower has been judged invalid or unenforceable, in whole or in part, and no claim has been made to Borrower that any part of the intellectual property created or purchased by Borrower violates the rights of any third party except, in each case, to the extent such claim would not reasonably be expected to cause a Material Adverse Effect.

5.5. **Name; Location of Chief Executive Office.** Except as disclosed in the Schedule or for which notice has been provided in accordance with Section 7.2, Borrower has not done business under any name other than that specified on the signature page hereof, and its exact legal name is as set forth in the first paragraph of this Agreement. The chief executive office of Borrower is located at the address indicated in Section 10 hereof.

5.6. **Litigation.** Except as set forth in the Schedule, there are no actions or proceedings pending by or against Borrower or any Subsidiary before any court or administrative agency in which a likely adverse decision would reasonably be expected to have a Material Adverse Effect.

5.7. **No Material Adverse Change in Financial Statements.** All consolidated and consolidating, if applicable, financial statements related to Borrower and any Subsidiary that are delivered by Borrower to Bank fairly present in all material respects Borrower's consolidated and consolidating, if applicable, financial condition as of the date thereof and Borrower's consolidated and consolidating, if applicable, results of operations for the period then ended. There has not been a material adverse change in the consolidated or in the consolidating financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank.

5.8. **Solvency, Payment of Debts.** Borrower is able to pay its debts (including trade debts) as they mature; the fair saleable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; and Borrower is not left with unreasonably small capital after the transactions contemplated by this Agreement.

5.9. **Compliance with Laws and Regulations.** Borrower and each Subsidiary have met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T and U of the Board of Governors of the Federal Reserve System). Borrower has not violated any statutes, laws, ordinances or rules applicable to it, the violation of which would reasonably be expected to have a Material Adverse Effect. Borrower and each Subsidiary have filed or caused to be filed all tax returns required to be filed, and have paid, or have made adequate provision for the payment of, all taxes reflected therein except in each case those being contested in good faith with adequate reserves under GAAP or where the failure to file such returns or pay such taxes would not reasonably be expected to have a Material Adverse Effect.

5.10. **Subsidiaries.** Borrower does not own any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.11. **Government Consents.** Borrower and each Subsidiary have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted, except where the failure to do so would not reasonably be expected to cause a Material Adverse Effect.

5.12. **Inbound Licenses.** Except as disclosed on the Schedule or as disclosed pursuant to Section 6.9, Borrower is not a party to, nor is bound by, any material license or other material agreement important for the conduct

of Borrower's business that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property important for the conduct of Borrower's business, other than this Agreement or the other Loan Documents.

6. AFFIRMATIVE COVENANTS.

Borrower covenants that, until payment in full of all outstanding Obligations (other than inchoate indemnity obligations), and for so long as Bank may have any commitment to make a Credit Extension hereunder, Borrower shall do all of the following:

6.1. **Good Standing and Government Compliance.** Borrower shall maintain its and each of its Subsidiaries' corporate existence and good standing in their respective states of formation, shall maintain qualification and good standing in each other jurisdiction in which the failure to so qualify would reasonably be expected to have a Material Adverse Effect, and shall furnish to Bank the organizational identification number issued to Borrower by the authorities of the state in which Borrower is organized, if applicable. Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, and shall maintain, and shall cause each of its Subsidiaries to maintain, in force all licenses, approvals and agreements, in each case the loss of which or failure to comply with which would reasonably be expected to have a Material Adverse Effect.

6.2. **Financial Statements, Reports, Certificates.** Borrower shall deliver to Bank: (i) as soon as available, but in any event within 30 days after the end of each calendar month, a company prepared consolidated and consolidating, as applicable, balance sheet, income statement, and statement of cash flows covering Borrower's operations during such period, in a form reasonably acceptable to Bank and certified by a Responsible Officer; (ii) starting with the fiscal year ending December 31, 2016, as soon as available, but in any event within 180 days after the end of Borrower's fiscal year, audited (or such other level as is required by the Investment Agreement) consolidated and consolidating, as applicable, financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an opinion which is either unqualified, qualified only for going concern related solely to Borrower's liquidity position or otherwise consented to in writing by Bank on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank; (iii) annual budget approved by Borrower's Board of Directors as soon as available but not later than 45 days after the end of each fiscal year of Borrower during the term of this Agreement; (iv) if applicable, copies of all statements, reports and notices sent or made available generally by Borrower to its security holders or to any holders of Subordinated Debt (excluding any materials provided to such security holders, stockholders, or holders of Subordinated Debt solely in their capacity as members of Borrower's Board of Directors) and all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission; (v) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could reasonably be expected to result in damages or costs to Borrower or any Subsidiary of \$250,000 or more; (vi) periodic informal clinical updates on any material developments as Borrower may determine or upon request of Bank and (vii) such budgets, sales projections, operating plans or other information related to Borrower's business generally prepared by Borrower in the ordinary course of business as Bank may reasonably request from time to time.

(a) Within 30 days after the last day of each month, Borrower shall deliver to Bank with the monthly financial statements a Compliance Certificate certified as of the last day of the applicable month and signed by a Responsible Officer in substantially the form of Exhibit D hereto.

(b) As soon as possible and in any event within three (3) Business Days after becoming aware of the occurrence and existence of an Event of Default hereunder, Borrower shall deliver to Bank a written statement of a Responsible Officer setting forth details of the Event of Default, and the action which Borrower has taken or proposes to take with respect thereto.

(c) Bank (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours but no more than once a year (unless an Event of Default has occurred and is continuing), to inspect Borrower's Books and to make copies thereof and to check, test, inspect, audit and appraise the Collateral at Borrower's expense in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

Borrower may deliver to Bank on an electronic basis any certificates, reports or information required pursuant to this Section 6.2, and Bank shall be entitled to rely on the information contained in the electronic files, provided that Bank in good faith believes that the files were delivered by a Responsible Officer. Borrower shall include a submission date on any certificates and reports to be delivered electronically.

6.3. **Inventory and Equipment; Returns.** Borrower shall keep all Inventory and Equipment in good and merchantable condition, free from all material defects except for Inventory and Equipment (i) sold in the ordinary course of business, and (ii) for which adequate reserves have been made, in all cases in the United States and such other locations as to which Borrower gives prior written notice. Returns and allowances, if any, as between Borrower and its account debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist on the Closing Date, or as is standard in the industry. Borrower shall promptly notify Bank of all returns and recoveries and of all disputes and claims involving inventory having a book value of more than \$500,000.

6.4. **Taxes.** Borrower shall make, and cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, including, but not limited to, those laws concerning income taxes, F.I.C.A., F.U.T.A. and state disability, and will execute and deliver to Bank, on demand, proof reasonably satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits and any appropriate certificates attesting to the payment or deposit thereof; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower or such Subsidiary.

6.5. **Insurance.** Borrower, at its expense, shall (i) keep the Collateral insured against loss or damage, and (ii) maintain liability and other insurance, in each case as ordinarily insured against by other owners in businesses similar to Borrower's. All such policies of insurance shall be in such form, with such companies, and in such amounts as is customary for businesses similarly situated to Borrower. All policies of property insurance shall contain a lender's loss payable endorsement, in a form reasonably satisfactory to Bank, showing Bank as lender's loss payee. All liability insurance policies shall show, or have endorsements showing, Bank as an additional insured. Any such insurance policies shall specify that the insurer must give at least 20 days' notice to Bank before canceling its policy for any reason (10 days' notice for cancellation for reason of non-payment of premium). Within 30 days of the Closing Date, Borrower shall cause to be furnished to Bank a copy of its policies including any endorsements covering Bank or showing Bank as an additional insured. Upon Bank's request, Borrower shall deliver to Bank certified copies of the policies of insurance and evidence of all premium payments. Proceeds payable under any casualty policy will, at Borrower's option, be payable to Borrower to replace the property subject to the claim, provided that any such replacement property shall be deemed Collateral in which Bank has been granted a first priority security interest, provided that if an Event of Default has occurred and is continuing, all proceeds payable under any such policy shall, at Bank's option, be payable to Bank to be applied on account of the Obligations.

6.6. **Primary Depository.** Subject to the provisions of Section 3.1(l) and 3.2(b), Borrower, within thirty (30) days of the Closing Date (the "Transition Period"), shall maintain all its depository and operating accounts with Bank and its primary investment accounts with Bank or Bank's affiliates; provided that prior to maintaining any investment accounts with Bank's affiliates, Borrower, Bank, and any such affiliate shall have entered into a securities account control agreement with respect to any such investment accounts, in form and substance satisfactory to Bank. Notwithstanding the above (i) Borrower shall be permitted to maintain Cash in one or more accounts outside of Bank or Bank's affiliates, provided that the total aggregate amount of Cash maintained in such accounts does not exceed \$100,000 at any time and (ii) Borrower may transfer cash to the MSC Subsidiary so long as the MSC Investment Conditions have been met. Each Borrower shall use commercially reasonable efforts to open a MSC Subsidiary deposit account at the Bank.

6.7. **Intentionally Omitted.**

6.8. **Intentionally Omitted.**

6.9. **Consent of Inbound Licensors.** After entering into or becoming bound by any material inbound license or agreement, Borrower shall: (i) on the next Compliance Certificate delivered to Bank after entering into such material license or agreement, provide written notice to Bank of the material terms of such license or agreement with a description of its likely impact on Borrower's business or financial condition; and (ii) at Bank's request, in good faith use commercially reasonable efforts to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for Borrower's interest in such licenses or contract rights to be deemed Collateral and for Bank to have a security interest in it that might otherwise be restricted by the terms of the applicable license or agreement, whether now existing or entered into in the future, provided, however, that the failure to obtain any such consent or waiver shall not constitute a default under this Agreement.

6.10. **Creation/Acquisition of Subsidiaries.** In the event any Borrower or any Subsidiary (other than the MSC Subsidiary) of any Borrower creates or acquires any Subsidiary, Borrower or such Subsidiary shall promptly notify Bank of such creation or acquisition, and Borrower or such Subsidiary shall take all actions reasonably requested by Bank to achieve any of the following with respect to such "**New Subsidiary**" (defined as a Subsidiary formed after the date hereof during the term of this Agreement): (i) to cause New Subsidiary to become either a co-Borrower

hereunder, if such New Subsidiary (other than an MSC Subsidiary) is organized under the laws of the United States, or a secured guarantor with respect to the Obligations; and (ii) to grant and pledge to Bank a perfected security interest in 100% of the stock, units or other evidence of ownership held by Borrower or its Subsidiaries of any such New Subsidiary which is organized under the laws of a jurisdiction in the United States, and 65% of the stock, units or other evidence of ownership held by Borrower or its Subsidiaries of any such New Subsidiary which is not organized under the laws of a jurisdiction in the United States.

6.11. **Further Assurances.** At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

7. **NEGATIVE COVENANTS.**

Borrower covenants and agrees that, so long as any credit hereunder shall be available and until the outstanding Obligations (other than inchoate indemnity obligations) are paid in full or for so long as Bank may have any commitment to make any Credit Extensions, Borrower will not do any of the following without Bank's prior written consent, which shall not be unreasonably withheld:

7.1. **Dispositions.** Convey, sell, lease, license, transfer or otherwise dispose of (collectively, to "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, or move cash balances on deposit with Bank to accounts opened at another financial institution not permitted by Section 6.6, in each case, other than Permitted Transfers.

7.2. **Change in Name, Location, Executive Office, or Executive Management; Change in Business; Change in Fiscal Year; Change in Control.** Change its name or the state of Borrower's formation or relocate its chief executive office without 30 days prior written notification to Bank; replace or suffer the departure of its chief executive officer or chief financial officer without delivering written notification to Bank within 10 days; fail to appoint an interim replacement or fill a vacancy in the position of chief executive officer or chief financial officer for more than 90 consecutive days; suffer a change on its board of directors which results in the failure of at least one partner of Flagship Ventures Management, Inc. or its Affiliates to serve as a voting member (other than in connection with an IPO), or suffer the resignation of one or more directors from its board of directors in anticipation of the Borrower's insolvency, in either case without the prior written consent of Bank which may be withheld in Bank's sole discretion; take action to liquidate, wind up, or otherwise cease to conduct business in the ordinary course; engage in any business, or permit any of its Subsidiaries to engage in any business, other than or reasonably related or incidental to the businesses currently engaged in by Borrower; change its fiscal year end; have a Change in Control.

7.3. **Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization (other than mergers or consolidations of a Subsidiary into another Subsidiary or into Borrower), or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person except where (a) each of the following conditions is applicable: (i) the consideration paid in connection with such transactions (including assumption of liabilities) does not in the aggregate exceed \$500,000 during any fiscal year, (ii) no Event of Default has occurred, is continuing or would exist after giving effect to such transactions, (iii) such transactions do not result in a Change in Control, and (iv) Borrower is the surviving entity; or (b) the Obligations (other than inchoate indemnity obligations) are repaid in full concurrently with the closing of any merger or consolidation of Borrower in which Borrower is not the surviving entity; provided, however, that Borrower shall not, without Bank's prior written consent, enter into any binding contractual arrangement with any Person to attempt to facilitate a merger or acquisition of Borrower, unless (i) no Event of Default exists when such agreement is entered into by Borrower, and (ii) Borrower notifies Bank in advance of entering into such an agreement (provided, the failure to give such notification shall not be deemed a material breach of this Agreement).

7.4. **Indebtedness.** Create, incur, assume, guarantee or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness, or prepay any Indebtedness or take any actions which impose on Borrower an obligation to prepay any Indebtedness prior to the scheduled maturity date, except Indebtedness to Bank.

7.5. **Encumbrances.** Create, incur, assume or allow any Lien with respect to its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens, or covenant to any other Person (other than (i) the licensors of in-licensed property with respect to such property or (ii) the lessors of specific equipment or lenders financing specific equipment with respect to such leased or financed equipment) that Borrower in the future will refrain from creating, incurring, assuming or allowing any Lien with respect to any of Borrower's property.

7.6. **Distributions.** Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, except that Borrower may (i) repurchase the stock of former employees, consultants or directors pursuant to stock repurchase agreements in an aggregate amount not to exceed \$250,000 in any fiscal year, so long as an Event of Default does not exist prior to such repurchase or would not exist after giving effect to such repurchase; (ii) repurchase the stock of former employees, consultants or directors pursuant to stock repurchase agreements in any amount where the consideration for the repurchase is the cancellation of indebtedness owed by such former employees, consultants or directors to Borrower regardless of whether an Event of Default exists; (iii) make dividends or distributions solely in the common stock of Borrower; (iv) convert any of its equity or Subordinated Debt securities into other equity or Subordinated Debt securities pursuant to the terms of such securities or otherwise in exchange therefore; (v) purchase capital stock in connection with the exercise of stock options or stock appreciation by way of a cashless exercise, provided that such purchases do not in the aggregate exceed \$250,000 per fiscal year and (vi) purchase fractional shares of capital stock arising out of stock dividends, splits or combinations or business combinations in an amount not to exceed \$50,000 per fiscal year.

7.7. **Investments.** Directly or indirectly acquire or own an Investment in, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments, or, subject to the requirements of Section 6.6, maintain or invest any of its investment property with a Person other than Bank or Bank's affiliates or permit any Subsidiary to do so unless such Person has entered into a control agreement with Bank, in form and substance reasonably satisfactory to Bank, or suffer or permit any Subsidiary to be a party to, or be bound by, an agreement that restricts such Subsidiary from paying dividends or otherwise distributing property to Borrower. Notwithstanding the foregoing, if the MSC Investment Conditions have been met and no Event of Default or an event that with the passage of time could result in an Event of Default, shall exist, Borrower may make Investments in a wholly-owned corporation Subsidiary incorporated in Massachusetts for the purpose of holding Investments as a Massachusetts security corporation under 830 CMR 63.38B.1 of the Massachusetts tax code and applicable regulations (as the same may be amended, modified or replaced from time to time) (the "MSC Subsidiary"). If at any time after the incorporation of the MSC Subsidiary the MSC Investment Conditions are not met, then (i) Borrower shall immediately cause the MSC Subsidiary to distribute to Borrower all assets held by the MSC Subsidiary for deposit into an account at Bank, and (ii) the Borrower shall not permit the MSC Subsidiary to hold any assets. Borrower shall not permit the MSC Subsidiary to make any Investments or hold any assets that would cause the MSC Subsidiary to fail to qualify as a Massachusetts security corporation under 830 CMR 63.38B.1 of the Massachusetts tax code and applicable regulations (as the same may be amended, modified or replaced from time to time).

7.8. **Capitalized Expenditures.** Make Capitalized Expenditures in excess of 175% of the amount approved by Borrower's Board of Directors and set forth in the most recently approved operating plan delivered to Bank in accordance with Section 6.2(iii) hereof.

7.9. **Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for (a) transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person, (b) the sale or issuance of equity securities in a bona fide equity investment round to investors; provided no Change of Control occurs as a result, (c) Subordinated Debt, and (d) compensation arrangements approved by Borrower's Board of Directors.

7.10. **Subordinated Debt.** Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision affecting Bank's rights contained in any documentation relating to the Subordinated Debt without Bank's prior written consent.

7.11. **Inventory and Equipment.** Store the Inventory or the Equipment of a book value in excess of \$500,000 with a bailee, warehouseman, collocation facility or similar third party unless the third party has been notified of Bank's security interest and Bank (a) has received an acknowledgment from the third party that it is holding or will hold the Inventory or Equipment for Bank's benefit or (b) is in possession of the warehouse receipt, where negotiable, covering such Inventory or Equipment. Except for Inventory sold in the ordinary course of business and for movable items of personal property having an aggregate book value not in excess of \$500,000, and except for such other locations as Bank may approve in writing, Borrower shall keep the Inventory and Equipment only at the location set forth in Section 10 and such other locations of which Borrower gives Bank prior written notice and as to which Borrower has used commercially reasonable efforts to facilitate Bank in taking such actions as may be necessary to perfect its security interest or to obtain a bailee's acknowledgment of Bank's rights in the Collateral.

7.12. **No Investment Company; Margin Regulation.** Become or be controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake

as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Credit Extension for such purpose.

8. **EVENTS OF DEFAULT.**

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1. **Payment Default.** If Borrower fails to pay any of the Obligations when due;

8.2. **Covenant Default.**

(a) If Borrower fails to perform any obligation under Sections 6.2 (financial reporting), 6.4 (taxes), 6.5 (insurance), 6.6 (primary accounts) or 6.7 (financial covenants, if any), or violates any of the covenants contained in Article 7 of this Agreement; or

(b) If Borrower fails or neglects to perform or observe any other material term, provision, condition, covenant contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Bank and as to any default under such other term, provision, condition or covenant that can be cured, has failed to cure such default within 15 days after Borrower receives notice thereof or any officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the 15 day period or cannot after diligent attempts by Borrower be cured within such 15 day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed 30 days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default but no Credit Extensions will be made;

8.3. **Material Adverse Change.** If there occurs any circumstance or any circumstances which would reasonably be expected to have a Material Adverse Effect;

8.4. **Attachment.** If any material portion of Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within thirty (30) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any material portion of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within fifteen (15) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Credit Extensions will be made during such cure period);

8.5. **Insolvency.** If Borrower becomes insolvent, or if an Insolvency Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within 45 days (provided that no Credit Extensions will be made prior to the dismissal of such Insolvency Proceeding);

8.6. **Other Agreements.** If there is an uncured default or other uncured failure to perform in any agreement to which Borrower is a party with a third party or parties (a) resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of \$300,000, (b) in connection with any lease of real property material to the conduct of Borrower's business, if such default or failure to perform results in the right of another party to terminate such lease, or (c) that would reasonably be expected to have a Material Adverse Effect;

8.7. **Judgments.** If a final, uninsured judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least \$300,000 shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of 10 days (provided that no Credit Extensions will be made prior to the satisfaction or stay of the judgment); or

8.8. **Misrepresentations.** If any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate delivered to Bank by any Responsible Officer pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document.

8.9. **Guaranty.** If any guaranty of all or a portion of the Obligations (a "Guaranty") ceases for any reason to be in full force and effect, or any guarantor fails to perform any obligation under any Guaranty or a security agreement securing any Guaranty (collectively, the "Guaranty Documents"), or any event of default occurs under any Guaranty Document or any guarantor revokes or purports to revoke a Guaranty, or any material misrepresentation or material

misstatement exists now or hereafter in any warranty or representation set forth in any Guaranty Document or in any certificate delivered to Bank in connection with any Guaranty Document, or if any of the circumstances described in Sections 8.3 through 8.9 occur with respect to any guarantor.

9. BANK'S RIGHTS AND REMEDIES.

9.1. **Rights and Remedies.** Upon the occurrence and during the continuance of an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 (insolvency), all Obligations shall become immediately due and payable without any action by Bank);

(b) Demand that Borrower (i) deposit cash with Bank in an amount equal to the amount of any Letters of Credit remaining undrawn, as collateral security for the repayment of any future drawings under such Letters of Credit, and (ii) pay in advance all Letter of Credit fees scheduled to be paid or payable over the remaining term of the Letters of Credit, and Borrower shall promptly deposit and pay such amounts;

(c) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between Borrower and Bank;

(d) Settle or adjust disputes and claims directly with account debtors for amounts, upon terms and in whatever order that Bank reasonably considers advisable;

(e) Make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's owned premises, Borrower hereby grants Bank a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of Bank's rights or remedies provided herein, at law, in equity, or otherwise;

(f) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any control agreement or similar agreements providing control of any Collateral;

(g) Set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, and (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(h) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a license or other right, solely pursuant to the provisions of this Section 9.1, to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(i) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply any proceeds to the Obligations in whatever manner or order Bank deems appropriate. Bank may sell the Collateral without giving any warranties as to the Collateral. Bank may specifically disclaim any warranties of title or the like. This procedure will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral. If Bank sells any of the Collateral upon credit, Borrower will be credited only with payments actually made by the purchaser, received by Bank, and applied to the indebtedness of the purchaser. If the purchaser fails to pay for the Collateral, Bank may resell the Collateral and Borrower shall be credited with the proceeds of the sale;

(j) Bank may credit bid and purchase at any public sale;

(k) Apply for the appointment of a receiver, trustee, liquidator or conservator of the Collateral, without notice and without regard to the adequacy of the security for the Obligations and without regard to the solvency of Borrower, any guarantor or any other Person liable for any of the Obligations; and

(l) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

Bank may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

9.2. **Power of Attorney.** Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) dispose of any Collateral; (e) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; (f) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; and (g) file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral; provided Bank may exercise such power of attorney to sign the name of Borrower on any of the documents described in clause (g) above, regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations (other than inchoate indemnity obligations) have been fully repaid and performed and Bank's obligation to provide advances hereunder is terminated.

9.3. **Accounts Collection.** At any time after the occurrence and during the continuation of an Event of Default, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower for Bank, receive in trust all payments as Bank's trustee, and immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4. **Bank Expenses.** If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following after reasonable notice to Borrower: (a) make payment of the same or any part thereof; and/or (b) obtain and maintain insurance policies of the type discussed in Section 6.5 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement.

9.5. **Bank's Liability for Collateral.** Bank has no obligation to clean up or otherwise prepare the Collateral for sale. All risk of loss, damage or destruction of the Collateral shall be borne by Borrower.

9.6. **No Obligation to Pursue Others.** Bank has no obligation to attempt to satisfy the Obligations by collecting them from any other person liable for them and Bank may release, modify or waive any collateral provided by any other Person to secure any of the Obligations, all without affecting Bank's rights against Borrower. Borrower waives any right it may have to require Bank to pursue any other Person for any of the Obligations.

9.7. **Remedies Cumulative.** Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given. Borrower expressly agrees that this Section 9.7 may not be waived or modified by Bank by course of performance, conduct, estoppel or otherwise.

9.8. **Demand; Protest.** Except as otherwise provided in this Agreement, Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment and any other notices relating to the Obligations.

10. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered

or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower: EVELO BIOSCIENCES, INC.
620 Memorial Drive, Suite 200
Cambridge, MA 02139
Attn: Chief Executive Officer
FAX: _____

If to Bank: Pacific Western Bank
406 Blackwell Street, Suite 240
Durham, North Carolina 27701
Attn: Loan Operations Manager
FAX: (919) 314-3080

with a copy to: Pacific Western Bank
131 Oliver Street, 2nd Floor
Boston, MA 02110
Attn: Scott Hansen
FAX: (781) 547-0848

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of North Carolina, without regard to principles of conflicts of law. Jurisdiction shall lie in the State of North Carolina. All disputes, controversies, claims, actions and similar proceedings arising with respect to Borrower's account or any related agreement or transaction shall be brought in the General Court of Justice of North Carolina sitting in Durham County, North Carolina or the United States District Court for the Middle District of North Carolina, except as provided below with respect to arbitration of such matters. BANK AND BORROWER EACH ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED. EACH OF THEM, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT, WITH COUNSEL OF THEIR CHOICE, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY RELATED INSTRUMENT OR LOAN DOCUMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTION OF ANY OF THEM. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY BANK OR BORROWER, EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY EACH OF THEM. If the jury waiver set forth in this Section 11 is not enforceable, then any dispute, controversy, claim, action or similar proceeding arising out of or relating to this Agreement, the Loan Documents or any of the transactions contemplated therein shall be settled by final and binding arbitration held in Durham County, North Carolina in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association by one arbitrator appointed in accordance with those rules. The arbitrator shall apply North Carolina law to the resolution of any dispute, without reference to rules of conflicts of law or rules of statutory arbitration. Judgment upon any award resulting from arbitration may be entered into and enforced by any state or federal court having jurisdiction thereof. Notwithstanding the foregoing, the parties may apply to any court of competent jurisdiction for preliminary or interim equitable relief, or to compel arbitration in accordance with this Section. The costs and expenses of the arbitration, including without limitation, the arbitrator's fees and expert witness fees, and reasonable attorneys' fees, incurred by the parties to the arbitration may be awarded to the prevailing party, in the discretion of the arbitrator, or may be apportioned between the parties in any manner deemed appropriate by the arbitrator. Unless and until the arbitrator decides that one party is to pay for all (or a share) of such costs and expenses, both parties shall share equally in the payment of the arbitrator's fees as and when billed by the arbitrator.

12. GENERAL PROVISIONS.

12.1. Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties and shall bind all persons who become bound as a debtor to this Agreement; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower

without Bank's prior written consent, which consent may be granted or withheld in Bank's sole, but reasonable, discretion. Bank shall have the right without the consent of or notice to Borrower to sell, assign, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder. Notwithstanding the foregoing, provided that no Event of Default has occurred hereunder, Bank shall not assign its interest in the Term Loans, the Revolving Line or the Loan Documents to any Person who in Bank's reasonable discretion is (i) a direct competitor of Borrower, or (ii) a vulture or distressed debt fund.

12.2. **Indemnification.** Borrower shall defend, indemnify and hold harmless Bank and its officers, employees, and agents (an "Indemnified Person") against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement; and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank, its officers, employees and agents as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under this Agreement, or otherwise (including without limitation reasonable attorneys fees and expenses), except for losses caused by an Indemnified Person's gross negligence or willful misconduct.

12.3. **Time of Essence.** Time is of the essence for the performance of all obligations set forth in this Agreement.

12.4. **Severability of Provisions.** Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

12.5. **Amendments in Writing, Integration.** All amendments to or terminations of this Agreement or the other Loan Documents must be in writing. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement and the other Loan Documents, if any, are merged into this Agreement and the Loan Documents.

12.6. **Counterparts.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Executed copies of the signature pages of this Agreement sent by facsimile or transmitted electronically in Portable Document Format ("PDF"), or any similar format, shall be treated as originals, fully binding and with full legal force and effect, and the parties waive any rights they may have to object to such treatment.

12.7. **Survival.** All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding or Bank has any obligation to make any Credit Extension to Borrower. The obligations of Borrower to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

12.8. **Confidentiality.** In handling any confidential information, Bank and Borrower and all employees and agents of each such party shall exercise the same degree of care that such party exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) in the case of Bank, to the subsidiaries or Affiliates of Bank or Borrower in connection with their present or prospective business relations with Borrower as long as such entities are subject to similar confidentiality provisions, (ii) in the case of Bank, to prospective transferees or purchasers of any interest in the Credit Extensions, provided that they have entered into a comparable confidentiality agreement in favor of Borrower and have delivered a copy to Borrower, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) in the case of Bank, as may be required in connection with the examination, audit or similar investigation of Bank by appropriate authorities and (v) as Bank may reasonably determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of the receiving party when disclosed to such party, or becomes part of the public domain after disclosure to such receiving party through no fault of such receiving party; or (b) is disclosed to such receiving party by a third party, provided the receiving party does not have actual knowledge that such third party is prohibited from disclosing such information.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

EVELO BIOSCIENCES, INC.

By: /s/ Jennifer Glennon

Name: Jennifer Glennon

Title: Assistant Secretary

PACIFIC WESTERN BANK

By: /s/ John Orlando

Name: John Orlando

Title: Vice President

[Signature Page to Loan and Security Agreement]

EXHIBIT A

DEFINITIONS

"Accounts" means all presently existing and hereafter arising accounts, contract rights, payment intangibles and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Affiliate" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person's senior executive officers, directors, and general partners.

"Amortization Start Date" means the first business day of the month immediately following the Availability End Date.

"Authorized Officer" means someone designated as such in the corporate resolution provided by Borrower to Bank in which this Agreement and the transactions contemplated hereunder are authorized by Borrower's board of directors. If Borrower provides subsequent corporate resolutions to Bank after the Closing Date, the individual(s) designated as "Authorized Officer(s)" in the most recently provided resolution shall be the only "Authorized Officers" for purposes of this Agreement.

"Availability End Date" means February 15, 2018; provided that if Borrower achieves the Equity Milestone, the Availability End Date shall be automatically extended to August 15, 2018 with no further action required by any of the parties hereto.

"Bank Expenses" means all reasonable and documented costs or expenses (including reasonable attorneys' fees and expenses, whether generated in-house or by outside counsel) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; reasonable Collateral audit fees; and Bank's reasonable and documented attorneys' fees and expenses (whether generated in-house or by outside counsel) incurred in amending, enforcing or defending the Loan Documents (including fees and expenses of appeal), incurred before, during and after an Insolvency Proceeding, whether or not suit is brought.

"Borrower's Books" means all of Borrower's books and records including: ledgers; records concerning Borrower's assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which banks in the State of North Carolina are authorized or required to close.

"Capitalized Expenditures" means current period unfinanced cash expenditures that are capitalized and amortized over a period of time in accordance with GAAP, including but not limited to capitalized cash expenditures for capital equipment, capitalized manufacturing and labor costs as they relate to inventory, and software development.

"Cash" means cash and cash equivalents at Bank or Bank Affiliates subject to an account control agreement acceptable to Bank.

"Change in Control" shall mean a transaction other than (i) an IPO or (ii) a bona fide equity financing or series of financings on terms reasonably acceptable to Flagship Ventures Management, Inc. so long as at least one representative of Flagship Ventures Management, Inc. serves as a voting member of the board of directors, or otherwise reasonably acceptable to Bank, in which any "person" or "group" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of a sufficient number of shares of all classes of stock then outstanding of a Borrower ordinarily entitled to vote in the election of directors, empowering such "person" or "group" to elect a majority of the Board of Directors of a Borrower, who did not have such power before such transaction.

"Closing Date" means the date of this Agreement.

"Code" means the North Carolina Uniform Commercial Code as amended or supplemented from time to time.

"Collateral" means the property described on Exhibit B attached hereto and all Negotiable Collateral to the extent not described on Exhibit B, except to the extent any such property (i) is non-assignable by its terms without the consent of the licensor thereof or another party (but only to the extent such prohibition on transfer is enforceable under applicable law, including, without limitation, §25-9-406 and §25-9-408 of the Code), (ii) is property for which the granting of a security interest therein is contrary to applicable law, provided that upon the cessation of any such restriction or prohibition, such property shall automatically become part of the Collateral, (iii) constitutes the capital stock of a controlled foreign corporation (as defined in the IRC), in excess of 65% of the voting power of all classes of capital stock of such controlled foreign corporations entitled to vote or any Subsidiary which sole purpose is to hold the stock of such controlled foreign corporation, or (iv) is property (including any attachments, accessions or replacements) that is subject to a Lien that is permitted pursuant to clause (c) of the definition of Permitted Liens, if the grant of a security interest with respect to such property pursuant to this Agreement would be prohibited by the agreement creating such Permitted Lien or would otherwise constitute a default thereunder, provided, that such property will be deemed "Collateral" hereunder upon the termination and release of such Permitted Lien.

"Collateral State" means the state or states where the Collateral is located, which is Massachusetts.

"Compliance Certificate" means a compliance certificate, in substantially the form of Exhibit D attached hereto, executed by a Responsible Officer of the Borrower.

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed, co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable; (ii) any obligations with respect to undrawn letters of credit, corporate credit cards or merchant services issued for the account of that Person; and (iii) all obligations arising under any interest rate, currency or commodity swap agreement, interest rate cap agreement, interest rate collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term "Contingent Obligation" shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Copyrights" means any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held.

"Credit Card Line" means a Credit Extension of up to \$100,000, to be used exclusively for the provision of Credit Card Services.

"Credit Card Maturity Date" means August 15, 2017.

"Credit Extension" means each Term Loan, use of Credit Card Services or any other extension of credit by Bank, to or for the benefit of Borrower hereunder.

"Equipment" means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"Equity Milestone" means Borrower has delivered on or prior to December 31, 2016, evidence, satisfactory to Bank in its sole, but reasonable, discretion, that Borrower has (i) received (a) a term sheet(s) from investors satisfactory to Flagship Ventures Management, Inc., pursuant to which such investors agree to purchase at least \$30,000,000 in Borrower's Series B equity securities (the "Series B Term Sheet") and (b) unless the investors party to the Series B Term Sheet agree to purchase at least \$45,000,000 in Borrower's Series B equity securities, a term sheet(s) from counterparties to partnership, corporate, collaboration or licensing arrangements acceptable to Bank in its reasonable discretion, that have been approved and accepted by Borrower's Board of Directors for a transaction which, combined with the Series B Term Sheet, will yield at least \$45,000,000 in the aggregate of committed cash proceeds, and (ii) received at least \$30,000,000 in gross cash proceeds from the sale of Borrower's Series B equity securities.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

"Event of Default" has the meaning assigned in Article 8.

"GAAP" means generally accepted accounting principles, consistently applied, as in effect from time to time in the United States.

"Indebtedness" means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other reimbursement obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations, and (d) all Contingent Obligations, including but not limited to any sublimit contained herein.

"Insolvency Proceeding" means any proceeding commenced by or against any Person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"Intellectual Property" means all of Borrower's right, title, and interest in and to the following:

(a) Copyrights, Trademarks and Patents;

(b) Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;

(c) Any and all design rights which may be available to Borrower now or hereafter existing, created, acquired or held;

(d) Any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(e) All licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(f) All amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and

(g) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

"Inventory" means all present and future inventory in which Borrower has any interest.

"Investment" means any beneficial ownership of (including stock, partnership or limited liability company interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"Investment Agreement" means, collectively, Borrower's stock purchase and other agreement(s) pursuant to which Borrower most recently issued its preferred stock.

"IPO" means the initial public offering of a Borrower's equity securities.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Letter of Credit" means a commercial or standby letter of credit or similar undertaking issued by Bank at Borrower's request.

"Lien" means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Loan Documents" means, collectively, this Agreement, any note or notes executed by Borrower, and any other document, instrument or agreement entered into in connection with this Agreement, all as amended or extended from time to time.

"Material Adverse Effect" means a material adverse effect on (i) the operations, business or financial condition of Borrower and its Subsidiaries taken as a whole, (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents, or (iii) Borrower's interest in, or the value, perfection or priority of Bank's security interest in the Collateral.

"MSC Investment Conditions" means that Borrower has on deposit with Bank or Bank's affiliates Cash in an aggregate amount greater than or equal to 120% of the then outstanding principal and accrued interest on the Term Loans.

"MSC Subsidiary" has the meaning assigned in Section 7.7.

"Negotiable Collateral" means all of Borrower's present and future letters of credit of which it is a beneficiary, drafts, instruments (including promissory notes), securities, documents of title, and chattel paper, and Borrower's Books relating to any of the foregoing.

"Obligations" means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise. Notwithstanding the foregoing, "Obligations" shall not include any warrant or equity related investments.

"Patents" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"Periodic Payments" means all installments or similar recurring payments that Borrower may now or hereafter become obligated to pay to Bank pursuant to the terms and provisions of any instrument, or agreement now or hereafter in existence between Borrower and Bank.

"Permitted Indebtedness" means:

- (a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document;
- (b) Indebtedness existing on the Closing Date and disclosed in the Schedule;
- (c) Indebtedness not to exceed \$500,000 in the aggregate at any time secured by a lien described in clause (c) of the defined term "Permitted Liens," provided such Indebtedness does not exceed at the time it is incurred the lesser of the cost or fair market value of the property financed with such Indebtedness;
- (d) Subordinated Debt;
- (e) Indebtedness to trade creditors incurred in the ordinary course of business; and
- (f) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;
- (g) At all times until the SVB Letter of Credit Expiry Date, the SVB Letter of Credit;
- (h) Letters of credit with financial institutions other than Bank incurred in the ordinary course of business in connection

with the leasing of real property in an aggregate amount not to exceed \$150,000;

(i) Interest rate hedging arrangements with financial institutions other than Bank in an aggregate amount not to exceed \$150,000 at any time;

(j) Additional unsecured Indebtedness not to exceed \$250,000 in the aggregate at any time; and

(k) Extensions, refinancings and renewals of any items of Permitted Indebtedness, provided that the principal amount is not increased or the terms modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

"Permitted Investment" means:

(a) Investments existing on the Closing Date disclosed in the Schedule;

(b) (i) Marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one year from the date of acquisition thereof, (ii) commercial paper maturing no more than one year from the date of creation thereof and currently having rating of at least A-2 or P-2 from either Standard & Poor's Corporation or Moody's Investors Service, (iii) Bank's certificates of deposit maturing no more than one year from the date of investment therein, and (iv) Bank's money market accounts; (v) Investments in regular deposit or checking accounts held with Bank or as otherwise permitted by, and subject to the terms and conditions of, Section 6.6 of this Agreement; and (vi) Investments consistent with any investment policy adopted by the Borrower's board of directors;

(c) Investments accepted in connection with Permitted Transfers;

(d) Investments (i) of Subsidiaries in or to other Subsidiaries or Borrower and Investments by Borrower in Subsidiaries not to exceed \$300,000 in the aggregate in any fiscal year and (ii) of Borrower in any MSC Subsidiary otherwise permitted in accordance with the terms of this Agreement;

(e) Investments not to exceed \$300,000 outstanding in the aggregate at any time consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plan agreements approved by Borrower's Board of Directors;

(f) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of Borrower's business;

(g) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business, provided that this subparagraph (g) shall not apply to Investments of Borrower in any Subsidiary;

(h) Joint ventures or strategic alliances (i) in the ordinary course of Borrower's business consisting of the non-exclusive licensing of technology, the development of technology or the providing of technical support, provided that any cash Investments by Borrower do not exceed \$300,000 in the aggregate in any fiscal year; and (ii) by Borrower of property permitted to be transferred under Section 7.1 in connection with joint ventures or strategic alliances or collaborations of Borrower or a Subsidiary

(i) Investments permitted under Sections 7.3, 7.6 or 7.7; and

(j) Additional Investments, other than Investments in Subsidiaries, by Borrower that do not exceed \$300,000 in the aggregate during the term of this Agreement.

"Permitted Liens" means the following:

(a) Any Liens existing on the Closing Date and disclosed in the Schedule (excluding Liens to be satisfied with the proceeds of the Credit Extensions) or arising under this Agreement, the other Loan Documents, or any other agreement in favor of Bank;

(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and for which Borrower maintains adequate reserves;

(c) Liens not to exceed \$500,000 in the aggregate at any time (i) upon or in any Equipment (other than Equipment financed by a Credit Extension) acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition or lease of such Equipment, or (ii) existing on such Equipment at the time of its acquisition, in each case provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such Equipment;

(d) Liens incurred in connection with licenses or sublicenses permitted hereunder;

(e) Statutory Liens securing claims or demands of materialmen, mechanics, carriers, repairmen, or other like Liens imposed without the action of such parties arising in the ordinary course of business;

(f) Liens to secure payment for workers' compensation, employment insurance, old age pensions, social security or other like obligations incurred in the ordinary course of business;

(g) Non-exclusive licenses of Intellectual Property granted to third parties in the ordinary course of business, and licenses of Intellectual Property that could not result in a legal transfer of title of the licensed property that may be exclusive in respects other than territory and that may be exclusive as to territory only as to discrete geographical areas outside of the United States;

(h) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase;

(i) Liens securing Subordinated Debt;

(j) Liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default under Sections 8.4 (attachment) or 8.7 (judgments);

(k) Leases or subleases of real property granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business);

(l) Liens in favor of other financial institutions arising in connection with Borrower's deposit accounts held at such institutions to secure standard fees for deposit services charged by, but not financing made available by such institutions, provided that Bank has a perfected security interest in the amounts held in such deposit accounts to the extent required by Section 6.6; and

(m) Liens securing reimbursement obligations in connection with the SVB Letter of Credit.

"Permitted Transfer" means the conveyance, sale, lease, transfer or disposition by Borrower or any Subsidiary of:

- (a) Inventory in the ordinary course of business;
- (b) licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business;
- (c) worn-out, surplus or obsolete Equipment not financed with the proceeds of Credit Extensions;
- (d) grants of security interests and other Liens that constitute Permitted Liens;
- (e) Transfers that constitute Permitted Investments (including transfers to an MSC Subsidiary that are otherwise permitted hereunder);
- (f) Cash in the ordinary course of business, unless otherwise prohibited by the terms of this Agreement; and
- (g) other assets of Borrower or its Subsidiaries that do not in the aggregate exceed \$250,000 during any fiscal year.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the variable rate of interest, per annum, most recently announced by Bank, as its "prime rate," whether or not such announced rate is the lowest rate available from Bank.

"Responsible Officer" means each of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, Vice President of Finance and the Controller of Borrower, as well as any other officer or employee identified as an Authorized Officer in the corporate resolution delivered by Borrower to Bank in connection with this Agreement.

"Schedule" means the schedule of exceptions attached hereto and approved by Bank, if any.

"SOS Reports" means the official reports from the Secretaries of State of each Collateral State, the state where Borrower's chief executive office is located, the state of Borrower's formation and other applicable federal, state or local government offices identifying all current security interests filed in the Collateral and Liens of record as of the date of such report.

"Subordinated Debt" means any debt incurred by Borrower that is subordinated in writing to the debt owing by Borrower to Bank on terms reasonably acceptable to Bank (and identified as being such by Borrower and Bank).

"Subsidiary" means any corporation, partnership or limited liability company or joint venture in which (i) any general partnership interest or (ii) more than 50% of the stock, limited liability company interest or joint venture of which by the terms thereof ordinary voting power to elect the Board of Directors, managers or trustees of the entity, at the time as of which any determination is being made, is owned by Borrower, either directly or through an Affiliate.

"SVB Letter of Credit" means letter of credit number SVBSF010185 issued by Silicon Valley Bank at the request of Borrower in the face amount of One Hundred Seventy-Five Thousand Dollars (\$175,000).

"SVB Letter of Credit Expiry Date" is July 15, 2017.

"Term Loan Maturity Date" means August 15, 2020.

"Term Loan or "Term Loans" have the meaning assigned in Section 2.1(b)(i).

"Trademarks" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

"Tranche" means any of Tranche A or Tranche B.

"Tranche A" has the meaning assigned in Section 2.1(b)(i).

"Tranche A Term Loan or Tranche A Term Loans" has the meaning assigned in Section 2.1(b)(i).

"Tranche B" has the meaning assigned in Section 2.1(b)(i).

"Tranche B Term Loan or Tranche B Term Loans" has the meaning assigned in Section 2.1(b)(i).

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DEBTOR **EVELO BIOSCIENCES, INC.**

SECURED PARTY: **PACIFIC WESTERN BANK**

EXHIBIT B

COLLATERAL DESCRIPTION ATTACHMENT TO LOAN AND SECURITY AGREEMENT

All personal property of Borrower (herein referred to as "Borrower" or "Debtor") whether presently existing or hereafter created or acquired, and wherever located, including, but not limited to:

(h) all accounts (including health-care-insurance receivables), chattel paper (including tangible and electronic chattel paper), deposit accounts, documents (including negotiable documents), equipment (including all accessions and additions thereto), financial assets, general intangibles (including patents, trademarks, copyrights, goodwill, payment intangibles, domain names and software), goods (including fixtures), instruments (including promissory notes), inventory (including all goods held for sale or lease or to be furnished under a contract of service, and including returns and repossessions), investment property (including securities and securities entitlements), letter of credit rights, money, and all of Debtor's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records; and

(i) any and all cash proceeds and/or noncash proceeds of any of the foregoing, including, without limitation, insurance proceeds, and all supporting obligations and the security therefor or for any right to payment. All terms above have the meanings given to them in the North Carolina Uniform Commercial Code, as amended or supplemented from time to time, including revised Article 9 of the Uniform Commercial Code-Secured Transactions.

Notwithstanding the foregoing, the Collateral shall not include property (a) nonassignable by its terms without the consent of the licensor thereof or another party (but only to the extent such prohibition on transfer is enforceable under applicable law, including, without limitation, §25-9-406 and §25-9-408 of the Uniform Commercial Code), (b) constitutes the capital stock of a controlled foreign corporation (as defined in the IRC), in excess of 65% of the voting power of all classes of capital stock of such controlled foreign corporations entitled to vote or any Subsidiary with the sole purpose to hold the stock of such controlled foreign corporation, (c) property (including any attachments, accessions or replacements) that is subject to an Equipment lien, if the grant of a security interest with respect to such property would be prohibited by the agreement creating such lien or would otherwise constitute a default thereunder, provided, that such property will be deemed "Collateral" hereunder upon the termination and release of such lien; or (d) any of the intellectual property, in any medium, of any kind or nature whatsoever, now or hereafter owned or acquired or received by Borrower, or in which Borrower now holds or hereafter acquires or receives any right or interest (collectively, the "Intellectual Property"); provided, however, that the Collateral shall include all accounts and general intangibles that consist of rights to payment and proceeds from the sale, licensing or disposition of all or any part, or rights in, the foregoing (the "Rights to Payment").

Notwithstanding the foregoing, if a judicial authority (including a U.S. Bankruptcy Court) holds that a security interest in the underlying Intellectual Property is necessary to have a security interest in the Rights to Payment, then the Collateral shall automatically, and effective as of August 15, 2016, include the Intellectual Property to the extent and only to the extent necessary to permit perfection of Bank's security interest in the Rights to Payment, and further provided, however, that Bank's enforcement rights with respect to any security interest in the Intellectual Property shall be absolutely limited to the Rights to Payment only, and Bank shall have no recourse whatsoever with respect to the underlying Intellectual Property.

EXHIBIT C

LOAN ADVANCE / PAYDOWN REQUEST FORM

[Please refer to New Borrower Kit]

EXHIBIT D

COMPLIANCE CERTIFICATE

[Please refer to New Borrower Kit]

EXHIBIT E

WARRANT TO PURCHASE STOCK

[See attached]

SCHEDULE OF EXCEPTIONS

Permitted Indebtedness (Exhibit A)

None

Permitted Investments (Exhibit A) -

None

Permitted Liens (Exhibit A) -

None

Bank Accounts (Section 5.3) -

Checking Accounts:

SILICON VALLEY BANK
3003 TASMAN DRIVE
2ND FLOOR, MAIL SORT HF210
SANTA CLARA, CALIFORNIA 95054

Account Number: 3301272839-2
Purpose: Old Operating Account

COMERICA BANK
226 AIRPORT PARKWAY
SAN JOSE, CA 95110-4348

Account Number: 1894979291
Purpose: Operating Account

Account Number: 1894979291
Purpose: Money Market Account

Intellectual Property (Section 5.4) -

Patents:

Title	Jurisdiction	Application No.	Filing date
Methods and Compositions	US	62/162562	5/15/15
Modified Clostridium, Listeria, or Salmonella for the Treatment of Cancer	US	62/202,639	8/7/15
Microbiome-Based Cancer Diagnostics	US	62/212,415	8/31/15
Microbial Composition and Their Use In Treatment and Prevention Of Allergies	US	62/214153	9/3/15
Microbiome-Based Cancer Prognostics	US	62/220,124	9/17/15
Microbial Compositions and Uses Thereof	US	62/241,644	10/14/15
Bacterial Delivery of Cancer Therapeutics	US	62/241,645	10/14/15
Methods Of Administering Agents According To Rorc Levels	US	62/243664	10/19/15

Use Of Exosomes In The Treatment and Prevention Of Allergies	US	62/248244	10/29/15
Methods Of Administering Agents According To Rorc Levels	US	62/253121	11/9/15
Xylose Compositions and Methods For Use Thereof	US	62/257714	11/19/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Modulation Of The Microbiome	US	14/952891	11/25/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Modulation Of The Microbiome	WO	PCT/US15/62805	11/25/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Treatment and Prevention Of Graft Verses Host Disease	US	14/952887	11/25/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Treatment and Prevention Of Graft Versus Host Disease	US	14/952892	11/25/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Treatment and Prevention Of Graft Versus Host Disease	WO	PCT/US15/62808	11/25/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Treatment and Prevention Of Graft Versus Host Disease	WO	PCT/US15/62810	11/25/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Treatment Of Gastrointestinal Disorders	US	14/952894	11/25/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Treatment Of Gastrointestinal Disorders	WO	PCT/US15/62809	11/25/15
Probiotic Compositions Containing Clostridiales For Inhibiting Inflammation	US	14/952895	11/25/15
Probiotic Compositions Containing Clostridiales For Inhibiting Inflammation	WO	PCT/US15/62806	11/25/15
Probiotic and Prebiotic Compositions, and Methods Of Use Thereof For Treatment and Prevention Of Graft Versus Host Disease	US	14/968086	12/14/15
Enhanced Bifidobacteria Using Genome	US	62/276,150	1/7/16
Immune Assays	US	62/276,151	1/7/16
Immune Checkpoint Inhibitor Efficacy Biomarkers	US	62/276,153	1/7/16
Bone Marrow Transplant Efficacy Biomarkers	US	62/276,155	1/7/16
CAR-T Efficacy Biomarkers	US	62/276,161	1/7/16
Immunotherapy Efficacy Biomarkers	US	62/276,163	1/7/16
Bacterial Outer Membrane Vesicles for Immune and Anti-Cancer Response (Bifido)	US	62/280,656	1/19/16
Bacterial Outer Membrane Vesicles for Immune and Anti-Cancer Response (Strep)	US	62/280,658	1/19/16
Microbial Compositions and Their Use in Treatment and Prevention of Drug Allergies	US	62/288,384	1/28/16
Bacterial and Prebiotic Compositions and Methods of Production and Use Thereof	WO	PCT/US16/18539	2/18/16
Probiotic and Prebiotic Compositions, Methods of Use Thereof for Treatment of Disorders	WO	PCT/US16/18551	2/18/16
Prebiotic Compounds, Compositions, and Methods of Use Thereof for Treatment of Neurological Disorders	US	62/298,556	2/23/16
Use Of Exosomes In The Treatment and Prevention Of Allergies	US	62/324,857	4/19/16
Use Of Exosomes In The Treatment and Prevention Of Allergies	US	62/344,775	6/2/16

Trademark applications and registrations:

EVELO; US; Application No. 86/582,465; Classes 9, 32, 42, and 44; Filed March 31, 2015

ONCOBIOME; US; Application No. 86/300,247; Classes 5, 9, 10, 42 and 44; Filed June 4, 2014

ONCOBIOTIC; US; Application No. 86/808,587; Class 5; Filed November 3, 2015

BIA; US; Application No. 86/808,590; Class 5; Filed November 3, 2015

Copyrights applications and registrations:

None

Prior Names (Section 5.5) -

VL28, Inc.

VL 28, LLC

VL 31, Inc.

Epiva Therapeutics, Inc.

Epiva Biosciences, Inc.

Evelo Therapeutics, Inc.

The principal place of business is 620 Memorial Drive, Suite 200 West, Cambridge, MA 02139

Litigation (Section 5.6) -

None

Inbound Licenses (Section 5.12) -

Exclusive License Agreement between University of Chicago and Evelo for a royalty bearing worldwide exclusive license to the Patent Rights within the Field of Treatment of Cancer by Manipulation of Commensal Microflora. Effective Date March 10, 2016.

Exclusive Research and License Agreement between Mayo Foundation for Medical Education and Research and Evelo to advance immune-microbiome-based therapies for cancer. Effective Date June 10, 2016.

CORPORATE RESOLUTION

The undersigned duly elected and qualified Secretary of EVELO BIOSCIENCES, INC. (the "Company") does hereby certify, solely in his or her capacity as an officer of the Company and not in any individual capacity, that the following is a true and correct copy of certain resolutions adopted by the Company's Board of Directors in accordance with applicable law and the Company's bylaws, and that such resolutions are now unmodified and in full force and effect:

BE IT RESOLVED, that:

1) Any one (1) of the following, duly elected officers of the Company (each, an "Authorized Officer") whose genuine original signature appears next to his or her name is authorized to act for, on behalf of, and in the name of the Company in connection with the resolutions below:

<u>Title</u>	<u>Name</u>	<u>Authorized Signature</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

- 2) Any Authorized Officer may:
- a) Borrow money from time to time from Pacific Western Bank (the "Bank"), and may negotiate and procure loans, letters of credit, foreign exchange contracts and other financial accommodations from Bank, including without limitation, that certain Loan and Security Agreement dated as of August 15, 2016, and also to execute and deliver to Bank one or more renewals, extensions, or modifications thereof;
 - b) Give security for any liabilities of the Company to Bank by grant, security interest, assignment, lien, deed of trust or mortgage upon any real or personal property, tangible or intangible of the Company;
 - c) Purchase, sell, exchange, assign, endorse for transfer and/or deliver certificates and/or instruments representing stocks, bonds, evidences of Indebtedness or other securities owned by the Company, whether or not registered in the name of the Company;
 - d) Discount with the Bank, commercial or other business paper belonging to the Company made or drawn by or upon third parties, without limit as to amount;
 - e) Authorize and direct the Bank to pay the proceeds of any such loans or discounts as directed by the persons so authorized to sign;
 - f) Issue a warrant or warrants to purchase the Company's capital stock;
 - g) Execute and deliver in form and content as may be required by the Bank any and all notes, evidences of indebtedness, applications for letters of credit, guaranties, subordination agreements, loan and security agreements, financing statements, assignments, liens, deeds of trust, mortgages, trust receipts and other agreements, instruments or documents to carry out the purposes of these Resolutions, any or all of which may relate to all or to substantially all of the Company's property and assets.
- 3) The Authorized Officers may designate additional or alternate individuals as being authorized to request loan advances, to do and perform such other acts and things, to pay any and all fees and costs, and to execute and deliver such other documents and agreements as he or she may in his or her discretion deem reasonably necessary or proper in order to carry into effect the provisions of these Resolutions.
- 4) Any and all acts authorized pursuant to these resolutions and performed prior to the passage of these resolutions are hereby ratified and approved, and the authority conferred herein may be exercised singly by any such officer, and these resolutions shall continue in full force and effect until written notice of modification or revocation is received and accepted by Bank (such notice to have no effect on any action previously taken by the Bank in reliance on these Resolutions). Bank may rely upon any form of notice, which it in good faith believes to be genuine or what it purports to be.
- 5) The Resolutions are in full force and effect as of the date of this Certificate and are intended to replace, as of this date, any Resolutions previously given by the Company to Bank in connection with the matters described herein; these Resolutions and any borrowings or financial accommodations under these Resolutions have been properly noted in the corporate books and records, and have not been rescinded, revoked or modified; neither the foregoing Resolutions nor any actions to be taken pursuant to them are or will be in contravention of any provision of the articles of incorporation or bylaws of the Company or of any agreement, indenture or other instrument to which the Company is a party or by which it is bound; and to the extent the articles of incorporation or bylaws of the Company or any agreement, indenture or other instrument to which the Company is a party or by which it is bound

require the vote or consent of shareholders of the Company to authorize any act, matter or thing described in the foregoing Resolutions, such vote or consent has been obtained.

In Witness Whereof, I have affixed my name as Secretary and have caused the corporate seal (where available) of said Company to be affixed on August 15, 2016.

USA PATRIOT ACT
NOTICE
OF
CUSTOMER IDENTIFICATION

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

WHAT THIS MEANS FOR YOU: when you open an account, we will ask your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

PACIFIC WESTERN BANK

AUTOMATIC DEBIT AUTHORIZATION

Member FDIC

To: **Pacific Western Bank**

Re: **Loan #** _____

You are hereby authorized and instructed to charge account No. _____ in the name of
EVELO BIOSCIENCES, INC.

for facility fees, principal, interest and other payments due on above referenced loan as set forth below and credit the loan referenced above.

Debit each interest payment as it becomes due according to the terms of the Loan and Security Agreement and any renewals or amendments thereof.

Debit each principal payment as it becomes due according to the terms of the Loan and Security Agreement and any renewals or amendments thereof.

Debit each payment for Bank Expenses as it becomes due according to the terms of the Loan and Security Agreement and any renewals or amendments thereof.

This Authorization is to remain in full force and effect until revoked in writing.

Borrower Signature	Date

**FIRST AMENDMENT
TO
LOAN AND SECURITY AGREEMENT**

This First Amendment to Loan and Security Agreement (the "**Amendment**") is entered into as of June 14, 2017, by and between PACIFIC WESTERN BANK, a California state chartered bank ("**Bank**"), and EVELO BIOSCIENCES, INC. ("**Borrower**").

RECITALS

Borrower and Bank are parties to that certain Loan and Security Agreement dated as of August 15, 2016 (as amended from time to time, the "**Agreement**"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

- 1) Pursuant to Section 6.2(ii) of the Agreement, Borrower is required to deliver to Bank, within 180 days after the end of each of Borrower's fiscal years, annual audited consolidated and consolidating financial statements for such fiscal year (the "Annual Audited Financials"). Bank hereby extends the due date for Borrower to provide its Annual Audited Financials for the 2016 fiscal year to August 30, 2017.
- 2) The following defined term in Exhibit A to the Agreement is hereby amended and restated, as follows:

"Credit Card Line" means a Credit Extension of up to \$150,000, to be used exclusively for the provision of Credit Card Services.
- 3) Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all agreements entered into in connection with the Agreement.
- 4) Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment.
- 5) This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.
- 6) As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:
 - a) this Amendment, duly executed by Borrower;
 - b) payment of all Bank Expenses, including Bank's expenses for the documentation of this amendment and any related documents, and any UCC, good standing or intellectual property search or filing fees, which may be debited from any of Borrower's accounts; and
 - c) such other documents and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

EVELO BIOSCIENCES, INC.

By: /s/ Jennifer Glennon

Name: Jennifer Glennon

Title: Head of Finance & Operations

PACIFIC WESTERN BANK

By: /s/ Scott Hansen

Name: Scott Hansen

Title: SVP

[Signature Page to First Amendment to Loan and Security Agreement]

SECOND AMENDMENT

TO

LOAN AND SECURITY AGREEMENT

This Second Amendment to Loan and Security Agreement (this "**Amendment**") is entered into as of August 18, 2017, by and between PACIFIC WESTERN BANK, a California state chartered bank ("**Bank**"), and EVELO BIOSCIENCES, INC. ("**Borrower**").

RECITALS

Borrower and Bank are parties to that certain Loan and Security Agreement dated as of August 15, 2016 (as amended from time to time, the "**Agreement**"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

1) The following defined term in Exhibit A to the Agreement is hereby amended and restated, as follows:

"Credit Card Maturity Date" means August 14, 2018.

2) Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all agreements entered into in connection with the Agreement.

3) Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment.

4) This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

5) As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

a) this Amendment, duly executed by Borrower;

b) payment of all Bank Expenses, including Bank's expenses for the documentation of this amendment and any related documents, and any UCC, good standing or intellectual property search or filing fees, which may be debited from any of Borrower's accounts; and

c) such other documents and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

EVELO BIOSCIENCES, INC.

PACIFIC WESTERN BANK

By: /s/ Jennifer Glennon

By: /s/ Scott Hansen

Name: Jennifer Glennon

Name: Scott Hansen

Title: VP, Finance and Operations

Title: SVP

[Signature Page to Second Amendment to Loan and Security Agreement]

**THIRD AMENDMENT TO
LOAN AND SECURITY AGREEMENT**

This Third Amendment to Loan and Security Agreement (this "**Amendment**") is made and entered into as of February 7, 2018 by and between PACIFIC WESTERN BANK, a California state chartered bank ("**Bank**"), EVELO BIOSCIENCES, INC. (individually or collectively, as the context may require, "**Borrower**").

RECITALS

Borrower and Bank are parties to that certain Loan and Security Agreement dated as of August 15, 2016, as amended by that certain First Amendment to Loan and Security Agreement, dated as of June 14, 2017, and that certain Second Amendment to Loan and Security Agreement, dated as of August 18, 2017 (as further amended, restated, supplemented or otherwise modified from time to time, the "**Agreement**"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

1) Amendments to Agreement.

a) Section 2.1(b) of the Agreement is hereby amended and restated, as follows:

(b) **Term Loan.**

(i) Prior to the Third Amendment Date, Borrower has requested and Bank has made, term loans in an aggregate principal amount of \$10,000,000 (the "Existing Term Loans"). As of the Third Amendment Date, the aggregate principal amount of Existing Term Loans is \$10,000,000. On the Third Amendment Date, Borrower shall request and Bank agrees to make a new term loan in original principal amount of \$15,000,000 (the "Term Loan"), which shall be applied first to refinance in full the Existing Term Loans, and then, for general working capital purposes and for capital expenditures. As of the Third Amendment Date, Bank's commitment to make the Tranche B Term Loans shall be terminated.

(ii) Interest shall accrue from the date of the Term Loan at the rate specified in Section 2.3(a), and shall be payable monthly in arrears on the 15th day of the month, beginning on February 15, 2018, and continuing on the same day of each month each month thereafter. Any Term Loans that are outstanding on August 15, 2019 shall be payable in 24 equal monthly installments of principal, plus all accrued interest, beginning on September 15, 2019 and continuing on the same day of each month thereafter through the Term Loan Maturity Date, at which time all amounts due in connection with the Term Loan and any other amounts due under this Agreement shall be immediately due and payable. The Term Loan, once repaid, may not be reborrowed.

(iii) Borrower may prepay all but not less than all of the Term Loan at any time, provided that Borrower may not reborrow any amount so prepaid, and provided further that upon any prepayment, including any prepayment due to the occurrence of an Event of Default, Borrower shall pay, in addition to all outstanding principal and accrued interest on the Term Loans, the Prepayment Fee.

b) Section 2.3(a) of the Agreement is hereby amended and restated to read as follows:

(a) **Interest Rate.** Except as set forth in Section 2.3(b), the Term Loan shall bear interest, on the outstanding daily balance thereof, at a variable annual rate equal to the greater of (A) 0.25% above the Prime Rate then in effect, or (B) 4.50%.

c) Section 2.3(c) of the Agreement is hereby amended and restated to read as follows:

(c) **Payments.** Interest under the Term Loans shall be due and payable monthly in arrears on the 15th calendar day of each month during the term hereof. Bank shall, at its option, charge such interest, fees, all Bank Expenses, and all Periodic Payments, in each case, if and when due, against first, a deposit account designated by Borrower in writing, and second, if insufficient funds remain in such account, any of Borrower's other deposit accounts. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

d) Section 2.5 of the Agreement is hereby amended and restated to read as follows:

2.5 Fees. Borrower shall pay to Bank the following:

(a) **Facility Fee.** On the Third Amendment Date, a facility fee of \$25,000, which shall be nonrefundable;

(b) **Prepayment Fee.** The Prepayment Fee, when due hereunder.

(c) **Success Fee.** Upon a Liquidity Event, Borrower shall pay to Bank a fee of \$250,000 (the "Success Fee"). This Section 2.5(c) shall survive any termination of this Agreement until the earlier of (i) payment of full of the Success Fee and (ii) February 7, 2028.

(d) **Bank Expenses.** On the Closing Date, all Bank Expenses incurred through the Closing Date (which have been paid as of the Third Amendment Date), and thereafter, all Bank Expenses as and when they become due.

e) Subsection (a) of Section 3.3 of the Agreement is hereby amended and restated to read as follows:

(a) [Reserved.]

f) Section 6.6 of the Agreement is hereby amended and restated to read as follows:

6.6 Primary Depository. Borrower shall maintain all its depository and operating accounts with Bank and its primary investment accounts with Bank or Bank's affiliates; provided that prior to maintaining any investment accounts with Bank's affiliates, Borrower, Bank, and any such affiliate shall have entered into a securities account control agreement with respect to any such investment accounts, in form and substance satisfactory to Bank. Notwithstanding the above, (a) Borrower shall be permitted to maintain Cash in one or more accounts outside of Bank or Bank's affiliates with a control agreement, provided that the total aggregate amount of Cash maintained in deposit accounts or investment accounts of Borrower at Bank exceed 200% of the sum of (i) the aggregate original principal amount of the Term Loan plus (ii) the maximum amount of the Credit Card Line, and (b) Borrower may transfer cash to the MSC Subsidiary so long as the MSC Investment Conditions have been met. Borrower shall use commercially reasonable efforts to open a MSC Subsidiary deposit account at the Bank.

g) Section 7.8 of the Agreement is hereby amended to replace the reference to "175%" with "200%".

h) Exhibit A of the Agreement is hereby amended to amend or add the definitions set forth below in appropriate alphabetical order, as applicable:

"Credit Extension" means the Term Loan, the Credit Card Services provided under the Credit Card Line, or any other extension of credit by Bank to or for the benefit of Borrower hereunder.

"Liquidity Event" means (a) any sale, license, or other disposition of all or substantially all of the assets (including intellectual property) of Borrower, (b) any reorganization, consolidation, merger or sale of the voting securities of Borrower or any other transaction where the holders of Borrower's securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction, or (c) an initial public offering of Borrower's equity securities.

"Obligations" means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise. Notwithstanding the foregoing, "Obligations" shall not include the Success Fee, any warrant or equity related investments.

"Prepayment Fee" means a fee in an amount equal to (i) 2.0% of the principal amount prepaid, with respect to a prepayment made on or prior to August 15, 2018, and (ii) 0.5% of the principal amount prepaid, with respect to a prepayment made after August 15, 2018 but on or prior to August 15, 2019. For the avoidance of doubt, no Prepayment Fee shall be required for any prepayments made on or after August 15, 2019.

"Term Loan" has the meaning set forth in Section 2.1(b)(i).

"Term Loan Maturity Date" means August 15, 2021.

"Third Amendment Date" means February 7, 2018.

i) Exhibit A of the Agreement is hereby amended to delete the following defined terms and related definitions: "Availability End Date", "Equity Milestone", "Tranche A", "Tranche A Term Loan or Tranche A Term Loans", "Tranche B", and "Tranche B Term Loan or Tranche B Term Loans".

- j) The Schedule attached to the Agreement is hereby amended and restated as set forth in the Schedule attached hereto.
- 2) Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all agreements entered into in connection with the Agreement.
- 3) Borrower represents and warrants that:
- a) No Material Effect has occurred and is continuing;
 - b) Borrower is in compliance with Section 6.6 of the Agreement, as amended by this Amendment;
 - c) The execution, delivery and performance of the Agreement and this Amendment are within Borrower's powers, have been duly authorized, and are not in conflict with, nor constitute a breach of any provision contained in Borrower's Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement by which it is bound, except to the extent such default would not reasonably be expected to cause a Material Adverse Effect;
 - d) the representations and warranties of Borrower contained in the Agreement are true and correct in all material respects as of the date of this Amendment (provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date).
- 4) This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.
- 5) The provisions of Sections 11 and 12 are hereby incorporated herein, provided that all references to the "Agreement", shall mean the Agreement, as amended by this Amendment.
- 6) As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:
- a) this Amendment, duly executed by Borrower;
 - b) a warrant to purchase stock, duly executed by Borrower;
 - c) an officer's certificate of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Amendment;
 - d) delivery of the Loan Advance/Paydown Request Form in accordance with Section 2.1 and satisfaction of all other conditions set forth in Section 3.2;
 - e) payment of the facility fee in accordance with Section 2.5 of the Agreement, as amended hereby, and all Bank Expenses incurred through the date of this Amendment, including Bank's reasonable expenses for the documentation of this Amendment and any UCC, good standing or intellectual property search or filing fees, which may be debited from any of Borrower's accounts; and
 - f) such other documents and completion of such other matters, as Bank may have reasonably requested.
- 7) Borrower agrees to use commercially reasonable efforts to provide a landlord waiver, duly executed by Borrower and the applicable landlord, with respect to its leased premises at 620 Memorial Drive, Suite 200, Cambridge, MA 02139, in form satisfactory to Bank, within 90 days of the Third Amendment Date.
- 8) Pursuant to Section 6.3 of the Agreement, Borrower hereby notifies Bank of Inventory and Equipment held at Biose Industrie, 24, Avenue Georges Pompidou CS 70429 Arpajon-Sur-Cere, Aurillac Cedex, 1 15004, France, and pursuant to Section 7.11 of the Agreement, Bank hereby approves of such location and waives any requirement to provide a landlord or bailee waiver for such location.

[remainder of page intentionally left blank]

[SIGNATURE PAGE TO THIRD AMENDMENT]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

EVELO BIOSCIENCES, INC.

By: /s/ Jennifer Glennon

Name: Jennifer Glennon

Title: Vice President, Finance and Operations

PACIFIC WESTERN BANK

By: /s/ Stephen J. Burns

Name: Stephen J. Burns

Title: Vice President

SCHEDULE OF EXCEPTIONS

Permitted Indebtedness (Exhibit A)

None

Permitted Investments (Exhibit A) -

None

Permitted Liens (Exhibit A) -

None

Bank Accounts (Section 5.3) -

Checking Accounts:

SILICON VALLEY BANK
 3003 TASMAN DRIVE
 2ND FLOOR, MAIL SORT HF210
 SANTA CLARA, CALIFORNIA 95054

Account Number: 3301272839-2
 Purpose: Old Operating Account

COMERICA BANK
 226 AIRPORT PARKWAY
 SAN JOSE, CA 95110-4348

Account Number: 1894979291
 Purpose: Operating Account

Account Number: 1894979291
 Purpose: Money Market Account

Intellectual Property (Section 5.4) -

Patents:

Patents:

Title	Country/Region	Patent No. (Application No.)	Issue Date (Filing Date)
PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR TREATMENT AND PREVENTION OF GRAFT VERSUS HOST DISEASE	United States of America	9,603,878 (14/968086) McCarter Ref. EPI014-US1CN (01904)	3/28/17 (12/14/15)
PROBIOTIC COMPOSITIONS CONTAINING CLOSTRIDIALES FOR INHIBITING INFLAMMATION	United States of America	9,610,307 (14/952895) McCarter Ref. EPI016 (02102)	4/4/17 (11/25/15)

Patent applications:

Title	Country/Region	Application no.	Filing date
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PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR MODULATION OF THE MICROBIOME	United States of America	14/952891 McCarter Ref. 01802	11/25/15
PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR MODULATION OF THE MICROBIOME	Australia	2015353425 McCarter Ref. 01824	6/21/17
PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR MODULATION OF THE MICROBIOME	Canada	2973223 McCarter Ref. 01826	7/6/17
PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR MODULATION OF THE MICROBIOME	China	2015800745356 McCarter Ref. 01828	7/25/17
PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR MODULATION OF THE MICROBIOME	Europe	15816292.5 McCarter Ref. 01835	6/23/17
PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR TREATMENT OF GASTROINTESTINAL DISORDERS	United States of America	14/952894 McCarter Ref. 02002	11/25/15
USE OF MICROBIAL COMPOSITIONS IN THE TREATMENT AND PREVENTION OF ALLERGIES	United States of America	15/487280 McCarter Ref. 01306	4/13/17
PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR TREATMENT AND PREVENTION OF GRAFT VERSUS HOST DISEASE	United States of America	15/495522 McCarter Ref. 01905	4/24/17
PROBIOTIC AND PREBIOTIC COMPOSITIONS, AND METHODS OF USE THEREOF FOR TREATMENT AND PREVENTION OF GRAFT VERSUS HOST DISEASE	United States of America	15/664310 McCarter Ref. 01906	7/31/17
PROBIOTIC COMPOSITIONS CONTAINING CLOSTRIDIALES FOR INHIBITING INFLAMMATION	United States of America	15/438271 McCarter Ref. 02103	2/21/17
COMBINATION THERAPIES FOR TREATING CANCER (BCG)	PCT	PCT/US17/66701	12/15/17 (12/16/16)

METHODS OF TREATING CANCER USING PARABACTEROIDES	PCT	PCT/US17/66709	12/15/17 (12/16/16)
COMBINATION THERAPIES FOR TREATING MELANOMA (BCG)	PCT	PCT/US17/66711	12/15/17 (12/16/16)
METHODS OF TREATING COLORECTAL CANCER USING PARABACTEROIDES GOLDSTEINII	PCT	PCT/US17/66713	12/15/17 (12/16/16)
METHODS OF TREATING CANCER (intratumoral bacterial overabundance/underabundance)	United States of America	15/874153	1/18/18
METHODS OF TREATING CANCER (intratumoral bacterial overabundance/underabundance)	PCT	PCT/US18/14209	1/18/18
METHODS OF TREATING CANCER (intratumoral bacterial overabundance/underabundance)	United States of America	15/874157	1/18/18
METHODS OF TREATING CANCER (intratumoral bacterial overabundance/underabundance)	PCT	PCT/US18/14164	1/18/18
METHODS OF TREATING CANCER USING PARABACTEROIDES (same app. re-filed with figure)	United States of America	62/459033	2/14/17
METHODS OF TREATING CANCER USING BIFIDOBACTERIUM ANIMALIS SSP. LACTIS (ES310)	United States of America	62/528669	7/5/17
POLYMER COMPOSITIONS	United States of America	62/538467	7/28/17
TREATING CANCER AND INFLAMMATION USING A BLAUTIA STRAIN (ES1114)	United States of America	62/551554	8/29/17
BACTERIAL EXTRACELLULAR VESICLES	United States of America	62/556015	9/8/17
EXTRACELLULAR VESICLES FROM PREVOTELLA	United States of America	62/556020	9/8/17
TREATING CANCER USING A BLAUTIA STRAIN (ES1114 labeling error corrected)	United States of America	62/573406	10/17/17
IDENTIFICATION OF BACTERIA FOR CANCER THERAPY (IP-10)	United States of America	62/572139	10/13/17
MONOCLONAL MICROBIAL POPULATIONS	United States of America	62/572144	10/13/17
SELECTED BACTERIA WITH IMPROVED PROPERTIES	United States of America	62/582552	11/7/17

COMPOSITIONS AND METHODS FOR TREATING IMMUNE DISORDERS USING A BLAUTIA STRAIN	United States of America	62/585782	11/14/17
COMPOSITIONS AND METHODS FOR TREATING IMMUNE DISORDERS USING A LACTOCOCCUS LACTIS CREMORIS STRAIN (EDP1066/ES977)	United States of America	62/586604	11/15/17
COMPOSITIONS AND METHODS FOR TREATING IMMUNE DISORDERS USING LACHNOSPIRACEAE BACTERIA	United States of America	PENDING	1/31/18

Section 2.8(c)(i)

EVELO LICENSED PATENTS (U. CHICAGO)

Title	Country/Region	Patent No. (Application No.)	Issue Date (Filing Date)
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	United States of America	9,855,302 (15/170,284)	1/2/18 (6/3/16)

Title	Country/Region	Application no.	Filing Date
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	United States of America	15/718,735	9/28/17
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Argentina	P160101610	6/3/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Taiwan	105117266 TW	6/4/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Venezuela	2016000241	6/4/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	United States of America	PCT/US16/35228	6/4/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Uruguay	36701	6/9/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Australia	2016270750	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Brazil	BR 112017025813-7	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Canada	2987129	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Chile	2017-3024	Effective filing date 6/1/16

TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	China	2.0168E+11	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Europe	16804316.4EPO	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	India	App. No. Pending	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Israel	255940	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Japan	2017-561803	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Republic of Korea	10-2017-7037299	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Mexico	App. No. Pending	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	New Zealand	737782	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Peru	002514-2017/DIN	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Russia	2017141448	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Singapore	11201709693W	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	South Africa	2017/07986	Effective filing date 6/1/16
TREATMENT OF CANCER BY MANIPULATION OF COMMENSAL MICROFLORA	Ukraine	a2017 11648	Effective filing date 6/1/16

EVELO LICENSED PATENTS (MAYO):

Title	Country/Region	Application no.	Issue Date (Filing Date)
PREVOTELLA HISTICOLA PREPARATIONS AND THE TREATMENT OF AUTOIMMUNE CONDITIONS	United States of America	8,617,536	12/31/13 (10/27/10)
PREVOTELLA HISTICOLA PREPARATIONS AND THE TREATMENT OF AUTOIMMUNE CONDITIONS	United States of America	9,005,603	3/14/15 (11/21/13)
PREVOTELLA HISTICOLA PREPARATIONS AND THE TREATMENT OF AUTOIMMUNE CONDITIONS	United States of America	9,555,066	1/31/17 (3/10/15)
PREVOTELLA HISTICOLA PREPARATIONS AND THE TREATMENT OF AUTOIMMUNE CONDITIONS	United States of America	9,801,914	10/31/2017 (12/20/16)

EVELO LICENSED PATENT APPLICATIONS (MAYO):

Title	Country/Region	Application no.	Filing Date
PREVOTELLA HISTICOLA PREPARATIONS AND THE TREATMENT OF AUTOIMMUNE CONDITIONS	United States of America	15/715,471	9/26/17

Copyright registrations or applications: None.

Trademark, service mark and domain name registrations or applications:

Trademark and/or service marks:

Country	Literal Mark	Application #	Application Date
US	ONCOBIOTIC	86808587	11/3/15
US	EVELO	86582465	3/31/15
US	EPIVA (word)	86588745	4/6/15
US	EPIVA & Design	86588763	4/6/15
Hong Kong	EPIVA (word)	303556026	10/6/15
EU	EPIVA (word)	14650972	10/6/15
CH	EPIVA (word)	62242/2015	10/6/15

Domain names:

evelobio.com

evelobiosciences.com

evelotx.com

bacterialtherapeutics.com

bugdrugs.com

immunobiome.com

immunomicrobials.com

immunomicrobiome.com

microbialdrugs.com

microbialtx.com

microbiomedisease.com

microbiomedrugs.com

microbiomestudies.com

microbiometx.com

Prior Names (Section 5.5) -

VL28, Inc.

VL 28, LLC

VL 31, Inc.

Epiva Therapeutics, Inc.
Epiva Biosciences, Inc.
Evelo Therapeutics, Inc.

The principal place of business is 620 Memorial Drive, Cambridge, MA 02139

Litigation (Section 5.6) -

None

Inbound Licenses (Section 5.12) -

Exclusive License Agreement between University of Chicago and Evelo for a royalty bearing worldwide exclusive license to the Patent Rights within the Field of Treatment of Cancer by Manipulation of Commensal Microflora. Effective Date March 10, 2016.

Exclusive Research and License Agreement between Mayo Foundation for Medical Education and Research and Evelo to advance immune-microbiome-based therapies for cancer. Effective Date June 10, 2016.

Patent License Agreement, effective as of August 6, 2017, by and between Medical Education and Research for *Prevotella histicola* strain B-50329 and any progeny and derivatives thereof.

Equipment at other locations (Section 7.11)

The following equipment is installed with our strategic manufacturing partner Biose Industrie, Rue des Freres Lumieres 15130 Arpajon sur Cere France:

Equipment	Cost	
Beckman Coulter TN MULTISIZER 4E	€	48,077.00
Roche Diagnostic - Control A level 2 Bio	€	51,279.24

CERTIFICATE OF OFFICER

The undersigned duly elected and qualified Secretary of evelo biosciences, Inc. (the "Company") does hereby certify, solely in its capacity as an officer of the Company and not in its individual capacity, that the following is a true and correct copy of certain resolutions adopted by the Company's Board of Directors in accordance with applicable law and the Company's bylaws, and that such resolutions are now unmodified and in full force and effect:

BE IT RESOLVED, that:

- 1) Any one (1) of the following, duly elected officers of the Company (each, an "Authorized Officer") whose genuine original signature appears next to his or her name is authorized to act for, on behalf of, and in the name of the Company in connection with the resolutions below:

<u>Title</u>	<u>Name</u>	<u>Authorized Signature</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

- 2) Any Authorized Officer may:

(a) Borrow money from time to time from Pacific Western Bank ("Bank"), and may negotiate and procure loans, letters of credit, foreign exchange contracts and other financial accommodations from Bank, including without limitation, that certain Loan and Security Agreement dated as of August 15, 2015, and also to execute and deliver to Bank one or more renewals, extensions, or modifications thereof, including, without limitation, that certain First Amendment to Loan and Security Agreement dated June 14, 2017, that certain Second Amendment to Loan and Security Agreement, dated August 18, 2017, and that certain Third Amendment to Loan and Security Agreement, dated on or about the date hereof;

(b) Give security for any liabilities of the Company to Bank by grant, security interest, assignment, lien, deed of trust or mortgage upon any real or personal property, tangible or intangible of the Company;

(c) Purchase, sell, exchange, assign, endorse for transfer and/or deliver certificates and/or instruments representing stocks, bonds, evidences of indebtedness or other securities owned by the Company, whether or not registered in the name of the Company;

(d) Discount with Bank, commercial or other business paper belonging to the Company made or drawn by or upon third parties, without limit as to amount;

(e) Authorize and direct Bank to pay the proceeds of any such loans or discounts as directed by the persons so authorized to sign;

(f) Issue a warrant or warrants to purchase the Company's capital stock; and

(g) Execute and deliver in form and content as may be required by Bank any and all notes, evidences of indebtedness, applications for letters of credit, guaranties, subordination agreements, loan and security agreements, financing statements, assignments, liens, deeds of trust, mortgages, trust receipts and other agreements, instruments or documents to carry out the purposes of these resolutions, any or all of which may relate to all or to substantially all of the Company's property and assets;

- 3) The Authorized Officers may designate additional or alternate individuals as being authorized to request loan advances, to do and perform such other acts and things, to pay any and all fees and costs, and to execute and deliver such other documents and agreements as he or she may in his or her discretion deem reasonably necessary or proper in order to carry into effect the provisions of these resolutions.
- 4) Any and all acts authorized pursuant to these resolutions and performed prior to the passage of these resolutions are hereby ratified and approved, and the authority conferred herein may be exercised singly by any such officer, and these resolutions shall continue in full force and effect until written notice of modification or revocation is received and accepted by Bank (such notice to have no effect on any action previously taken by Bank in reliance on these resolutions). Bank may rely upon any form of notice, which it in good faith believes to be genuine or what it purports to be.
- 5) The resolutions are in full force and effect as of the date of this Certificate and are intended to replace, as of this date, any resolutions previously given by the Company to Bank in connection with the matters described herein; these resolutions and any borrowings or financial accommodations under these resolutions have been properly noted in the corporate books and records, and have not been rescinded, revoked or modified; neither the foregoing resolutions nor any actions to be taken pursuant to them are or will be in contravention of any provision of the certificate of incorporation or bylaws of the Company or of any agreement, indenture or other instrument to which the Company is a party or by which it is bound; and to the extent the certificate of incorporation or bylaws of the Company or any agreement, indenture or other instrument to which the Company is a party or by which it is bound require the vote or consent of shareholders of the Company to authorize any act, matter or thing described in the foregoing resolutions, such vote or consent has been obtained.

In Witness Whereof, I have affixed my name as Secretary and have caused the corporate seal (where available) of said Company to be affixed as of February 7, 2018.

Secretary*

*If the certifying officer is designated as the only signer in these resolutions then another corporate officer must also sign.

FOURTH AMENDMENT

TO

LOAN AND SECURITY AGREEMENT

This Fourth Amendment to Loan and Security Agreement (this "**Amendment**") is entered into as of March 14, 2018, by and between PACIFIC WESTERN BANK, a California state chartered bank ("**Bank**"), and EVELO BIOSCIENCES, INC. ("**Borrower**").

RECITALS

Borrower and Bank are parties to that certain Loan and Security Agreement dated as of August 15, 2016 (as amended from time to time, the "**Agreement**"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

1) The following defined terms in Exhibit A to the Agreement are hereby amended and restated, as follows:

"Credit Card Line" means a Credit Extension of up to \$250,000, to be used exclusively for the provision of Credit Card Services.

"Credit Card Maturity Date" means March 13, 2019.

2) Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all agreements entered into in connection with the Agreement.

3) Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment.

4) This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

5) As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

- a) this Amendment, duly executed by Borrower;
- b) payment of all Bank Expenses, including Bank's expenses for the documentation of this amendment and any related documents, and any UCC, good standing or intellectual property search or filing fees, which may be debited from any of Borrower's accounts; and
- c) such other documents and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

EVELO BIOSCIENCES, INC.

By: /s/ Jennifer Glennon
Name: Jennifer Glennon
Title: VP, Finance and Operations

PACIFIC WESTERN BANK

By: /s/ John Orlando
Name: John Orlando
Title: Vice President

[Signature Page to Fourth Amendment to Loan and Security Agreement]

**FIFTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT**

This Fifth Amendment to Loan and Security Agreement (this "**Amendment**") is made and entered into as of April 18, 2019 by and between PACIFIC WESTERN BANK, a California state chartered bank ("**Bank**"), EVELO BIOSCIENCES, INC. (individually or collectively, as the context may require, "**Borrower**").

RECITALS

Borrower and Bank are parties to that certain Loan and Security Agreement dated as of August 15, 2016, as amended by that certain First Amendment to Loan and Security Agreement, dated as of June 14, 2017, that certain Second Amendment to Loan and Security Agreement, dated as of August 18, 2017, that certain Third Amendment to Loan and Security Agreement, dated as of February 7, 2018, and that certain Fourth Amendment to Loan and Security Agreement, dated as of March 14, 2018 (as further amended, restated, supplemented or otherwise modified from time to time, the "**Agreement**"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

1) Amendments to Agreement.

- a) Section 6.6 of the Agreement is hereby amended by adding the following sentence after the last sentence thereof: "Borrower shall not permit the aggregate balance of all deposit accounts maintained by UK Subsidiary to exceed \$350,000, without causing any excess above such maximum balance to be transferred to a deposit account maintained by Borrower with Bank within five (5) Business Days, and shall deliver monthly account statements for UK Subsidiary within five (5) Business Days of receipt."
- b) Section 6.10 of the Agreement is hereby amended by adding the following sentence after the last sentence thereof: "Notwithstanding the foregoing, UK Subsidiary shall not be required to become a secured guarantor with respect to the Obligations; provided that Borrower shall not permit UK Subsidiary to maintain non-cash assets with an aggregate value in excess of \$50,000 at any time, provided that the foregoing limitation shall not operate to restrict the amount of intercompany accounts receivables of UK Subsidiary arising from payments due to UK Subsidiary from Borrower."
- c) Section 7.11 of the Agreement is hereby amended by adding the following sentence after the last sentence thereof: "Borrower shall not permit assets located in France to exceed an aggregate value up to \$1,000,000, provided that, subject to compliance with the foregoing, no bailee waivers or other steps to perfect Bank's security interest in such assets shall be required."
- d) Exhibit A of the Agreement is hereby amended to amend or add the definitions set forth below in appropriate alphabetical order, as applicable:
 - "Credit Card Line" means a Credit Extension of up to \$300,000 to be used exclusively for the provision of Credit Card Services.
 - "Credit Card Maturity Date" means April 12, 2020.
 - "UK Subsidiary" means a new Subsidiary of Borrower organized under the laws of England and Wales.
- e) Clause (d) of the defined term "Permitted Investments" is hereby amended and restated to read as follows:
 - (d) Investments (i) by Subsidiaries in or to other Subsidiaries or Borrower, (ii) by Borrower in Subsidiaries (other than UK Subsidiary) not to exceed \$300,000 in the aggregate in any fiscal year, (iii) by Borrower in UK Subsidiary not to exceed \$2,000,000 in the aggregate for the twelve (12) months then ended, measured quarterly on the last day of each quarter, provided that, for purposes of the foregoing, to the extent amounts received by UK Subsidiary are remitted to Borrower within five (5) Business Days, such amounts shall be excluded, and (iv) by Borrower in any MSC Subsidiary otherwise permitted in accordance with the terms of this Agreement;
- f) Exhibit D of the Agreement is hereby amended and restated as set forth in Exhibit D attached hereto.

Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all agreements entered into in connection with the Agreement.

- 2) Borrower represents and warrants that:
- a) The execution, delivery and performance of the Agreement and this Amendment are within Borrower's powers, have been duly authorized, and are not in conflict with, nor constitute a breach of any provision contained in Borrower's Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement by which it is bound, except to the extent such default would not reasonably be expected to cause a Material Adverse Effect; and
 - b) The representations and warranties of Borrower contained in the Agreement are true and correct in all material respects as of the date of this Amendment (provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date).
- 3) This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.
- 4) The provisions of Sections 11 and 12 are hereby incorporated herein, provided that all references to the "Agreement", shall mean the Agreement, as amended by this Amendment.
- 5) As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:
- a) this Amendment, duly executed by Borrower;
 - b) payment of all Bank Expenses incurred through the date of this Amendment, including Bank's reasonable expenses for the documentation of this Amendment and any UCC, good standing or intellectual property search or filing fees, which may be debited from any of Borrower's accounts; and
 - c) such other documents and completion of such other matters, as Bank may have reasonably requested.

[remainder of page intentionally left blank]

[SIGNATURE PAGE TO FIFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

EVELO BIOSCIENCES, INC.

By: /s/ Jonathan Poole

Name: Jonathan Poole

Title: Chief Financial Officer

PACIFIC WESTERN BANK

By: /s/ Joseph Holmes Dague

Name: Joseph Holmes Dague

Title: Senior Vice President

EXHIBIT D



Compliance Certificate

Borrower | Evelo Biosciences, Inc.

The undersigned authorized Officer of Evelo Biosciences, Inc. ("Borrower"), hereby certifies solely in his/her capacity as an officer of the Company, and not in his/her individual capacity, that in accordance with the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending March 31, 2018 with all covenants except as noted below; and (ii) all representations and warranties of Borrower stated on the Agreement are true and correct in all material respects as of the date hereof, provided that those representations and warranties as of the date expressly referring to another date shall be true, correct and complete in all material respects as of such date. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next, except as explained in an accompanying letter or footnotes.

Reporting Covenants

Please indicate compliance status by circling YES or NO under the COMPLIES column.

COVENANTS	REQUIRED	COMPLIES		
		YES	NO	N/A
Monthly Financial Statements (PL, BS, CF)	Monthly, within 30 days	YES	NO	
Annual Financial Projections	FYE, within 45 days	YES	NO	N/A
Annual Financial Statements (CPA Audited)	FYE, within 180 days (beginning with FY 2016)	YES	NO	N/A
Collateral Audit	Annual (as requested by Bank)	YES	NO	N/A
10K and 10Q	As applicable	YES	NO	N/A
Notice of New Material Inbound License or Agreements	Monthly, within 30 days	YES	NO	N/A

Banking Relationship

Please indicate Banking Relationship below and circle YES or NO under the COMPLIES column.

		COMPLIES		
Total Amount of Borrower's Cash and Investments at S1B	_____			
All U.S. Cash and Investments at S1B?	_____			
If no, total amount of Borrower's U.S. Cash and Investments outside of S1B*	_____			
Location of U.S. Cash & Investments outside of S1B	_____			
Total amount of Borrower's U.S. Cash and Investments	<u>\$0</u>			
Total Amount of Borrower's U.K.-domiciled Cash and Investments **	_____			
Location of U.K. Cash & Investments	_____	YES	NO	N/A
Total amount of Borrower's Cash and Investments	<u>\$0</u>			
* Borrower shall be permitted to maintain Cash in one or more accounts outside of Bank, provided that the total aggregate amount of Cash maintained at the Bank is at least \$30,000,000.				
** Borrower shall be permitted to maintain Cash in the U.K., provided that the total aggregate amount of Cash maintained in such accounts does not exceed \$350,000, with amounts in excess transferred back to the U.S. within five business days.				

By signing below, the Officers further acknowledge that at any time Borrower is not in compliance with all the terms set forth in the Agreement, including, without limitation, the financial covenants, and such non-compliance results in a Default or Event of Default and such Default or Event of Default is continuing, then no credit extensions will be made.

X _____ date _____
 authorized signature
 name: _____
 title: _____

Please Send All Required Reporting to:

address Square 1 Bank
 ATTN: Portfolio Analysis
 406 Blackwell St. Suite 240
 Durham, NC 27701
 web link www.square1bank.com
 phone 919-314-3040
 fax 919-314-3090
 email lsnereports@square1bank.com

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT (as amended, restated, supplemented or otherwise modified from time to time, this “**Agreement**”) dated as of July 19, 2019 (the “**Closing Date**”) is entered into among **EVELO BIOSCIENCES, INC.**, a Delaware corporation (“**Borrower Representative**”), and each other Person party hereto as a borrower from time to time (collectively, “**Borrowers**”, and each, a “**Borrower**”), **K2 HEALTHVENTURES LLC** and any other lender from time to time party hereto (collectively, “**Lenders**”, and each, a “**Lender**”), **K2 HEALTHVENTURES LLC**, as administrative agent for Lenders (in such capacity, together with its successors, “**Administrative Agent**”), and **ANKURA TRUST COMPANY, LLC**, as collateral agent for Lenders (in such capacity, together with its successors, “**Collateral Trustee**”).

AGREEMENT

Borrower Representative, each Borrower from time to time party hereto, Administrative Agent, Collateral Trustee and Lenders hereby agree as follows:

1. ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement shall be construed in accordance with GAAP, and calculations and determinations shall be made following GAAP, consistently applied. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth on Exhibit A. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein. As used in the Loan Documents, the word “shall” is mandatory, the word “may” is permissive, the word “or” is not exclusive, the words “includes” and “including” are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. Unless otherwise specified, all references in this Agreement or any Annex or Schedule hereto to a “Section,” “subsection,” “Exhibit,” “Annex,” or “Schedule” shall refer to the corresponding Section, subsection, Exhibit, Annex, or Schedule in or to this Agreement. For purposes of the Loan Documents, whenever a representation or warranty is made to a Person’s knowledge or awareness, knowledge or awareness means the actual knowledge, after reasonable investigation, of any Responsible Officer of such Person.

2. LOAN AND TERMS OF PAYMENT

2.1 Promise to Pay. Each Borrower hereby unconditionally promises to pay each Lender, ratably, the outstanding principal amount of all Loans, accrued and unpaid interest, fees and charges thereon and to pay all Obligations as and when due in accordance with this Agreement.

2.2 Availability and Repayment of the Loans.

(a) Availability.

(i) Subject to the terms and conditions of this Agreement, each Lender agrees, severally and not jointly, to make to Borrowers an advance on the Closing Date in principal amount equal to its First Tranche Term Loan Commitment (the “**First Tranche Term Loans**”). Lenders’ commitments to make the First Tranche Term Loans shall terminate upon the funding of the First Tranche Term Loans on the Closing Date.

(ii) Subject to the terms and conditions of this Agreement, each Lender agrees, severally and not jointly, to make to Borrowers an advance during the Second Tranche Availability Period in principal amount equal to its Second Tranche Term Loan Commitment (the “**Second Tranche Term Loans**”). Lenders’ commitments to make the Second Tranche Term Loans shall terminate upon the earlier of (i) the end of the Second Tranche Availability Period, and (ii) the date the Second Tranche Term Loans have been funded.

(iii) Subject to the Third Tranche Milestone and the terms and conditions of this Agreement, each Lender agrees, severally and not jointly, to make to Borrowers an advance during the Third Tranche Availability Period in principal amount equal to its Third Tranche Term Loan Commitment (the “**Third Tranche Term Loans**”, and together with the First Tranche Term Loan, and the Second Tranche Term Loan, collectively, the “**Term Loans**”, and each, a “**Term Loan**”). Lenders’ commitment to make the Third Tranche Term Loans shall terminate

upon the earlier of (i) the end of the Third Tranche Availability Period, and (ii) the date that Third Tranche Term Loans have been funded.

Borrowers shall use the proceeds of the Term Loans (i) to repay existing outstanding Indebtedness of Borrower Representative owing to Pacific Western Bank, and (ii) for working capital. Once repaid, the Term Loans may not be reborrowed.

(b) Repayment. Commencing on the Amortization Date, and continuing thereafter on the each Payment Date through the Term Loan Maturity Date, Borrowers shall make consecutive equal monthly payments of equal principal and accrued and unpaid interest, which would fully amortize the principal amount of the Term Loans and accrued interest thereon by the Term Loan Maturity Date, provided that if the Applicable Rate is adjusted in accordance with its terms, the amortization schedule and the required monthly installment shall be recalculated based on the adjusted Applicable Rate and the remaining number of Payment Dates through the Term Loan Maturity Date. Any and all unpaid Obligations, including principal and accrued and unpaid interest in respect of the Term Loans, the fees and payments due pursuant to the Fee Letter, and other fees and other sums, if any, shall be due and payable in full on the Term Loan Maturity Date. The Term Loans may only be prepaid in accordance with Sections 2.2(c) or (d).

(c) Mandatory Prepayment Upon an Acceleration. If the Loans are accelerated following the occurrence and during the continuance of an Event of Default, Borrowers shall immediately pay to Lenders, an amount equal to the sum of:

(i) all outstanding principal plus accrued and unpaid interest thereon, plus

(ii) any fees or payments then due pursuant to the Fee Letter, plus

(iii) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

(d) Permitted Prepayment of Loans. Borrowers shall have the option to prepay all, but not less than all, of the Loans, provided Borrowers provide written notice to Administrative Agent of its election to prepay the Loans at least ten (10) Business Days prior to such prepayment, and pay, on the date of such prepayment, to Lenders, ratably, an amount equal to the sum of:

(i) all outstanding principal plus accrued and unpaid interest thereon, plus

(ii) any fees or payments then due pursuant to the Fee Letter, plus

(iii) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

2.3 Payment of Interest.

(a) Interest Rate. Subject to Section 2.3(b), the outstanding principal amount of the Loans shall accrue interest from and after its Funding Date, at the Applicable Rate, and Borrowers shall pay such interest monthly in arrears on each Payment Date commencing on September 1, 2019.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, unless Administrative Agent elects otherwise, Obligations shall bear interest at a rate per annum which is five percentage points (5.0%) above the rate that is otherwise applicable thereto (the “**Default Rate**”). Reasonable and documented out-of-pocket fees and expenses which are required to be paid by Borrowers pursuant to the Loan Documents (including, without limitation, Lender Expenses, subject to the terms of the Fee Letter) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.3(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies pursuant to the Loan Documents. Each Borrower agrees that interest at the Default Rate is a reasonable calculation of Lenders’ lost profits in view of the difficulties and impracticality of determining actual damages resulting from an Event of Default.

(c) Payment; Interest Computation. Interest is payable monthly in arrears on the Payment Date of the following month and shall be computed on the basis of a 360-day year for the actual number of days elapsed. In computing interest, (i) all payments received after 3:00 p.m. Eastern time on any day shall be deemed received at the opening of business on the next Business Day, and (ii) the date of the making of any Loan shall be included and the date of payment shall be excluded. Changes to the Applicable Rate based on changes to the Prime Rate, shall be effective as of the date, and to the extent, of such change.

(d) Maximum Interest. Notwithstanding any provision in this Agreement or any other Loan Document, it is the parties' intent not to contract for, charge or receive interest at a rate that is greater than the maximum rate permissible by law that a court of competent jurisdiction shall deem applicable hereto (the "**Maximum Rate**"). If a court of competent jurisdiction shall finally determine that a Borrower has actually paid to or for the benefit of Lenders an amount of interest in excess of the amount that would have been payable if all of the Obligations had at all times borne interest at the Maximum Rate, then such excess interest actually paid by Borrowers shall be applied as follows: first, to the payment of principal outstanding in respect of the Loans; second, after all principal is repaid, to the payment of accrued interest, third, to the payment of Lender Expenses and any other Obligations; and fourth, after all Obligations are repaid, the excess (if any) shall be refunded to Borrowers or paid to whomsoever may be legally entitled thereto, provided that amounts payable to Lenders, shall be paid ratably.

2.4 Fees and Charges. Borrowers shall pay to Lenders, ratably:

(a) Fees. The fees as and when due in accordance with the Fee Letter;

(b) Expenses. All Lender Expenses (including reasonable and documented out-of-pocket attorneys' fees and expenses for documentation and negotiation of this Agreement and the other Loan Documents) incurred through and after the Closing Date, when due (or, if no stated due date, within two (2) Business Days after demand by Administrative Agent), subject to the terms of the Fee Letter.

2.5 Payments; Application of Payments; Automatic Payment Authorization.

(a) All payments to be made by Borrowers under any Loan Document, including payments of principal and interest and all fees, charges, expenses, indemnities and reimbursements, shall be made in immediately available funds in Dollars, without setoff, recoupment or counterclaim, before 3:00 p.m. Eastern Time on the date when due. Payments of principal and/or interest received after 3:00 p.m. Eastern Time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.

(b) No Borrower shall have a right to specify the order or the loan accounts to which a Lender shall allocate or apply any payments made by a Borrower to or for the benefit of such Lender or otherwise received by such Lender under this Agreement when any such allocation or application is not expressly specified elsewhere in this Agreement.

(c) Administrative Agent, on behalf of Lenders, may initiate debit entries to any Deposit Accounts as authorized on the Automatic Payment Authorization for principal and interest payments or any other Obligations when due; provided, however, that so long as no Event of Default has occurred and is continuing, Administrative Agent shall provide Borrower Representative with prior written notice before debiting Borrowers' deposit accounts for amounts other than principal, interest and payments of regularly scheduled fees. These debits shall not constitute a set-off. If the ACH payment arrangement is terminated for any reason, Borrowers shall make all payments due hereunder at the applicable address specified in Section 10, or as otherwise notified by Administrative Agent in writing.

(d) Borrowers, Administrative Agent, Collateral Trustee and each Lender hereby agree to the terms and conditions set forth on Schedule 3 hereto.

2.6 Promissory Notes. Borrowers agree that: (a) upon written notice by or on behalf of any Lender to Borrowers that a promissory note or other evidence of indebtedness is requested by such Lender to evidence the Loans and other Obligations owing or payable to, or to be made by, such Lender, Borrowers shall promptly (and in any event within three (3) Business Days of any such request) execute and deliver to such Lender an appropriate promissory note, in substantially the form attached hereto as Exhibit G, and (b) upon any Lender's written request, and in any event

within three (3) Business Days of any such request, the Borrowers shall execute and deliver to such Lender new notes and/or divide the notes in exchange for then existing notes in such smaller amounts or denominations as such Lender shall specify in its sole and absolute discretion; provided, that the aggregate principal amount of such new notes shall not exceed the aggregate principal amount of the applicable Loans made by such Lender; provided, further, that such promissory notes that are to be replaced shall then be deemed no longer outstanding hereunder and replaced by such new notes and returned to the Borrowers within a reasonable period of time after such Lender's receipt of the replacement notes. Regardless whether or not any such promissory notes are issued, this Agreement shall evidence the Loans and other Obligations owing or payable by Borrowers to each Lender.

3. CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Loan. Each Lender's obligation to make the initial Loan is subject to the condition precedent that Lender shall have received, in form and substance satisfactory to Administrative Agent, such documents, and completion of such other matters, as Administrative Agent may reasonably deem necessary or appropriate, including, without limitation:

(a) duly executed signatures to this Agreement;

(b) duly executed signatures to the Fee Letter;

(c) a certificate of Borrower, duly executed by a Responsible Officer, certifying and attaching (i) the Operating Documents, (ii) resolutions duly approved by the Board, (iii) any resolutions, consent or waiver duly approved by the requisite holders of Borrower's Equity Interests, if applicable (or certifying that no such resolutions, consent or waiver is required), and (iv) a schedule of incumbency;

(d) a payoff letter with respect to Indebtedness outstanding as of the Closing Date to Pacific Western Bank, together with all documents reasonably required in connection with the payoff and release of security interests;

(e) the Perfection Certificate of Borrower Representative, together with the duly executed signature thereto;

(f) evidence satisfactory to Lender, that the insurance policies and endorsements required by Section 6.5 are in full force and effect;

(g) the original stock certificates representing any Shares, if any, together with a stock power or other appropriate instrument of transfer, duly executed by the holder of record of such Shares and in blank;

(h) a legal opinion of counsel to Borrower Representative; and

(i) payment of the fees then due in accordance with the Fee Letter.

3.2 Conditions Precedent to all Loans. Each Lender's obligations to make each Loan is subject to the following conditions precedent:

(a) except for the Term Loan made on the Closing Date, timely receipt of an executed Loan Request by Administrative Agent;

(b) the representations and warranties in this Agreement and the other Loan Documents made by the Loan Parties shall be true, accurate, and complete in all material respects on the date of the Loan Request and on the Funding Date of each Loan; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date;

(c) no Default or Event of Default shall have occurred and be continuing or result from the Loan; and

(d) there has not been any event or circumstance that has had or would reasonably be expected to have a Material Adverse Effect, as determined by Administrative Agent in Administrative Agent's good faith discretion.

3.3 Covenant to Deliver.

(a) Borrowers agree to deliver each item required to be delivered under this Agreement as a condition precedent to any Loan. Borrowers expressly agree that a Loan made prior to the receipt of any such item shall not constitute a waiver by Administrative Agent of a Borrower's obligation to deliver such item, and the making of any Loan in the absence of a required item shall be in Administrative Agent's sole discretion.

(b) Borrower agrees to deliver the items set forth on Schedule 2 hereto within the timeframe set forth therein (or by such other date as Administrative Agent may approve in writing), in each case, in form and substance reasonably acceptable to Administrative Agent.

3.4 Procedures for Borrowing. Other than for the First Tranche Term Loans, to obtain a Loan, Borrowers shall deliver a completed Loan Request to Administrative Agent (which may be delivered by email) no later than 3:00 p.m. Eastern Time, ten (10) Business Days prior to the date such Loan is requested to be made. On the Funding Date, each applicable Lender shall fund the applicable Loan in the manner requested by the Loan Request, provided that each of the conditions precedent to such Loan are satisfied.

4. CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Each Borrower hereby grants to Collateral Trustee, for the ratable benefit of Lenders, to secure the payment in full of all of the Obligations, a continuing security interest in, and pledges to Collateral Trustee, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof. If this Agreement is terminated, Collateral Trustee's Lien in the Collateral shall continue until the Obligations (other than contingent indemnification obligations as to which no claim has been asserted or is known to exist) are repaid in full in cash.

4.2 Priority of Security Interest. Each Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject to Permitted Liens; provided that, with respect to priority, only such Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Collateral Trustee's Lien under this Agreement). If a Borrower shall acquire a commercial tort claim with a potential recovery in excess of One Hundred Thousand Dollars (\$100,000), Borrowers shall promptly notify Administrative Agent in writing and deliver such other information and documents as Administrative Agent may require to take any further action necessary or advisable to perfect Collateral Trustee's Lien in such commercial tort claim. If a Borrower shall acquire a certificate with respect to Shares or any instrument, such Borrower shall promptly notify Administrative Agent and Collateral Trustee and deliver the same together with a stock power or instrument of transfer and any necessary endorsement, all in form satisfactory to Collateral Trustee.

4.3 Authorization to File Financing Statements. Each Borrower hereby authorizes Collateral Trustee or its designee (or the Administrative Agent, on behalf of the Collateral Trustee) to file at any time financing statements, continuation statements and amendments thereto with all appropriate jurisdictions to perfect or protect Collateral Trustee's interest or rights hereunder.

4.4 Pledge of Collateral. Each Borrower hereby pledges, assigns and grants to Collateral Trustee a security interest in all the Equity Interests in which such Borrower has any interest, including the Shares, together with all proceeds and substitutions thereof, all cash, stock and other moneys and property paid thereon, all rights to subscribe for securities declared or granted in connection therewith, and all other cash and noncash proceeds of the foregoing, in each case to the extent the foregoing constitutes Collateral hereunder, as security for the performance of the Obligations. On the Closing Date or as required pursuant to Section 6.11, the certificate or certificates for such Equity Interests, to the extent certificated, will be delivered to Collateral Trustee, accompanied by a stock power or other appropriate instrument of assignment duly executed in blank. To the extent required by the terms and conditions governing the Equity Interests in which a Borrower has an interest, such Borrower shall cause the books of each Person whose Equity Interests are part of the Collateral and any transfer agent to reflect the pledge of the Equity Interests. Upon the occurrence and during the continuance of an Event of Default hereunder, Collateral Trustee may effect the transfer of any securities included in the Collateral (including but not limited to the Equity Interests) into the name of

Collateral Trustee and cause new certificates representing such securities to be issued in the name of Collateral Trustee or its transferee. Each Borrower will execute and deliver such documents, and take or cause to be taken such actions, as Administrative Agent may reasonably request to perfect or continue the perfection of Collateral Trustee's security interest in the Equity Interests. Unless an Event of Default shall have occurred and be continuing, (x) each Borrower shall be entitled to exercise any voting rights with respect to the Equity Interests in which it has an interest and to give consents, waivers and ratifications in respect thereof, provided that: no such notice shall be required if a Borrower has commenced an Insolvency Proceeding and, in any event, no vote shall be cast or consent, waiver or ratification given or action taken which would be inconsistent with any of the terms of this Agreement or which would constitute or create any violation of any of such terms; and (y) each Borrower and its Subsidiaries may pay any dividends or make any distribution or payment or redeem, retire or purchase any Equity Interests not otherwise prohibited by the terms of this Agreement. All such rights to vote and give consents, waivers and ratifications, as well as pay any dividends or make any distribution or payment or redeem, retire or purchase any Equity Interests, shall terminate upon the occurrence and during the continuance of an Event of Default.

5. **REPRESENTATIONS AND WARRANTIES**

Each Borrower represents and warrants as follows:

5.1 **Due Organization, Authorization; Power and Authority.**

(a) Each Loan Party and each of its Subsidiaries are duly existing and in good standing as a Registered Organization in their respective jurisdictions of formation and are qualified and licensed to do business and are in good standing in any other jurisdiction in which the conduct of their respective business or ownership of property require that they be qualified except where the failure to do so would not reasonably be expected to have a Material Adverse Effect. In connection with this Agreement, Borrower Representative has delivered to Administrative Agent a completed certificate signed by Borrower Representative entitled "**Perfection Certificate**" (it being understood and agreed that the Loan Parties may from time to time update certain information in the Perfection Certificate after the Closing Date by delivering a new Perfection Certificate or by disclosing such updates on a Compliance Certificate to the extent such updates are resulting from actions, transactions, circumstances or events not prohibited by or that do not require the consent of Administrative Agent pursuant to the terms of this Agreement, and all references in this Agreement to "Perfection Certificate" shall hereinafter be deemed to be a reference to the new Perfection Certificate). Except to the extent Borrower Representative has provided notice of a legal name change in accordance with Section 7.2, (i) each Loan Party's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (ii) each Loan Party is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (iii) the Perfection Certificate accurately sets forth each Loan Party's organizational identification number or accurately states that such Loan Party has none; (iv) the Perfection Certificate accurately sets forth each Loan Party's place of business, or, if more than one, its chief executive office as well as such Loan Party's mailing address (if different than its chief executive office); (v) except as set forth in the Perfection Certificate, each Loan Party (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (vi) all other information set forth on the Perfection Certificate pertaining to each Loan Party and each of its Subsidiaries is accurate and complete in all material respects (it being understood and agreed that each Loan Party may from time to time update certain information in the Perfection Certificate after the Closing Date to the extent permitted by one or more specific provisions in this Agreement).

(b) The execution, delivery and performance by each Loan Party of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with such Loan Party's Operating Documents or other organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any material applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which such Loan Party or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect), or (v) conflict with, contravene, constitute a default or breach under, or result in or permit the termination or acceleration of, any material agreement by which such Loan Party is bound. No Loan Party is in default under any agreement to which it is a party or by which it is bound in which the default would reasonably be expected to have a Material Adverse Effect.

5.2 Collateral.

(a) Each Loan Party has good title to, rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens.

(b) Except for the Collateral Accounts described in the Perfection Certificate or in a notice timely delivered pursuant to Section 6.6, no Loan Party has any Collateral Accounts at or with any bank, broker or other financial institution, and each Loan Party has taken such actions as are necessary to give Collateral Trustee a perfected security interest therein as required pursuant to the terms of Section 6.6(b). To the knowledge of Borrower, the Accounts are bona fide, existing obligations of the Account Debtors.

(c) The Collateral is located only at the locations identified in the Perfection Certificate and other Permitted Locations. The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate or as disclosed in writing pursuant to Section 6.12.

(d) Each Loan Party is the sole owner of the material Intellectual Property which it owns or purports to own except for (i) licenses permitted hereunder or granted to customers in the Ordinary Course of Business, (ii) open-source software, (iii) over-the-counter software that is commercially available to the public, (iv) material Intellectual Property licensed to such Loan Party and noted on the Perfection Certificate or as disclosed pursuant to Section 6.7(b), and (v) immaterial Intellectual Property licensed to such Loan Party. Each Patent (other than patent applications) which it owns or purports to own and which is material to such Loan Party's business is valid and enforceable, and no part of the Intellectual Property which a Loan Party owns or purports to own and which is material to the Loan Parties' business, to their knowledge, has been judged invalid or unenforceable, in whole or in part. To the best of each Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a Material Adverse Effect. Except as noted on the Perfection Certificate or as disclosed pursuant to Section 6.7(b), no Loan Party is a party to, nor is it bound by, any Restricted License. No Subsidiary which is not a Loan Party owns any Intellectual Property which is material to the business of Borrowers as a whole. It will not be necessary to use any inventions of any of such Loan Party's employees or consultants (or Persons it currently intends to hire) made prior to their employment by such Loan Party. Each current and prior employee, consultant or other Affiliate thereof has entered into an invention assignment agreement or similar agreement with such Loan Party with respect to all intellectual property rights he or she owns that are related to the Loan Parties' business.

5.3 Accounts; Material Agreements. The Accounts are bona fide existing obligations. The property or services giving rise to such Accounts have been delivered or rendered. No Borrower has received any notice of actual or imminent insolvency of an Account Debtor. The material licenses and agreements to which any Loan Party or any of its Subsidiaries is a party is in good standing and in full force and effect and no Loan Party is in material breach with respect thereto. No material customer or supplier has terminated, significantly reduced or communicated its intent to do so to any Loan Party or any of its Subsidiaries.

5.4 Litigation and Proceedings. Except as set forth in the Perfection Certificate or as disclosed in writing pursuant to Section 6.2, there are no actions, suits, litigations or proceedings, at law or in equity, pending, or, to the knowledge of any Responsible Officer, threatened in writing, by or against any Loan Party or any of its Subsidiaries, officers or directors, (a) as of the Closing Date, involving more than, individually or in the aggregate for all related proceedings, One Hundred Thousand Dollars (\$100,000), or (b) in which any adverse decision has had or would reasonably be expected to have any Material Adverse Effect.

5.5 Financial Statements; Financial Condition. All consolidated and consolidating financial statements for the Loan Parties and each of their Subsidiaries delivered to Administrative Agent fairly present in all material respects the consolidated and consolidating financial condition and results of operations of the Loan Parties and each of their Subsidiaries as of the respective dates and for the respective periods then ended, and there are no material liabilities (including any contingent liabilities) which are not reflected in such financial statements. There has not been any material deterioration in the consolidated and consolidating financial condition of the Loan Parties since the date of the most recent financial statements submitted to Administrative Agent.

5.6 Solvency. The fair salable value of the assets (including goodwill minus disposition costs) of the Loan Parties and each of their Subsidiaries, on a consolidated basis, exceeds the fair value of liabilities of the Loan Parties' and each of their Subsidiaries, on a consolidated basis; no Loan Party is left with unreasonably small capital

after the transactions in this Agreement; and each Loan Party is able to pay its debts (including trade debts) as they mature.

5.7 Consents; Approvals. Each Loan Party and each of its Subsidiaries have obtained all third party consents, approvals, waivers, made all declarations or filings with, given all notices to, and obtained all consents, licenses, permits or other approvals from all Governmental Authorities that are necessary (i) to enter into the Loan Documents to which it is a party and consummate the transactions contemplated thereby, and (ii) to continue their respective businesses as currently conducted, except (with respect to this clause (ii)) where failure to do so would not reasonably be expected to result in a Material Adverse Effect.

5.8 Subsidiaries; Investments. No Loan Party has any Subsidiaries, except as noted on the Perfection Certificate or as disclosed to Administrative Agent pursuant to Section 6.11 below. No Loan Party owns any stock, partnership, or other ownership interest or other Equity Interests except for Permitted Investments.

5.9 Tax Returns and Payments. Each Loan Party and each of its Subsidiaries have timely filed or caused to be filed all required federal income tax returns and material foreign, state and local tax returns and reports (or appropriate extensions therefor), and such Loan Party and each of its Subsidiaries has timely paid, or have made adequate provision for the payment of all foreign, federal, state and local Taxes, assessments, deposits and contributions owed by such Loan Party or such Subsidiary, as applicable, except (a) to the extent such Taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor, or (b) where failure to do so would not reasonably be expected to result in a Material Adverse Effect. No Borrower is aware of any claims or adjustments proposed for any prior tax years of any Borrower or any of its Subsidiaries which would result in a material amount of additional Taxes becoming due and payable by a Borrower or any of its Subsidiaries.

5.10 Shares. Such Borrower has full power and authority to create a first lien on the Shares and no disability or contractual obligation exists that would prohibit such Borrower from pledging the Shares pursuant to this Agreement. There are no subscriptions, warrants, rights of first refusal or other restrictions on transfer relative to, or options exercisable with respect to the Shares. The Shares have been and will be duly authorized and validly issued, and are fully paid and non-assessable. The Shares are not the subject of any present or threatened suit, action, arbitration, administrative or other proceeding, and such Borrower knows of no reasonable grounds for the institution of any such proceedings.

5.11 Compliance with Laws.

(a) No Loan Party or Subsidiary of a Loan Party is an “investment company” or an “affiliated person” of, or “promoter” or “principal underwriter” for, an “investment company”, as such terms are defined in the Investment Company Act of 1940 as amended.

(b) No Loan Party or Subsidiary of a Loan Party is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of “purchasing” or “carrying” any “margin security” as such terms are defined in Regulation U of the Federal Reserve Board as now and from time to time hereafter in effect (such securities being referred to herein as “**Margin Stock**”). None of the proceeds of the Loans or other extensions of credit under this Agreement have been (or will be) used, directly or indirectly, for the purpose of purchasing or carrying any Margin Stock, for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase or carry any Margin Stock or for any other purpose which might cause any of the Loans or other extensions of credit under this Agreement to be considered a “purpose credit” within the meaning of Regulation T, U or X of the Federal Reserve Board.

(c) No Loan Party has taken or permitted to be taken any action which might cause any Loan Document to which it is a party to violate any regulation of the Federal Reserve Board. Neither the making of the Loans hereunder nor Borrowers’ use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto. No Loan Party, nor any of its Subsidiaries, nor any Affiliate of any Loan Party or of any Subsidiary, nor any present holder of Equity Interests of any of the foregoing (i) is a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control of the United States Department of Treasury (“**OFAC**”) or in Section 1 of the Anti-Terrorism Order or similar sanctions laws of any other Governmental Authority including of any other applicable

jurisdiction, (ii) is a citizen or resident of any country that is subject to embargo or trade sanctions enforced by OFAC, (iii) is, or will become, a Person whose property or interest in property is blocked or subject to blocking pursuant to Section 1 of the Anti-Terrorism Order, or (iv) engages in any dealings or transactions, or is otherwise associated, with any such Person.

(d) Each Loan Party and its Subsidiaries are in compliance, in all material respects, with the USA Patriot Act. No part of the proceeds from the Loans made hereunder has been (or will be) used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

(e) No Reportable Event or Prohibited Transaction, as defined in ERISA has occurred or is reasonably expected to occur, and no Loan Party has failed to meet the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No Loan Party has violated any applicable environmental laws in any material respect, maintains any properties or assets which have been designated in any manner pursuant to any environmental protection statute as a hazardous materials disposal site, or has received any notice, summons, citation or directive from the Environmental Protection Agency or any other similar Governmental Authority.

5.12 Products. A complete and accurate list of the Products material to the Loan Parties' business, is set forth on the Perfection Certificate, as updated from time to time pursuant to the Compliance Certificate. The Loan Parties and each of its Subsidiaries hold all material required Governmental Approvals required for the testing, manufacturing, marketing or sale of the Products, a list of which is set forth on the Perfection Certificate, and all such material Governmental Approvals are in full force and effect. There are no proceedings in progress, pending or, to such Loan Party's knowledge, threatened, that may result in revocation, cancellation, suspension, rescission or any adverse modification of any such material Governmental Approval which would reasonably be expected to result in a Material Adverse Effect, nor, to the best of the knowledge, information and belief of such Loan Party, after due inquiry, are there any facts upon which proceedings could reasonably be based. Without limitation of the foregoing:

(a) With respect to any Product material to the Loan Parties' business being tested or manufactured, each Loan Party and each of its Subsidiary has received, and such Product is the subject of, all material Governmental Approvals needed in connection with the testing or manufacture of such Product as such testing is currently being conducted by or on behalf of a Loan Party or any of its Subsidiaries, and neither any Loan Party nor any of its Subsidiaries has received any notice from any applicable Governmental Authority, that such Governmental Authority is conducting an investigation or review of (i) any Loan Party's or any of its Subsidiary's manufacturing facilities and processes for such Product which have disclosed any material deficiencies or violations of any Requirement of Law or the Governmental Approvals related to the manufacture of such Product, or (ii) any such Governmental Approval or that any such Governmental Approval has been revoked or withdrawn, nor has any such Governmental Authority issued any order or recommendation stating that the development, testing and/or manufacturing of such Product should cease, in each case, which would reasonably be expected to result in a Material Adverse Effect.

(b) With respect to any Product material to the Loan Parties' business marketed or sold by a Loan Party or any of its Subsidiaries, such Loan Party or such Subsidiary, as applicable, has received, and such Product is the subject of, all material Governmental Approvals needed in connection with the marketing and sales of such Product as currently being marketed or sold, and no Loan Party nor any of its Subsidiary has received any notice from any applicable Governmental Authority, that such Governmental Authority is conducting an investigation or review of any such Governmental Approval or approval or that any such Governmental Approval has been revoked or withdrawn, nor has any such Governmental Authority issued any order or recommendation stating that such marketing or sales of such Product cease or that such Product be withdrawn from the marketplace, in each case, which would reasonably be expected to result in a Material Adverse Effect;

(c) There have been no adverse clinical test results in connection with a Product which have or would reasonably be expected to have a Material Adverse Effect; and

(d) There have been no Product recalls or voluntary Product withdrawals from any market.

5.13 Full Disclosure. No written representation, warranty or other statement of a Loan Party or any of its Subsidiaries in any certificate or written statement by or on behalf of a Loan Party or any of its Subsidiaries in connection with this Agreement, as of the date such representation, warranty, or other statement was made, taken

together with all such written certificates and written statements given, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or written statements not misleading in light of the circumstances under which they were made (it being recognized that the projections and forecasts provided by any Loan Party in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

6. AFFIRMATIVE COVENANTS

Each Borrower shall, and shall cause each Loan Party to, do all of the following:

6.1 Government Compliance. Except as otherwise permitted by Section 7.3, maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a Material Adverse Effect; comply, and cause each Subsidiary to comply, with all laws, ordinances and regulations to which it is subject except where a failure to do so would not reasonably be expected to have a Material Adverse Effect; obtain all of the Governmental Approvals required in connection with such Loan Party's business and for the performance by each Loan Party of its obligations under the Loan Documents to which it is a party and the grant of a security interest in accordance therewith, and comply with all terms and conditions with respect to such Governmental Approvals.

6.2 Financial Statements, Reports, Certificates. Provide Administrative Agent with the following:

(a) Monthly Financial Statements. Within thirty (30) days after the last day of each month, a company prepared consolidated and consolidating balance sheet and income statement covering the Loan Parties and each of their Subsidiaries' operations for such month, in a form reasonably acceptable to Administrative Agent, certified by a Responsible Officer as having been prepared in accordance with GAAP, consistently applied, except for the absence of footnotes, and subject to normal quarter-end and year-end adjustments.

(b) Quarterly Financial Statements. Within forty-five (45) days after the last day of each fiscal quarter, a company prepared consolidated and consolidating balance sheet, income statement and statement of cash flows covering the Loan Parties and each of their Subsidiaries' operations for such fiscal quarter, in form acceptable to Administrative Agent, certified by a Responsible Officer as having been prepared in accordance with GAAP, consistently applied, except for the absence of footnotes, and subject to normal quarter-end and year-end adjustments.

(c) Compliance Certificates. Together with the monthly financial statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such period, the Loan Parties were in full compliance with all of the terms and conditions of this Agreement.

(d) Annual Operating Budget and Financial Projections. Within thirty (30) days after the end of each fiscal year of Borrower Representative (and promptly and within five (5) Business Days of Board approval of any material modification thereto), an annual operating budget, on a consolidated and consolidating basis (including income statements, balance sheets and cash flow statements, by month) for the upcoming fiscal year of Borrower Representative, together with any related business forecasts used in the preparation thereof.

(e) Annual Audited Financial Statements. As soon as available, but no later than ninety (90) days after the last day of Borrower Representative's fiscal year, audited consolidated financial statements prepared in accordance with GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Administrative Agent, provided that the inclusion of explanatory language casting doubt on Borrower Representative's ability to continue as a going concern due to the need to raise additional financing or refinance Indebtedness shall not cause such financial statements to be considered "qualified" for purposes of this subsection (e).

(f) Other Statements. Within five (5) Business Days of delivery, copies of all statements, reports and notices generally made available to all holders of Subordinated Debt.

(g) SEC Filings. Within five (5) Business Days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower Representative with the Securities and Exchange Commission. Documents required to be delivered pursuant to the terms of this Agreement, including but not limited to Sections

6.2(b), (e), and (g), (to the extent any such documents are included in materials otherwise filed with the Securities and Exchange Commission) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower Representative posts such documents or a link thereto on Borrower Representative's website on the internet at Borrower Representative's website address.

(h) Legal Action Notice. A prompt report of any legal actions pending or threatened in writing against any Loan Party or any of its Subsidiaries that could result in damages or costs to any Loan Party or any of its Subsidiaries, individually or in the aggregate for all related proceedings, of Five Hundred Thousand Dollars (\$500,000) or more, or of any Loan Party or any of its Subsidiaries taking or threatening legal action against any third person with respect to a material claim, and with respect to any pending action or threatened action, a prompt report of any material development with respect thereto.

(i) Intellectual Property Report. Together with the Compliance Certificate delivered at the end of each calendar quarter, a report in form reasonably acceptable to Administrative Agent, listing any applications or registrations that any Loan Party or any of its Subsidiaries has made or filed in respect of any Patents, Copyrights or Trademarks and the status of any outstanding applications or registrations, as well as any material change in any Loan Party or any of its Subsidiaries' Intellectual Property.

(j) Aging Reports; Other Reports and Information. Together with the monthly financial reports, reports as to the following, in form acceptable to Administrative Agent: accounts receivable and accounts payable

aging, and any other information related to the financial or business condition of any Loan Party as and when reasonably requested by Administrative Agent.

(k) **Bank Account Statements.** Upon request of Administrative Agent, together with the monthly financial statements delivered in accordance with subsection (a) above or concurrently with receipt by any Loan Party of such documentation from the applicable depository bank, a copy of the most recent account statement, with transaction detail, for each Deposit Account or Securities Account of a Loan Party or any of its Subsidiaries, or within three (3) Business Days, upon Administrative Agent's request, evidence satisfactory to Administrative Agent of the balance maintained in any such Deposit Account or Securities Account.

(l) **Product Related.** Within five (5) Business Days of receipt copies of all material correspondence, reports, documents and other filings with any Governmental Authority that would reasonably be expected to have a material adverse effect on any Governmental Approvals required for the manufacturing, marketing, testing or sale of Products or which would have a Material Adverse Effect.

(m) **Foreign Subsidiary Pledge.** Annually, no later than the date annual financial statements in accordance with subsection (e) above are delivered, an update with respect to Borrower Representative's determination as to whether the pledge of more than 65% of the Voting Stock of any of its Foreign Subsidiaries would reasonably be expected to result in a material adverse tax consequence to Borrowers, in Borrower Representative's determination.

6.3 Inventory; Returns. Keep all Inventory in all material respects in good and marketable condition, free from material defects except for (a) Excluded Inventory and Equipment, and (b) Inventory and Equipment (i) sold in the Ordinary Course of Business, and (ii) for which adequate reserves have been made, in all cases as to which Borrowers give prior written notice. Returns and allowances between a Loan Party and its Account Debtors shall follow such Loan Party's customary practices as they exist at the Closing Date or as is standard in the industry. Borrower Representative shall promptly notify Administrative Agent of all returns, recoveries, disputes and claims that involve more than Five Hundred Thousand Dollars (\$500,000).

6.4 Taxes; Pensions. Timely file, and cause each of its Subsidiaries to timely file or cause to file, all required federal income tax returns and material foreign, state and local tax returns and reports (or appropriate extensions therefor) and timely pay, or make adequate provision for the payment of, and require each of its Subsidiaries to timely pay, or make adequate provision for the payment of, all foreign, federal, state and local Taxes, assessments, deposits and contributions owed by such Loan Party and each of its Subsidiaries, except for as otherwise permitted under the terms of Section 5.8, and shall deliver to Administrative Agent, on reasonable demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

6.5 Insurance.

(a) Keep, and cause each Subsidiary to keep, its business and the Collateral insured for risks and in amounts standard for companies in the Loan Parties' industry and location. Insurance policies shall be in a form, with financially sound and reputable insurance companies that are not Affiliates of any Loan Party, and in amounts that are reasonably satisfactory to Administrative Agent.

(b) Ensure that proceeds payable under any property policy with respect to Collateral are, at Administrative Agent's option, payable to Collateral Trustee, for the ratable benefit of Lenders, on account of the Obligations. To that end, all property policies shall have a lender's loss payable endorsement showing Collateral Trustee as lender loss payable, all liability policies shall show, or have endorsements showing, Collateral Trustee as an additional insured, in each case, in form satisfactory to Collateral Trustee and as set forth on Exhibit E.

(c) Notwithstanding the foregoing, (a) so long as no Event of Default has occurred and is continuing, the Loan Parties shall have the option of applying the proceeds of any casualty policy up to Five Hundred Thousand Dollars (\$500,000), in the aggregate per fiscal year, toward the prompt replacement or repair of destroyed or damaged property; provided that any such replaced or repaired property (i) shall be of equal or like value as the replaced or repaired Collateral and (ii) shall be Collateral in which Collateral Trustee has been granted a first priority security interest and (b) after the occurrence and during the continuance of an Event of Default, all such proceeds shall, at the option of Administrative Agent, be payable to Collateral Trustee, for the ratable benefit of Lenders, on account of the Obligations.

(d) At Administrative Agent's request, Borrower Representative shall deliver certified copies of insurance policies and evidence of all premium payments. Each provider of any such insurance required under this Section 6.5 shall agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to Collateral Trustee, that it will endeavor to give Collateral Trustee thirty (30) days prior written notice before any such policy or policies shall be canceled (or ten (10) days' notice for cancellation for non-payment of premiums).

(e) If any Loan Party fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment upon Administrative Agent's request, Collateral Trustee may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies as Administrative Agent deems prudent or may direct.

6.6 Deposit and Securities Accounts.

(a) Maintain Collateral Accounts only at the banks and other financial institutions identified in the Perfection Certificate or as disclosed pursuant to a notice timely delivered pursuant to subsection (b) below. Borrowers shall further maintain an ACH payment structure in favor of Administrative Agent, satisfactory to Administrative Agent.

(b) Provide Administrative Agent ten (10) Business Days prior written notice before establishing any Collateral Account at or with any bank, broker or other financial institution, and upon opening such account, provide Administrative Agent with a written notice identifying the name, address of each bank or other institution, the name in which the account is held, a description of the purpose of the account, and the complete account number therefor. For each Collateral Account that any Loan Party at any time maintains, Borrowers shall cause the applicable bank, broker or financial institution at or with which any Collateral Account is maintained to execute and deliver an Account Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Collateral Trustee's Lien in such Collateral Account in accordance with the terms hereunder.

6.7 Intellectual Property.

(a) Protect, defend and maintain the validity and enforceability of its Intellectual Property material to its business; promptly advise Administrative Agent in writing of material infringements or any other event that could reasonably be expected to materially and adversely affect the value of its Intellectual Property material to its business; not suffer any material claim of infringement that would reasonably be expected to have a Material Adverse Effect unless such claim is dismissed within thirty (30) Business Days from initiation thereof or Borrowers have demonstrated to Administrative Agent's satisfaction that such proceedings are without merit and adequate reserves have been taken; and not allow any Intellectual Property material to the Loan Parties' business to be abandoned, forfeited or dedicated to the public without Administrative Agent's written consent.

(b) Provide written notice to Administrative Agent within ten (10) Business Days of any Loan Party entering or becoming bound by any Restricted License, and, at the request of Administrative Agent, use commercially reasonable efforts to obtain, or cause such Loan Party to ensure that such Restricted License can be sold together with the assets of such Loan Party in a transaction resulting in a Change in Control, subject to customary exclusions regarding transfers to competitors of the applicable licensor party to such Restricted License.

6.8 Litigation Cooperation. From the Closing Date and continuing through the termination of this Agreement, make available to Administrative Agent, Collateral Trustee and any Lender, without expense to Administrative Agent, Collateral Trustee or such Lender, as applicable, on reasonable prior notice and at reasonable times and intervals, each Loan Party and its officers, employees and agents and each Loan Party's books and records, subject to any applicable confidentiality obligations of Borrower, to the extent that Administrative Agent, Collateral Trustee or such Lender may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Administrative Agent, Collateral Trustee or such Lender with respect to any Collateral or relating to such Loan Party.

6.9 Access to Collateral; Books and Records. Allow Administrative Agent, Collateral Trustee, or its respective agents, to inspect the Collateral and audit and copy such Loan Party's Books in accordance with Section 6.13. Such inspections or audits shall be conducted no more often than once every twelve (12) months unless an Event of Default has occurred and is continuing in which case such inspections and audits shall occur as often as Administrative

Agent shall determine is necessary. The foregoing inspections and audits of Administrative Agent and its respective agents only shall be at Borrowers' expense.

6.10 [Reserved.]

6.11 Joinder of Subsidiaries; MSC Subsidiary.

(a) No later than thirty (30) Business Days after such time as a Loan Party or any of its Subsidiaries forms or acquires any direct or indirect Subsidiary after the Closing Date: (a) promptly, and in any event within ten (10) Business Days of creation, acquisition or request, as applicable, provide written notice to Administrative Agent together with certified copies of the Operating Documents for such Subsidiary, and (b) promptly, and in any event within thirty (30) Business Days of formation or creation, or upon Administrative Agent's request, as applicable: (i) take all such action as may be reasonably required by Administrative Agent to cause the applicable Subsidiary to, in case of a Domestic Subsidiary (other than the MSC Subsidiary), either (A) provide a joinder to this Agreement pursuant to which such Subsidiary becomes a Loan Party hereunder, or (B) guarantee the Obligations of Borrowers under the Loan Documents and grant a security interest in and to the collateral of such Subsidiary (substantially as described on Exhibit B), in each case together with such Account Control Agreements and other documents, instruments and agreements reasonably requested by Administrative Agent, all in form and substance satisfactory to Administrative Agent (including being sufficient to grant Collateral Trustee a first priority Lien, subject to Permitted Liens in and to the assets of such Subsidiary), and (ii) and to pledge all of the direct or beneficial Equity Interests in such Subsidiary constituting Collateral hereunder. Any document, agreement, or instrument executed or issued pursuant to this Section 6.11 shall be a Loan Document.

(b) Borrowers shall not permit Subsidiaries (other than the MSC Subsidiary) which are not Loan Parties, in the aggregate to maintain (i) cash and other assets with an aggregate value for all such Subsidiaries in excess of 10% of consolidated assets, (ii) revenue (other than inter-company revenue) in excess of 10% of consolidated revenues for any twelve month period then ended, (iii) any Intellectual Property which is material to the business of Borrowers as a whole, or (iv) any contracts which are material to the business of Borrowers as a whole, without causing one or more of such Subsidiaries to enter into a joinder or guaranty in form satisfactory to Administrative Agent with respect to the Obligations as Administrative Agent may request within thirty (30) Business Days (or such other period as Administrative Agent may agree in writing) such that compliance with clauses (i) through (iv) shall be restored.

(c) At any time that the MSC Subsidiary maintains assets, Borrowers shall cause the MSC Investment Conditions to be met.

6.12 Property Locations.

(a) Provide to Administrative Agent at least ten (10) Business Days' prior written notice before adding any new offices or business or Collateral locations, including warehouses (unless such new offices or business or Collateral locations qualify as Excluded Locations).

(b) With respect to any property or assets of a Loan Party located with a third party, including a bailee, datacenter or warehouse (other than Excluded Locations), Borrowers shall use commercially reasonable efforts to cause such third party to execute and deliver a Collateral Access Agreement for such location, including an acknowledgment from each of the third parties that it is holding or will hold such property, subject to Collateral Trustee's security interest.

(c) With respect to any property or assets of a Loan Party located on leased premises (other than Excluded Locations), Borrowers shall use commercially reasonable efforts to cause such third party to execute and deliver a Collateral Access Agreement for such location.

6.13 Management Rights. Any representative of Administrative Agent shall have the right to meet with management and officers of Borrowers to discuss such books of account and records. In addition, Administrative Agent shall be entitled at reasonable times and intervals to consult with and advise the management and officers of Borrowers concerning significant business issues affecting Borrowers. Such consultations shall not unreasonably interfere with any Loan Party's business operations.

6.14 Right to Invest. Lenders or their respective assignees or nominees shall have the right, in their discretion, to participate in an aggregate amount up to \$5,000,000 in up to three (3) Qualified Financings consummated after the Closing Date, on the same terms, conditions and pricing afforded to others participating in any such Qualified Financing, provided that the minimum aggregate investment by Lender and its assignees or nominees for each Qualified Financing shall be \$1,500,000. Borrower Representative shall use commercially reasonable efforts to provide written notice to Administrative Agent at least five (5) Business Days prior to the consummation of each Qualified Financing, and if a Lender desires to exercise its right to participate in such Qualified Financing, such Lender shall cooperate to consummate its investment in such closing promptly upon receipt of documentation with respect thereto. Without limiting the generality of the foregoing, Borrower Representative will obtain all such required material authorizations, exemptions or consents from any third party or any Governmental Authority having jurisdiction thereof as may be necessary to enable Borrower Representative to perform its obligations under this Agreement.

6.15 Further Assurances. Execute any further instruments and take further action as Administrative Agent or Collateral Trustee reasonably request to perfect or continue Collateral Trustee's Lien in the Collateral or to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS

No Borrower shall, or shall cause or permit any of its Subsidiaries to, do any of the following:

7.1 Dispositions. Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "**Transfer**") all or any part of its business or property, except for Permitted Transfers.

7.2 Changes in Business, Management, Ownership, or Business Locations. (a) Engage in any business other than the businesses currently engaged in by such Person, as applicable, or reasonably related thereto; (b) cease doing business, or liquidate or dissolve; (c) permit or suffer a Change in Control (except as expressly permitted by [Section 7.3](#)); or (d) without at least ten (10) Business Days prior written notice to Administrative Agent (i) change its jurisdiction of organization, (ii) change its organizational structure or type, (iii) change its legal name, or (iv) change its organizational number (if any) assigned by its jurisdiction of organization.

7.3 Mergers or Acquisitions. Merge or consolidate with any other Person (except if concurrently with, and as a condition to the effectiveness of, the closing of such merger or consolidation, the Obligations (other than contingent indemnification obligations as to which no claim has been asserted or is known to exist) shall be repaid in full, in cash), or acquire all or substantially all of the capital stock or property of another Person or business line of another Person (including, without limitation, by the formation of any Subsidiary). For the avoidance of doubt, any Borrower may create a Subsidiary as provided in the definition of Permitted Investments.

7.4 Indebtedness. Create, incur, assume, or be liable for any Indebtedness, other than Permitted Indebtedness.

7.5 Encumbrance. Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, except for Permitted Liens, or otherwise permit any Collateral not to be subject to the first priority security interest granted herein, except in connection with Permitted Liens permitted to have priority over Collateral Trustee's Lien.

7.6 Maintenance of Collateral Accounts. Maintain any Collateral Account except pursuant to the terms of [Section 6.6\(b\)](#).

7.7 Distributions; Investments. (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any Equity Interests provided that (i) Borrower Representative may convert any of its convertible Equity Interests (including warrants) into other Equity Interests issued by Borrower Representative pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) Borrower Representative may convert Subordinated Debt issued by Borrower Representative into Equity Interests issued by Borrower Representative pursuant to the terms of such Subordinated Debt and to the extent permitted under the terms of the applicable subordination or intercreditor agreement; (iii) any Borrower or Subsidiary thereof may pay dividends solely in Equity Interests of such Borrower or Subsidiary; (iv) Borrower Representative may make cash payments in lieu of fractional shares; (v) Borrower Representative may repurchase the Equity Interests issued by Borrower Representative pursuant to stock repurchase agreements approved by Borrower Representative's Board, provided that the aggregate amount of all such repurchases

does not exceed Five Hundred Thousand Dollars (\$500,000) per fiscal year; (vi) Borrower Representative may repurchase the Equity Interests issued by Borrower Representative pursuant to stock repurchase agreements approved by Borrower Representative's Board where the consideration for the repurchase is the cancellation of indebtedness owed by such former employees, consultants or directors to Borrower Representative regardless of whether an Event of Default exists; (vii) purchase Equity Interests in connection with the exercise of stock options or stock appreciation by way of a cashless exercise, provided that the aggregate amount of all such repurchases does not exceed Five Hundred Thousand Dollars (\$500,000) per fiscal year; and (viii) purchase fractional shares of Equity Interests arising out of stock dividends, splits or combinations or business combinations, provided that the aggregate amount of all such repurchases does not exceed Fifty Thousand Dollars (\$50,000) per fiscal year; or (b) directly or indirectly make any Investment (including, without limitation, by the formation of any Subsidiary), other than Permitted Investments. Notwithstanding the foregoing, Loan Parties shall be permitted to make the repurchases, payments or distributions expressly permitted pursuant to clause (v) above only if, at such time, and immediately after giving effect thereto: (i) no Default or Event of Default, exists or could reasonably be expected to occur, (ii) Borrower Representative and its Subsidiaries, on a consolidated basis, are solvent, and (iii) such payment or distribution is permitted under and is made in compliance with all applicable laws.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of a Loan Party, except for (a) transactions that are in the Ordinary Course of Business and on fair and reasonable terms that are no less favorable to such Person than would be obtained in an arm's length transaction with a non-affiliated Person; (b) bona fide rounds of Subordinated Debt or equity financing by existing investors in Borrower Representative for capital raising purposes, (c) reasonable and customary director, officer and employee compensation and other customary benefits including retirement, health, stock option and other benefit plans and indemnification arrangements approved by Borrower Representative's Board, and (d) distributions permitted under Section 7.7.

7.9 Subordinated Debt. (a) Make or permit any payment on any Subordinated Debt, except as permitted pursuant to the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof, provide for earlier or greater principal, interest, or other payments thereon, or adversely affect the subordination thereof to the Obligations.

7.10 Compliance. Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Loan for that purpose; take any action or fail to take any action (or suffer any other Person to do so), to the extent the same would cause the representations set forth in Section 5.11(c) to be untrue; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation would reasonably be expected to have a Material Adverse Effect; withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability

of a Loan Party or any of its Subsidiaries, including any material liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

8. EVENTS OF DEFAULT

Any one of the following shall constitute an event of default (an “**Event of Default**”) under this Agreement:

8.1 Payment Default. Any Loan Party fails to pay any Obligations after such Obligations are due and payable.

8.2 Covenant Default.

(a) A Borrower fails or neglects to perform any obligation in Sections 3.3(b), 6.2, 6.4, 6.5, or 6.6, or violates any covenant in Section 7; or

(b) A Loan Party fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents to which it is a party, and as to any Default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the Default within fifteen (15) Business Days after the occurrence thereof.

8.3 Material Adverse Effect. An event or circumstance has occurred which would reasonably be expected to have a Material Adverse Effect.

8.4 Attachment; Levy; Restraint on Business.

(a) (i) The service of process seeking to attach, by trustee or similar process, any material portion of funds of the Loan Parties and their Subsidiaries, taken as a whole, or (ii) a notice of Lien or levy is filed against any material portion of the assets of the Loan Parties and their Subsidiaries, taken as a whole, by any Governmental Authority, and the same under clauses (i) and (ii) hereof are not, within ten (10) Business Days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Loans shall be made during any ten (10) Business Day cure period; or (i) any material portion of the assets of the Loan Parties and their Subsidiaries, taken as a whole, is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents the Loan Parties and their Subsidiaries, taken as a whole, from conducting all or any material part of its business.

8.5 Insolvency. (a) A Loan Party or any of its Subsidiaries, as a whole, is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent, the realizable value of the Loan Parties’ assets is less than the aggregate sum of its liabilities, or the Loan Parties; (b) a Loan Party or any of its Subsidiaries begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against a Loan Party or any of its Subsidiaries and is not dismissed or stayed within forty-five (45) days (but no Loans shall be made while any of the conditions described in this Section 8.5 exist and/or until any Insolvency Proceeding is dismissed).

8.6 Other Agreements. There is, under any agreement to which a Loan Party or any of its Subsidiaries is a party with a third party or parties, (a) any Default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of Five Hundred Thousand Dollars (\$500,000) (except if such third party is restricted from accelerating the maturity of such Indebtedness, including pursuant to the terms of a subordination or similar agreement entered into with respect to the Obligations); or (b) any breach or Default by a Loan Party or a Subsidiary of such Loan Party, the result of which would have a Material Adverse Effect.

8.7 Judgments; Penalties. One or more fines, penalties or final judgments, orders or decrees for the payment of money in an amount, individually or in the aggregate, of at least One Million Dollars (\$1,000,000) shall be rendered against a Loan Party or any of its Subsidiaries by any Governmental Authority, and the same are not, within ten (10) Business Days after the entry, assessment or issuance thereof, vacated, or after execution thereof, stayed or bonded pending appeal, (provided that no Loans will be made prior to the vacation, stay, or bonding of such fine, penalty, judgment, order or decree).

8.8 Misrepresentations. Any Loan Party or any Person acting for such Loan Party makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document to which it is a party or in any writing delivered to Administrative Agent, Collateral Trustee or any Lender or to induce Administrative Agent, Collateral Trustee or any Lender to enter this Agreement or any Loan Document to which it is a party, and such representation, warranty, or other statement is incorrect, when taken as a whole, in any material respect when made.

8.9 Subordinated Debt. Any Subordination Agreement governing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect (other than in accordance with its terms), any party thereto (other than Administrative Agent, Collateral Trustee or any Lender) shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further obligation thereunder, or the Obligations shall for any reason not have the priority contemplated by this Agreement.

8.10 Governmental Approval. Any Governmental Approval shall have been revoked, rescinded, suspended, modified in an adverse manner or not renewed for a full term, and such revocation, rescission, suspension, modification or non-renewal has, or would have, a Material Adverse Effect.

8.11 Guaranty. Any guaranty of any Obligations terminates or ceases for any reason to be in full force and effect.

9. COLLATERAL TRUSTEE'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Collateral Trustee is entitled, at the direction of Administrative Agent, subject to the terms of the Collateral Trust Agreement, without notice or demand, to do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Collateral Trustee);

(b) stop advancing money or extending credit for any Borrower's benefit under this Agreement (and each Lender's Commitment shall be deemed terminated as long as an Event of Default has occurred and is continuing);

(c) verify the amount of, demand payment of and performance under, and collect any Accounts and General Intangibles, settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Administrative Agent may determine is advisable, and notify any Person owing a Borrower money of Collateral Trustee's security interest in such funds;

(d) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral;

(e) ratably apply to the Obligations any amount held by Collateral Trustee owing to or for the credit or the account of a Borrower;

(f) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral;

(g) deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Account Control Agreement or similar agreements providing control of any Collateral;

(h) demand and receive possession of any Borrower's Books; and

(i) exercise all rights and remedies available to Collateral Trustee under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

Borrowers shall assemble the Collateral if Collateral Trustee requests and make it available as Collateral Trustee designates. Collateral Trustee may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior

to its security interest and pay all expenses incurred. Solely upon the occurrence and continuation of an Event of Default, each Borrower shall grant Collateral Trustee a license to enter and occupy any of its premises, without charge, to exercise any of Collateral Trustee's rights or remedies. Solely upon the occurrence and continuation of an Event of Default, Collateral Trustee shall be deemed to have been granted (without any further action by any party) a non-exclusive, royalty-free license or other right to use, without charge, a Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Collateral Trustee's exercise of its rights under this Section, a Borrower's rights under all licenses and all franchise agreements inure to Collateral Trustee's benefit. If, after the acceleration of the Indebtedness, an Loan Party receives proceeds of Collateral, such Borrower shall (or shall cause the applicable Loan Party) to deliver such proceeds to Collateral Trustee, for the ratable benefit of Lenders, to be applied to the Obligations.

9.2 Power of Attorney. Each Borrower hereby irrevocably appoints Collateral Trustee (and any of Collateral Trustee's partners, managers, officers, agents or employees) as its lawful attorney-in-fact, with full power of substitution, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) send requests for verification of Accounts or notify Account Debtors of Collateral Trustee's security interest and Liens in the Collateral; (b) endorse such Borrower's name on any checks or other forms of payment or security; (c) sign such Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors schedules and assignments of Accounts, verifications of Accounts, and notices to Account Debtors; (d) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Administrative Agent or Collateral Trustee determine reasonable; (e) make, settle, and adjust all claims under such Borrower's insurance policies; (f) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; (g) transfer the Collateral into the name of Collateral Trustee or a third party as the Code permits; and (h) dispose of the Collateral. Each Borrower further hereby appoints Collateral Trustee (and any of Collateral Trustee's partners, managers, officers, agents or employees) as its lawful attorney-in-fact, with full power of substitution, regardless of whether or not an Event of Default has occurred or is continuing to: (i) sign such Borrower's name on any documents and other Security Instruments necessary to perfect or continue the perfection of, or maintain the priority of, Collateral Trustee's security interest in the Collateral; and (ii) take any and all such actions as Collateral Trustee may reasonably determine to be necessary or advisable for the purpose of maintaining, preserving or protecting the Collateral or any of the rights, remedies, powers or privileges of Collateral Trustee under this Agreement or the other Loan Documents. Collateral Trustee's foregoing appointment as each Borrower's attorney in fact, and all of Collateral Trustee's rights and powers, coupled with an interest, are irrevocable until all Obligations (other than contingent indemnification obligations as to which no claim has been asserted or is known to exist) have been fully repaid, in cash, and otherwise fully performed and all commitments to make Loans hereunder have been terminated.

9.3 Protective Payments. If a Borrower fails to obtain the insurance called for by [Section 6.5](#) or fails to pay any premium thereon or fails to pay any other amount which such Borrower is obligated to pay under this Agreement or any other Loan Document or which may be required to preserve the Collateral, Collateral Trustee may obtain such insurance or make such payment, and all amounts so paid by Collateral Trustee are Lender Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Collateral Trustee will make reasonable efforts to provide Borrower Representative with notice of Collateral Trustee obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Collateral Trustee are deemed an agreement to make similar payments in the future or Collateral Trustee's waiver of any Event of Default.

9.4 Application of Payments and Proceeds Upon Default. If an Event of Default has occurred and is continuing, Collateral Trustee shall have the right to apply in any order any funds in its possession, whether payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations, for the ratable benefit of Lenders. Collateral Trustee shall pay any surplus to Borrowers by credit to the Deposit Account designated by Borrowers or as directed by a court of competent jurisdiction. Borrowers shall remain liable to Collateral Trustee and Lenders for any deficiency. If Collateral Trustee, directly or indirectly, enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Collateral Trustee may, at the direction of Administrative Agent, either reduce the Obligations by the principal amount of the purchase price or defer the reduction of the Obligations until the actual receipt by Collateral Trustee of cash or immediately available funds therefor.

9.5 Collateral Trustee's Liability for Collateral. So long as Collateral Trustee complies with reasonable secured lender practices regarding the safekeeping of the Collateral in the possession or under the control of Collateral Trustee, Collateral Trustee shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrowers bear all risk of loss, damage or destruction of the Collateral.

9.6 No Waiver; Remedies Cumulative. Any failure by Administrative Agent, Collateral Trustee or any Lender, at any time or times, to require strict performance by each Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Administrative Agent, Collateral Trustee or any Lender thereafter to demand strict performance and compliance herewith or therewith. Collateral Trustee's rights and remedies under this Agreement and the other Loan Documents are cumulative. Collateral Trustee has all rights and remedies provided under the Code, by law, or in equity. Collateral Trustee or any Lender's exercise of one right or remedy is not an election and shall not preclude Collateral Trustee or any Lender from exercising any other remedy under this Agreement or other remedy available at law or in equity, and any waiver of any Event of Default is not a continuing waiver. Any delay in exercising any remedy is not a waiver, election, or acquiescence.

9.7 Demand Waiver. Each Borrower waives presentment, demand, notice of default or dishonor, notice of payment and nonpayment, release, compromise, settlement, extension, or renewal of accounts, documents, instruments or chattel paper.

9.8 Shares. Each Borrower recognizes that Collateral Trustee may be unable to effect a public sale of any or all the Shares, by reason of certain prohibitions contained in federal securities laws and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Each Borrower acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. Collateral Trustee shall be under no obligation to delay a sale of any of the Shares for the period of time necessary to permit the issuer thereof to register such securities for public sale under federal securities laws or under applicable state securities laws, even if such issuer would agree to do so.

10. NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon confirmation of receipt, when sent by electronic mail transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, or email address indicated below. Administrative Agent, Collateral Trustee, Lenders and Borrowers may change their respective mailing or electronic mail addresses by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrowers: **EVELO BIOSCIENCES, INC.**
620 Memorial Drive, Suite 500 West
Cambridge, MA 02139
Attention: Daniel Char and Jonathan Poole
Emails: dchar@evelobio.com; jonathan@evelobio.com

If to Collateral Trustee: **ANKURA TRUST COMPANY, LLC**
140 Sherman Street, Fourth Floor
Fairfield, CT 06824
Attention: Lisa Price
Email: Lisa.Price@ankura.com

If to Administrative Agent or Lenders: **K2 HEALTHVENTURES LLC**
885 Boylston Street, 10th Floor
Boston, MA 02116

For Loan Requests, monthly reporting, Compliance Certificates and other regular reporting deliverables:

Attention: Finance
Email: finance@k2hv.com; parag@k2hv.com; austin@k2hv.com

For all other notices:

Attention: Legal Notices
Email: legal@k2hv.com

With a copy to (but not constituting notices, and excluding Loan Requests, Compliance Certificates and regular reporting deliverables): **COOLEY LLP**
3175 Hanover Street
Palo Alto, CA 94304-1105
Attention: Cynthia Bai
Email: cbai@cooley.com

11. CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER

Except as otherwise expressly provided in any of the Loan Documents, this Agreement and the other Loan Documents shall be governed by, and construed in accordance with, the laws of the State of New York without regard to principles of conflicts of law that would result in the application of any laws other than those of the State of New York. Each Borrower hereby submits to the exclusive jurisdiction of the State and Federal courts in New York County, City of New York, New York; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Collateral Trustee from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Administrative Agent, Collateral Trustee or any Lender. Each Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and each Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Each Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to such Borrower at the address set forth in, or subsequently provided by such Borrower in accordance with, Section 10 and that service so made shall be deemed completed upon the earlier to occur of Borrowers' actual receipt thereof or three (3) Business Days after deposit in the U.S. mails, proper postage prepaid. Each Borrower hereby expressly waives any claim to assert that the laws of any other jurisdiction govern this Agreement.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR THE PARTIES TO ENTER INTO THIS AGREEMENT. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT OR ANYWHERE ELSE, EACH BORROWER AGREES THAT IT SHALL NOT SEEK FROM ADMINISTRATIVE AGENT, COLLATERAL TRUSTEE OR ANY LENDER UNDER ANY THEORY OF

LIABILITY (INCLUDING ANY THEORY IN TORTS), ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

This Section 11 shall survive the termination of this Agreement.

12. GENERAL PROVISIONS

12.1 Termination Prior to Term Loan Maturity Date; Survival; Release of Collateral. All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than contingent indemnification obligations as to which no claim has been asserted or is known to exist and any other obligations which, by their terms, are to survive the termination of this Agreement) have been satisfied in full, in cash and all commitments to extend credit pursuant to this Agreement have terminated (such date, the “**Discharge Date**”). So long as Borrowers have repaid in cash in full the Obligations (other than contingent indemnification obligations as to which no claim has been asserted or is known to exist and any other obligations which, by their terms, are to survive the termination of this Agreement), this Agreement and any remaining commitments to extend credit may be terminated prior to the Term Loan Maturity Date by Borrowers, by written notice of termination to Lenders. Those obligations that are expressly specified in this Agreement as surviving this Agreement’s termination shall continue to survive notwithstanding this Agreement’s termination. Promptly after the Discharge Date, Lenders shall direct Collateral Trustee to deliver evidence of the release of Collateral.

12.2 Successors and Assigns.

(a) Successors and Assigns Generally. This Agreement binds and is for the benefit of the successors and permitted assigns of each party. No Borrower may assign this Agreement or any rights or obligations under it without Lenders’ prior written consent (which may be granted or withheld in each Lender’s reasonable discretion). Each Lender has the right, without the consent of or notice to Borrowers, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, such Lender’s obligations, rights, and benefits under this Agreement and the other Loan Documents.

(b) Assignment by Lenders. Each Lender may at any time assign to one or more eligible assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its commitment and the Loans at the time owing to it), subject to any restrictions on such assignment set forth in the other Loan Documents.

(c) Notwithstanding the foregoing, prior to the occurrence of an Event of Default that is continuing or as required by applicable law or any Governmental Authority having jurisdiction, Administrative Agent and each Lender shall not assign any interest in the Loan Documents to any Person who in the reasonable estimation of Administrative Agent is (a) a direct competitor of the Loan Parties, whether as an operating company or direct or indirect parent with voting control over such operating company, or (b) a vulture fund or distressed debt fund, provided that the foregoing shall not operate to restrict any acquisition, merger or other consolidation of any Lender with another Person or any assignment in connection with a sale or other transfer of all or any material part of the loan portfolio of any Lender.

(d) Administrative Agent, acting solely for this purpose as an agent of the Loan Parties, shall maintain at one of its offices in the United States a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts (and stated interest) of the Term Loans owing to each Lender pursuant to the terms hereof from time to time (the “**Register**”). The entries in the Register shall be conclusive absent manifest error, and the Loan Parties, Administrative Agent and the Lenders shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Loan Parties, any Lender and the Collateral Trustee at any reasonable time and from time to time upon reasonable prior notice. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Loan Parties, maintain a register on which it enters the name and address of each participant and the principal amounts (and stated interest) of each participant’s interest in the Term Loans or other obligations under the Loan Documents (the “**Participant Register**”); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any participant or any information relating to a participant’s interest in any commitments, loans or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant

Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

12.3 Indemnification. Each Borrower agrees to indemnify, defend and hold Administrative Agent, Collateral Trustee and each Lender and their respective directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Lender (each, an “**Indemnified Person**”) harmless against: (i) all obligations, demands, claims, and liabilities (including such claims, costs, expenses, damages and liabilities based on liability in tort, including strict liability in tort) (collectively, “**Claims**”) claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (ii) all reasonable and documented out-of-pocket losses or expenses (including Lender Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions among Administrative Agent, Collateral Trustee, Lenders and Borrowers (including reasonable and documented out-of-pocket attorneys’ fees and expenses), except for Claims and/or losses to the extent directly caused by such Indemnified Person’s gross negligence or willful misconduct. Each Borrower agrees to pay, and to save Administrative Agent, Collateral Trustee and each Lender harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all excise, sales or other similar Taxes (other than Indemnified Taxes and Excluded Taxes (as defined in Schedule 3)) that may be payable or determined to be payable with respect to any of the Collateral or this Agreement. This Section 12.3 shall survive until all statutes of limitation with respect to the Claims, losses, and reasonable and documented out-of-pocket expenses for which indemnity is given shall have run.

12.4 Borrower Liability. If any Person is joined to this Agreement as a Borrower, the following provisions shall apply: Each Borrower hereunder shall be jointly and severally obligated to repay all Loans made hereunder, regardless of which Borrower actually receives said Loan, as if each Borrower hereunder directly received all Loans. Each Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law, and (b) any right to require Collateral Trustee to: (i) proceed against any Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Collateral Trustee may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower’s liability. Notwithstanding any other provision of this Agreement or other related document, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of Collateral Trustee under this Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by such Borrower with respect to the Obligations in connection with this Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section shall be null and void. If any payment is made to a Borrower in contravention of this Section, such Borrower shall hold such payment in trust for Lenders and such payment shall be promptly delivered to Collateral Trustee, for the ratable benefit of Lenders, for application to the Obligations, whether matured or unmatured.

12.5 Time of Essence. Time is of the essence for the performance of all Obligations in this Agreement.

12.6 Severability of Provisions. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.7 Correction of Loan Documents. Administrative Agent may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties so long as Administrative Agent provides the Loan Parties with written notice of such correction and allows the Loan Parties at least ten (10) Business Days to object to such correction. In the event of such objection, such correction shall not be made except by an amendment signed by both Administrative Agent and the Loan Parties.

12.8 Amendments in Writing; Waiver; Integration. No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be effective except, pursuant to an agreement in writing by the parties thereto, and in case of this Agreement, pursuant to an agreement in writing entered into by Borrowers, Administrative Agent, the Required Lenders and Collateral Trustee, provided that Collateral Trustee’s approval shall not be required for any amendment or supplement that has the effect solely of

(i) adding or maintaining Collateral, securing additional Obligations that are otherwise permitted by the terms of this Agreement to be secured by the Collateral or preserving, perfecting or establishing the priority of the Liens thereon or the rights of Collateral Trustee therein; (ii) curing any ambiguity, defect or inconsistency; (iii) providing for the assumption of a Borrower's or Guarantor's Obligations under any Loan Document in the case of a merger or consolidation or sale of all or substantially all of the assets of the Borrower or such Guarantor, as applicable; (iv) making any change that would provide any additional rights or benefits to the Administrative Agent, any Lender or Collateral Trustee or that does not adversely affect the legal rights under this Agreement or any other Loan Document of Collateral Trustee; or (v) to the extent the Collateral Trust Agreement provides that Collateral Trustee's approval is not required. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations among the parties about the subject matter of the Loan Documents merge into the Loan Documents.

12.9 Counterparts; Electronic Execution of Documents. This Agreement and any other Loan Documents, except to the extent otherwise required pursuant to the terms thereof, may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act. Delivery of an executed counterpart of a signature page of any Loan Document by electronic means including by email delivery of a ".pdf" format data file shall be effective as delivery of an original executed counterpart of such Loan Document.

12.10 Confidentiality. In handling any confidential information, Administrative Agent, Collateral Trustee and each Lender agree to exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to its Subsidiaries or Affiliates, provided that such entities are bound by the same non-use and non-disclosure obligations set forth in this [Section 12.10](#); (b) to prospective transferees or purchasers of any interest in the Loans (provided that any prospective transferee or purchaser shall have entered into an agreement containing provisions substantially the same as to the terms set forth in this [Section 12.10](#)); (c) as required by law, regulation, subpoena, or other order and in connection with reporting obligations applicable to Administrative Agent, Collateral Trustee or such Lender, including pursuant to the Securities Exchange Act of 1934, as amended; (d) to Administrative Agent, Collateral Trustee or such Lender's regulators or as otherwise required in connection with any examination or audit; (e) as Administrative Agent, Collateral Trustee or such Lender considers appropriate in connection with the exercise of remedies with respect to the Obligations; and (f) to third-party service providers of Administrative Agent, Collateral Trustee or such Lender so long as such service providers are bound by confidentiality terms not more permissive than the terms hereof. Confidential information does not include information that is either: (i) in the public domain or in Administrative Agent, Collateral Trustee or any Lender's possession when disclosed to Administrative Agent, Collateral Trustee or such Lender, as applicable, or becomes part of the public domain (other than as a result of its disclosure by Administrative Agent, Collateral Trustee or such Lender in violation of this Agreement) after disclosure to Administrative Agent, Collateral Trustee or such Lender, as applicable; or (ii) disclosed to Administrative Agent, Collateral Trustee or such Lender by a third party, if Administrative Agent, Collateral Trustee or such Lender, as applicable, does not know that the third party is prohibited from disclosing the information. The provisions of this paragraph shall survive the termination of this Agreement.

12.11 Borrower Representative. Each of the Borrowers hereby appoints Borrower Representative to act as its exclusive agent for all purposes under the Loan Documents to which it is a party (including, without limitation, with respect to all matters related to the borrowing and repayment of any Loan). Each of the Borrowers acknowledges and agrees that (a) Borrower Representative may execute such documents on behalf of any Borrower as Borrower Representative deems appropriate in its sole discretion and each Borrower shall be bound by and obligated by all of the terms of any such document executed by Borrower Representative on its behalf, (b) any notice or other communication delivered hereunder to Borrower Representative shall be deemed to have been delivered to each Borrower and (c) Administrative Agent, Collateral Trustee and any Lender shall accept (and shall be permitted to rely on) any document or agreement executed by Borrower Representative on behalf of Borrowers (or any of them). Borrower

must act through the Borrower Representative for all purposes under this Agreement and the other Loan Documents to which it is a party. Notwithstanding anything contained herein to the contrary, to the extent any provision in this Agreement requires any Borrower to interact in any manner with Administrative Agent, Collateral Trustee or any Lender, such Borrower shall do so through Borrower Representative.

12.12 [Reserved.]

12.13 Captions. The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

12.14 Construction of Agreement. The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

12.15 Relationship. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

12.16 Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

12.17 Appointment of Collateral Trustee. Each Lender hereby appoints Collateral Trustee to act on behalf of Lenders as collateral agent under this Agreement and the other Loan Documents, and to hold and enforce any and all Liens on Collateral granted by any of the Loan Parties to secure any of the Obligations, all in accordance with the terms of the Collateral Trust Agreement. The provisions of this Section 12.17 are solely for the benefit of Collateral Trustee and Lenders and no Loan Party nor any other Person shall have any rights as a third party beneficiary of any of the provisions hereof. The Collateral Trustee may resign or be removed or replaced, and a successor Collateral Trustee may be appointed in accordance with the terms and subject to the conditions of the Collateral Trust Agreement.

12.18 Appointment of Administrative Agent.

(a) Each Lender hereby appoints Administrative Agent to act on behalf of Lenders as administrative agent under this Agreement and the other Loan Documents. The provisions of this Section 12.18 are solely for the benefit of Administrative Agent and Lenders and no Loan Party nor any other Person shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement, Administrative Agent does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for any Loan Party or any other Person. Administrative Agent shall not have any duties or responsibilities except for those expressly set forth in this Agreement and the other Loan Documents, together with such powers as are reasonably related thereto. The duties of Administrative Agent shall be mechanical and administrative in nature and Administrative Agent shall not have, or be deemed to have, by reason of this Agreement, any other Loan Document or otherwise a fiduciary relationship in respect of any Lender.

(b) If Administrative Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any other Loan Document, then Administrative Agent shall be entitled to refrain from such act or taking such action unless and until it shall have received instructions from the Required Lenders, and Administrative Agent shall incur no liability to any Person by reason of so refraining. Administrative Agent shall be fully justified in failing or refusing to take any action hereunder or under any other Loan Document for any reason. Without limiting the foregoing, no Lender shall have any right of action whatsoever against Administrative Agent as a result of Administrative Agent's acting or refraining from acting hereunder or under any other Loan Document in accordance with the instructions of Lenders.

(c) Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder by or through any one or more sub-agent s appointed by Administrative Agent. Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective and their respective related parties. The exculpatory provisions of this Section 12.18 shall apply to any such sub-agent

and to the related parties of such Administrative Agent and any such sub-agent. No Administrative Agent shall be responsible for the negligence or misconduct of any sub-agent except to the extent that a court of competent jurisdiction determines in a final and non-appealable judgment that such Administrative Agent acted with gross negligence or willful misconduct in the selection of such sub-agents.

(d) Neither Administrative Agent nor any of its Affiliates nor any of their respective directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement or the other Loan Documents, except for damages solely caused by its or their own gross negligence or willful misconduct as finally determined by a court of competent jurisdiction. Without limitation of the generality of the foregoing, Administrative Agent: (i) may consult with legal counsel, independent chartered accountants and other experts and consultants selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants, experts or consultants; (ii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement or the other Loan Documents; (iii) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or the other Loan Documents on the part of any Loan Party or to inspect the Collateral (including the books and records) of any Loan Party; (iv) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Loan Documents or any other instrument or document furnished pursuant hereto or thereto; and (v) shall incur no liability under or in respect of this Agreement or the other Loan Documents by acting upon any notice, consent, certificate or other instrument or writing (which may be by email, teletype, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

(e) With respect to its Commitments and Loans hereunder, Administrative Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any other Lender and may exercise the same as though it were not Administrative Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Administrative Agent in its individual capacity (to the extent it holds any Obligations owing to Lenders or Commitments hereunder). Administrative Agent and each of its Affiliates may lend money to, invest in, and generally engage in any kind of business with, any Loan Party, any of their Affiliates and any Person who may do business with or own securities of any Loan Party or any such Affiliate, all as if Administrative Agent was not Administrative Agent and without any duty to account therefor to Lenders. Administrative Agent and its Affiliates may accept fees and other consideration from any Loan Party for services in connection with this Agreement or otherwise without having to account for the same to Lenders.

(f) Each Lender acknowledges that it has, independently and without reliance upon Administrative Agent or any other Lender, made its own credit and financial analysis of the Loan Parties and its own decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement. Each Lender acknowledges the potential conflict of interest of each other Lender as a result of Lenders holding disproportionate interests in the Loans, and expressly consents to, and waives any claim based upon, such conflict of interest.

(g) Each Lender agrees to indemnify Administrative Agent (to the extent not reimbursed by Loan Parties and without limiting the obligations of Loan Parties hereunder), ratably according to its respective Pro Rata Share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Administrative Agent in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted by Administrative Agent in connection therewith; provided, however, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from Administrative Agent's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction. Without limiting the foregoing, each Lender agrees to reimburse Administrative Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including reasonable and documented counsel fees) incurred by Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement and each other Loan Document, to the extent that Administrative Agent is not reimbursed for such expenses by the Loan Parties.

(h) Administrative Agent may resign at any time by giving not less than thirty (30) days' prior written notice thereof to Lenders, Collateral Trustee and Borrowers. Upon any such resignation, Lenders shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by Lenders and shall have accepted such appointment within thirty (30) days after Administrative Agent's giving notice of resignation, then Administrative Agent may, on behalf of Lenders, appoint a successor Administrative Agent, which shall be a Lender, if a Lender is willing to accept such appointment, or otherwise shall be a commercial bank or financial institution or a subsidiary of a commercial bank or financial institution if such commercial bank or financial institution has combined capital of at least \$300,000,000. If no successor Administrative Agent has been appointed pursuant to the foregoing, by the 30th day after the date such notice of resignation was given by the resigning Administrative Agent, such resignation shall become effective and Lenders shall thereafter perform all the duties of Administrative Agent hereunder until such time, if any, as Lenders appoint a successor Administrative Agent as provided above. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall succeed to and become vested with all the rights, powers, privileges and duties of the resigning Administrative Agent. Upon the earlier of the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent or the effective date of the resigning Administrative Agent's resignation, the resigning Administrative Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Documents, except that any indemnity, expense reimbursement or other rights in favor of such resigning Administrative Agent shall continue. After any resigning Administrative Agent's resignation hereunder, the provisions of this Section 12.17 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents. Notwithstanding the foregoing, as long as K2 HealthVentures LLC is a Lender pursuant to this Agreement, K2 HealthVentures LLC shall not resign as Administrative Agent unless a successor Administrative Agent is appointed concurrently with such resignation, which successor Administrative Agent shall have the wherewithal to perform, and shall succeed to and become vested with all the rights, powers, privileges and duties of the resigning Administrative Agent under this Agreement and the other Loan Documents.

(i) In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, with the prior written consent of Administrative Agent, each Lender and each holder of any Obligation is hereby authorized at any time or from time to time, without notice to any Loan Party or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all balances held by it at any of its offices for the account of any Loan Party or any Subsidiary of a Loan Party (regardless of whether such balances are then due to such Loan Party or such Subsidiary) and any other properties or assets any time held or owing by that Lender or that holder to or for the credit or for the account of any Loan Party or any Subsidiary of a Loan Party against and on account of any of the Obligations which are not paid when due. Any Lender or holder of any Obligation exercising a right to set off or otherwise receiving any payment on account of the Obligations in excess of its Pro Rata Share thereof in accordance with the terms of this Agreement relating to the priority of the repayment of the Obligations shall purchase for cash (and the other Lenders or holders shall sell) such participations in each such other Lender's or holder's Pro Rata Share of the Obligations as would be necessary to cause such Lender to share the amount so set off or otherwise received with each other Lender or holder in accordance with their respective Pro Rata Shares and in accordance with the terms of this Agreement relating to the priority of the repayment of the Obligations. Each Loan Party agrees, to the fullest extent permitted by law, that (i) any Lender or holder may exercise its right to set off with respect to amounts in excess of its Pro Rata Share of the Obligations and may sell participations in such amount so set off to other Lenders and holders and (ii) any Lender or holders so purchasing a participation in the Loans made or other Obligations held by other Lenders or holders may exercise all rights of set-off, bankers' Lien, counterclaim or similar rights with respect to such participation as fully as if such Lender or holder were a direct holder of the Loans and the other Obligations in the amount of such participation. Notwithstanding the foregoing, if all or any portion of the set-off amount or payment otherwise received is thereafter recovered from Lender that has exercised the right of set-off, the purchase of participations by that Lender shall be rescinded and the purchase price restored without interest.

(j) Nothing in this Agreement or the other Loan Documents shall be deemed to require Administrative Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its Commitments hereunder or to prejudice any rights that the Borrowers may have against any Lender as a result of any default by such Lender hereunder. To the extent that Administrative Agent advances funds to the Borrowers on behalf of any Lender and is not reimbursed therefor on the same Business Day as such advance is made, Administrative Agent shall be entitled to retain for its account all interest accrued on such advance until reimbursed by the applicable Lender.

(k) If Administrative Agent pays an amount to a Lender under this Agreement in the belief or expectation that a related payment has been or will be received by Administrative Agent from Borrowers and such related payment is not received thereby, then Administrative Agent will be entitled to recover such amount from such Lender on demand without set-off, counterclaim or deduction of any kind.

(l) If Administrative Agent determines at any time that any amount received thereby under this Agreement shall be returned to Borrowers or paid to any other Person pursuant to any insolvency law or otherwise, then, notwithstanding any other term or condition of this Agreement or any other Loan Document, Administrative Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender will repay to Administrative Agent on demand any portion of such amount that Administrative Agent has distributed to such Lender, together with interest at such rate, if any, as Administrative Agent is required to pay to Borrowers or such other Person, without set-off, counterclaim or deduction of any kind.

(m) Administrative Agent will use reasonable efforts to provide Lenders with any written notice of Event of Default received by Administrative Agent from, or delivered by Administrative Agent to, any Loan Party; provided, however, that Administrative Agent shall not be liable to any Lender for any failure to do so, except to the extent that such failure is attributable solely to Administrative Agent's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

(n) Anything in this Agreement or any other Loan Document to the contrary notwithstanding, each Lender hereby agrees with each other Lender and with Administrative Agent that no Lender shall take any action to protect or enforce its rights arising out of this Agreement or any other Loan Document (including exercising any rights of set-off) without first obtaining the prior written consent of the Required Lenders, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the other Loan Documents shall be taken in concert and at the direction or with the consent of Administrative Agent at the request of Required Lenders.

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[SIGNATURE PAGE TO LOAN AND SECURITY AGREEMENT]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Closing Date.

BORROWER REPRESENTATIVE:

EVELO BIOSCIENCES, INC.

By /s/ Jonathan Poole

Name: Jonathan Poole

Title: Chief Financial Officer and Treasurer

[SIGNATURE PAGE TO LOAN AND SECURITY AGREEMENT]

COLLATERAL TRUSTEE:

ANKURA TRUST COMPANY, LLC

By /s/ Lisa J. Price

Name: Lisa J. Price

Title: Managing Director

[SIGNATURE PAGE TO LOAN AND SECURITY AGREEMENT]

ADMINISTRATIVE AGENT:

K2 HEALTHVENTURES LLC

By /s/ Parag Shah

Name: Parag Shah

Title: CEO

LENDER:

K2 HEALTHVENTURES LLC

By /s/ Parag Shah

Name: Parag Shah

Title: CEO

EXHIBIT A

DEFINITIONS

As used in this Agreement, the following capitalized terms have the following meanings:

“**Account**” means any “account” as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to a Borrower.

“**Account Control Agreement**” means any control agreement entered into among the depository institution at which a Loan Party maintains a Deposit Account or the securities intermediary or commodity intermediary at which a Loan Party maintains a Securities Account or a Commodity Account, one or more Loan Parties, and Collateral Trustee pursuant to which Collateral Trustee, for the benefit of Lenders, obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

“**Account Debtor**” means any “account debtor” as defined in the Code with such additions to such term as may hereafter be made.

“**Affiliate**” means, with respect to any Person, each other Person that owns or controls, directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person’s senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person’s managers and members.

“**Agreement**” has the meaning set forth in the preamble of this Agreement.

“**Amortization Date**” means March 1, 2022, provided that if (i) no Event of Default has occurred and is continuing, and (ii) the Third Tranche Term Loan Commitment has been fully funded, the Amortization Date shall be September 1, 2022.

“**Anti-Terrorism Order**” means Executive Order No. 13,224 as of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49,079 (2001), as amended.

“**Applicable Rate**” means a variable annual rate equal to the greater of (i) 8.65%, and (ii) the sum of (A) the Prime Rate, plus (B) 3.15%.

“**Automatic Payment Authorization**” means the Automatic Payment Authorization in substantially the form of Exhibit F.

“**Board**” means, with respect to any Person, the board of directors, board of managers, managers or other similar bodies or authorities performing similar governing functions for such Person.

“**Borrower**” and “**Borrowers**” has the meaning set forth in the preamble hereof.

“**Borrower Representative**” has the meaning set forth in the preamble hereof.

“**Borrowers’ Books**” are all of each Borrower’s books and records including ledgers, federal and state tax returns, records regarding such Borrower’s assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“**Business Day**” means any day that is not a Saturday, Sunday or a day on which commercial banks in the State of New York are required or permitted to be closed.

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.; (c) certificates of deposit issued by any bank with assets of at least \$500,000,000 maturing no more than one year from the date of investment therein; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

“**Change in Control**” means any of the following (or any combination of the following) whether arising from any single transaction event or series of related transactions or events that, individually or in the aggregate, result in: (a) the holders of Borrower Representative’s Equity Interests who were holders of Equity Interest as of the Closing Date, ceasing to own at least fifty-one percent (51%) of the Voting Stock of Borrower Representative; (b) any “person” or “group” (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becoming the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of a sufficient number of Equity Interests of Borrower Representative ordinarily entitled to vote in the election of directors, empowering such “person” or “group” to elect a majority of the members of the Board of Borrower Representative, who did not have such power before such transaction; (c) the Transfer of all or substantially all assets of Borrowers; or (d) Borrower Representative ceasing to own and control, directly or indirectly, all of the Equity Interests in each of its Subsidiaries or failing to have the power to direct or cause the direction of the management and policies of each such Subsidiary.

“**Claims**” has the meaning set forth in Section 12.3.

“**Closing Date**” has the meaning set forth in the preamble hereof.

“**CMO**” shall mean a contract manufacturing organization.

“**Code**” means the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of New York; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Collateral Trustee’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of New York, the term “**Code**” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

“**Collateral**” means any and all properties, rights and assets of each Borrower described on Exhibit B, and any collateral securing the Obligations pursuant to any guaranty or pursuant to any other Loan Document to which each Borrower is a party.

“**Collateral Access Agreement**” means an agreement with respect to a Loan Party’s leased location or bailee location, in each case in form and substance reasonably satisfactory to Administrative Agent and Collateral Trustee.

“**Collateral Account**” means, other than any Excluded Account, any Deposit Account, Securities Account, or Commodity Account of a Loan Party.

“**Collateral Trust Agreement**” means that certain Collateral Trust Agreement, dated as of the Closing Date, by and among Collateral Trustee and Lenders, as amended, restated, supplemented or otherwise modified from time to time.

“**Collateral Trustee**” has the meaning set forth in the preamble of this Agreement.

“**Commitment**” means, as to any Lender, the aggregate principal amount of Loans committed to be made by such Lender, as set forth on Schedule 1 hereto.

“**Commodity Account**” means any “commodity account” as defined in the Code with such additions to such term as may hereafter be made.

“**Compliance Certificate**” means that certain certificate in the form attached hereto as Exhibit D.

“**Contingent Obligation**” means, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided that, “Contingent Obligation” shall not include endorsements in the Ordinary Course of Business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“**Copyrights**” means any and all copyright rights, copyright applications, copyright registrations and like protections of a Person in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“**CRO**” shall mean a contract research organization.

“**CTA**” means an application for a Clinical Trial Authorisation submitted to the United Kingdom Medicine and Healthcare Products Regulatory Agency, or any similar application submitted to any Governmental Authority, which if authorized or approved, would permit the initiation of clinical trials of an investigational drug or biological product.

“**Default**” means any circumstance, event or condition that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“**Default Rate**” has the meaning set forth in Section 2.3(b).

“**Deposit Account**” means any “deposit account” as defined in the Code with such additions to such term as may hereafter be made, and includes any checking account, savings account or certificate of deposit.

“**Dollars,**” “**dollars**” or use of the sign “**\$**” means only lawful money of the United States and not any other currency, regardless of whether that currency uses the “**\$**” sign to denote its currency or may be readily converted into lawful money of the United States.

“**Domestic Subsidiary**” means any Subsidiary that is organized under the laws of the United States or any state or territory thereof.

“**Equipment**” means all “equipment” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“**Equity Interests**” means, with respect to any Person, any of the shares of capital stock of (or other ownership, membership or profit interests in) such Person, any of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership, membership or profit interests in) such Person, any of the securities convertible into or exchangeable for shares of capital stock of (or other ownership, membership or

profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and any of the other ownership, membership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, and its regulations.

“**Event of Default**” has the meaning set forth in Section 8.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Excluded Account**” means (i) Deposit Accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of a Borrower’s employees and identified to Bank by Borrower Representative as such, provided that the aggregate balance maintained therein shall not exceed an amount equal to 150% of the aggregate amount of such payments to be paid in the then-next payroll period; and (ii) Deposit Accounts exclusively used for cash collateral and identified to Administrative Agent as such, securing reimbursement obligations in connection with Permitted Indebtedness.

“**Excluded Inventory and Equipment**” means any Inventory or Equipment held by a CMO or CRO.

“**Excluded Locations**” means the following locations where Collateral may be located from time to time: (a) locations where mobile office equipment (e.g. laptops, mobile phones and the like) may be located with employees in the Ordinary Course of Business, (b) any CMO or CRO, and (c) other locations where, in the aggregate for all such locations, less than Five Hundred Thousand Dollars (\$500,000) of Collateral is located.

“**FDA**” means the U.S. Food and Drug Administration or any successor thereto or any other comparable Governmental Authority.

“**Federal Reserve Board**” means the Board of Governors of the Federal Reserve System, or any successor thereto.

“**Fee Letter**” means that certain letter agreement, dated as of the date hereof, by and among Borrower, Administrative Agent and Lenders, as amended, restated, supplemented or otherwise modified from time to time.

“**First Tranche Term Loan Commitment**” means, as to any Lender, the aggregate principal amount of First Tranche Term Loans committed to be made by such Lender, as set forth on Schedule 1 hereto.

“**Foreign Subsidiary**” means any Subsidiary that is not a Domestic Subsidiary.

“**Funding Date**” means any date on which a Loan is made to or for the account of a Borrower which shall be a Business Day.

“**GAAP**” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination, provided, however, that if there occurs after the Closing Date any change in GAAP that affects in any respect the calculation of any covenant or threshold in this Agreement, Lenders and Borrowers shall negotiate in good faith amendments to the provisions of this Agreement that relate to the calculation of such covenant or threshold with the intent of having the respective positions of Lender and Borrowers after such change in GAAP conform as nearly as possible to their respective positions as of the Closing Date, and, until any such amendments have been agreed upon, such covenants and thresholds shall be calculated as if no such change in GAAP has occurred.

“General Intangibles” means all “general intangibles” as defined in the Code in effect on the Closing Date with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

“Governmental Approval” means any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority, including for the testing, manufacturing, marketing and sales of its Product.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

“Guarantor” means any Person providing a Guaranty with respect to the Obligations or providing collateral, security or other credit support for all or any portion of the Obligations.

“Guaranty” means any guarantee of all or any part of the Obligations, as the same may from time to time be amended, restated, modified or otherwise supplemented.

“IND” means an Investigational New Drug Application submitted to the FDA pursuant to 21 C.F.R. § 312 (or its successor regulation), and any supplements, amendments, variations, extensions and renewals thereof.

“Indebtedness” means (a) indebtedness for borrowed money or the deferred price of property or services, (b) any reimbursement and other obligations for surety bonds and letters of credit, (c) obligations evidenced by notes, bonds, debentures or similar instruments, (d) capital lease obligations, and (e) Contingent Obligations.

“Indemnified Person” has the meaning set forth in Section 12.3.

“Insolvency Proceeding” means any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“Intellectual Property” means, with respect to any Loan Party (or, as applicable, any of its Subsidiaries), all of such Loan Party’s or Subsidiary’s right, title, and interest in and to the following:

- (a) its Copyrights, Trademarks and Patents;
- (b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, operating manuals;
- (c) any and all source code;
- (d) any and all design rights which may be available to such Person;
- (e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and
- (f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

“Inventory” means all “inventory” as defined in the Code in effect on the Closing Date with such additions to such term as may hereafter be made.

“Investment” means any beneficial ownership interest in any Person (including stock, partnership interest or other securities or Equity Interests), and any loan, advance or capital contribution to any Person, or the acquisition of all or substantially all of the assets or properties of another Person.

“Lender” has the meaning set forth in the preamble hereof.

“Lender Expenses” means all reasonable and documented out-of-pocket audit fees and expenses, costs, and expenses (including reasonable and documented out-of-pocket attorneys’ fees and expenses) of Administrative Agent or Lenders for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to a Loan Party, including all costs, expenses and other amounts required to be paid by any Lender or the Administrative Agent in accordance with the Collateral Trust Agreement.

“Lien” means a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“Loan Documents” means, collectively, this Agreement and any schedules, exhibits, certificates, notices, and any other documents related to this Agreement, the Fee Letter, the Collateral Trust Agreement, the Automatic Payment Authorization, the Account Control Agreements, the Collateral Access Agreements, any Subordination Agreement, any note, or notes or guaranties executed by a Loan Party, and any other present or future agreement by a Loan Party with or for the benefit of Collateral Trustee or any Lender in connection with this Agreement, all as amended, modified, supplemented, extended or restated from time to time.

“Loan Party” or **“Loan Parties”** means, each Borrower from time to time party hereto, and any Guarantor, if any.

“Loan Request” means a request for a Loan pursuant to this Agreement in substantially the form attached hereto as Exhibit C.

“Loans” means, collectively, the Term Loans, and any other loan from time to time made under this Agreement, and **“Loan”** means any of the foregoing.

“Margin Stock” has the meaning set forth in Section 5.11(b).

“Material Adverse Effect” means (a) a material impairment in the perfection or priority of the Lien in the Collateral pursuant to the Loan Documents to which the Loan Parties are a party or in the value of the Collateral; or (b) a material adverse effect upon: (i) the business, operations, properties, assets or financial condition of the Loan Parties as a whole, or (ii) the prospect of repayment of any part of the Obligations; or (iii) the ability to enforce any rights or remedies with respect to any Obligations, in each case, as determined by Administrative Agent, provided that any single failure in a clinical trial shall not, in and of itself, be deemed a Material Adverse Effect.

“Maximum Rate” has the meaning set forth in Section 2.3(d) hereof.

“MSC Investment Conditions” means that, as of any date of determination, Borrowers, in the aggregate, maintain Unrestricted Cash in an amount equal to or greater than the lesser of (i) 110% of the aggregate outstanding principal amount of all Loans or (ii) all Unrestricted Cash of Loan Parties and each of its Subsidiaries, on a consolidated basis (excluding amounts expressly permitted to be transferred to Subsidiaries in accordance with clause (d)(iii) of the defined term “Permitted Investments”), unless compliance with the foregoing condition is waived in writing from time to time by Administrative Agent with respect to specified periods, in Administrative Agent’s sole discretion.

“MSC Subsidiary” means a wholly-owned Subsidiary incorporated in the Commonwealth of Massachusetts or the State of Delaware for the purpose of holding Investments as a Massachusetts security corporation under 830 CMR 63.38B.1 of the Massachusetts tax code and applicable regulations (as the same may be amended, modified or replaced from time to time).

“Obligations” means all of Borrowers’ and each other Loan Party’s obligations to pay the Loans when due, including principal, interest, fees, Lender Expenses, the fees pursuant to the Fee Letter, and any other amounts due to be paid by a Borrower or Loan Party, and each Borrower’s and Loan Party’s obligation to perform its duties under the Loan Documents, and any other debts, liabilities and other amounts any Borrower or Loan Party owes to any Lender at any time, whether under the Loan Documents to which it is a party or otherwise, including, without limitation, interest or Lender Expenses accruing after Insolvency Proceedings begin (whether or not allowed), and any debts, liabilities, or obligations of any Borrower or Loan Party assigned to any Lender, which shall be treated as secured or administrative expenses in the Insolvency Proceedings to the extent permitted by applicable law. Notwithstanding the foregoing, “Obligations” shall not include obligations arising any right to invest (including any obligations under [Section 6.14](#)), any warrants or any other equity instruments.

“OFAC” has the meaning set forth in [Section 5.11\(c\)](#).

“Operating Documents” means, for any Person, such Person’s formation documents, as certified by the Secretary of State (or equivalent agency) of such Person’s jurisdiction of formation, organization or incorporation on a date that is no earlier than thirty (30) days prior to the Closing Date and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement or operating agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments, restatements and modifications thereto.

“Ordinary Course of Business” means, in respect of any transaction involving any Person, the ordinary course of such Person’s business as conducted by any such Person in accordance with (a) the usual and customary customs and practices in the kind of business in which such Person is engaged, and (b) the past practice and operations of such Person, and in each case, undertaken by such Person in good faith and not for purposes of evading any covenant or restriction in any Loan Document.

“Patents” means all patents, patent applications and like protections of a Person including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same and all rights therein provided by international treaties or conventions.

“Payment Date” means the first calendar day of each month.

“Perfection Certificate” has the meaning set forth in [Section 5.1](#).

“Permitted Indebtedness” means:

(a) each Loan Party’s Indebtedness under this Agreement and the other Loan Documents;

(b) Indebtedness existing on the Closing Date and shown on the Perfection Certificate, provided that (i) to the extent the amount of such type of Indebtedness is limited pursuant to a clause of this defined term, amounts existing on the Closing Date or any permitted refinancing thereof shall count towards such limit, (ii) to the extent such Indebtedness is required to be repaid concurrent with the effectiveness of this Agreement, in accordance with a payoff letter delivered as a condition to closing, such Indebtedness shall not constitute Permitted Indebtedness after such repayment, and (iii) to the extent any such Indebtedness is required to be made subject to the terms of a Subordination Agreement as of the Closing Date or thereafter, pursuant to the terms of this Agreement, such Indebtedness shall be permitted only to the extent the applicable Subordination Agreement is in effect;

(c) Subordinated Debt;

- (d) unsecured Indebtedness to trade creditors incurred in the Ordinary Course of Business;
- (e) Indebtedness pursuant to corporate credit cards in an aggregate principal amount outstanding not to exceed \$500,000 at any time;
- (f) Indebtedness incurred as a result of endorsing negotiable instruments received in the Ordinary Course of Business;
- (g) Indebtedness secured by Liens permitted under clause (c) of the definition of “Permitted Liens” hereunder;
- (h) Reimbursement obligations arising from letters of credit issued by financial institutions incurred in the Ordinary Course of Business provided that the aggregate amount of such obligations shall not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000);
- (i) foreign exchange hedging arrangements with financial institutions entered into in the Ordinary Course of Business and not for speculative purposes;
- (j) Indebtedness not otherwise permitted pursuant to this defined term, in an aggregate amount outstanding not to exceed Five Hundred Thousand Dollars (\$500,000); and
- (k) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness described in clause (b) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon a Borrower or any of its Subsidiaries, as the case may be.

“**Permitted Investments**” means:

- (a) Investments (including, without limitation, Subsidiaries) existing on the Closing Date and shown on the Perfection Certificate;
- (b) (i) Investments consisting of Cash Equivalents, and (ii) any Investments permitted by Borrower Representative’s investment policy, as amended from time to time, provided that such investment policy (and any such amendment thereto) has been approved in writing by Lenders;
- (c) Investments permitted under Sections 7.3 or 7.7 (including without limitation Investments consisting of repurchases of Borrower Representative’s Equity Interests from former employees, officers and directors of Borrower Representative to the extent permitted under Section 7.7);
- (d) Investments
 - (i) among Loan Parties,
 - (ii) by Subsidiaries which are not Loan Parties in other Subsidiaries which are not Loan Parties or in a Loan Party, and
 - (iii) by Loan Parties in Subsidiaries which are not Loan Parties, subject to compliance with Section 6.11(b);
- (e) Investments not to exceed Five Hundred Thousand Dollars (\$500,000) outstanding in the aggregate at any time consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the Ordinary Course of Business, and (ii) loans not involving the net transfer of cash proceeds to employees, officers or directors relating to the purchase of Equity Interests of Borrower

Representative pursuant to employee stock purchase plans or other similar agreements approved by Borrower Representative's Board;

(f) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the Ordinary Course of Business;

(g) Investments consisting of Deposit Accounts in which Collateral Trustee has a perfected security interest (solely to the extent required under Section 6.6);

(h) Investments in the MSC Subsidiary, so long as an Event of Default has occurred and is continuing at the time of such Investment or would result immediately from such Investment, provided that the MSC Investment Conditions are satisfied;

(i) Investments not otherwise permitted pursuant to this defined term, in an aggregate amount not to exceed Five Hundred Thousand Dollars (\$500,000) per fiscal year;

(j) Investments consisting of accounts receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the Ordinary Course of Business; provided that this subsection (h) shall not apply to Investments of a Loan Party in any Subsidiary;

(k) Investments accepted in connection with Permitted Transfers; and

(l) Investments in joint ventures or strategic alliances (i) in the Ordinary Course of Business consisting of the non-exclusive licensing of technology, the development of technology or the providing of technical support, provided that any cash Investments by any Loan Party or a Subsidiary do not exceed Five Hundred Thousand Dollars (\$500,000) in the aggregate in any fiscal year; and (ii) by any Loan Party or a Subsidiary of property permitted to be transferred under Section 7.1 in connection with joint ventures or strategic alliances or collaborations of any Loan Party or a Subsidiary.

"Permitted Liens" means:

(a) Liens arising under this Agreement and the other Loan Documents;

(b) Liens existing on the Closing Date and shown on the Perfection Certificate, provided that (i) to the extent the amount of Indebtedness secured by such type of Lien is limited pursuant to a clause of this defined term, amounts existing on the Closing Date or any permitted refinancing thereof shall count towards such limit, (ii) to the extent the Indebtedness secured by such a Lien is required to be repaid on the Closing Date, in accordance with a payoff letter delivered as a condition to closing, such Lien shall not constitute Permitted Lien after the repayment of the associated Indebtedness, and (iii) to the extent any such Lien is required to be made subject to the terms of a Subordination Agreement as of the Closing Date or thereafter, pursuant to the terms of this Agreement, such Lien shall be permitted only to the extent the applicable Subordination Agreement is in effect;

(c) purchase money Liens (i) on Equipment (other than Equipment considered Excluded Inventory and Equipment) acquired or held by a Loan Party or Subsidiary thereof incurred for financing the acquisition of such Equipment, securing no more than Five Hundred Thousand Dollars (\$500,000) in the aggregate amount outstanding, (ii) existing on Equipment (other than Equipment considered Excluded Inventory and Equipment) when acquired, if the Lien is confined to the property and improvements and the proceeds of such Equipment, securing no more than Five Hundred Thousand Dollars (\$500,000) in the aggregate amount outstanding, or (iii) on Equipment considered Excluded Inventory and Equipment acquired or held by a Loan Party or Subsidiary thereof incurred for financing the acquisition of such Equipment or existing on such Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of such Equipment;

(d) Liens for Taxes, fees, assessments or other government charges or levies, either (i) not yet delinquent or (ii) being contested in good faith and for which such Loan Party or Subsidiary maintains adequate reserves on its books;

(e) leases or subleases of real property granted in the Ordinary Course of Business of such Person, and leases, subleases, licenses or sublicenses of personal property (other than Intellectual Property) granted in the Ordinary Course of Business of such Person;

(f) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the Ordinary Course of Business so long as such Liens attach only to Inventory, securing liabilities which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(g) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the Ordinary Course of Business (other than Liens imposed by ERISA);

(h) deposits or pledges of cash to secure bids, tenders, contracts (other than contracts for the payment of money), leases, surety and appeal bonds and other obligations of a like nature arising in the Ordinary Course of Business, in an aggregate amount not exceeding Two Hundred Fifty Thousand Dollars (\$250,000) at any time;

(i) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default;

(j) Liens in favor of other financial institutions arising in connection with a Deposit Account or Securities Account of a Loan Party or Subsidiary thereof held at such institutions, provided that Collateral Trustee has a perfected security interest in such Deposit Account, or the securities maintained therein and Collateral Trustee has received an Account Control Agreement with respect thereto to the extent required pursuant to Section 6.6 of this Agreement;

(k) licenses of Intellectual Property which constitute a Permitted Transfer;

(l) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in clause (b), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

(m) Liens on cash collateral securing Indebtedness described in clause (g) of the defined term "Permitted Indebtedness", provided that the aggregate amount encumbered shall not exceed Five Hundred Thousand Dollars (\$500,000); and

(n) Liens on cash collateral maintained in a separate Collateral Account maintained exclusively for such purpose and identified to Administrative Agent as such, securing reimbursement obligations in connection with letters of credit permitted under clause (h) of the definition of "Permitted Indebtedness", provided that, the aggregate amount of such cash collateral does not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000).

"Permitted Locations" means, collectively, the following locations where Collateral may be located from time to time: (a) locations identified in the Perfection Certificate, (b) locations with respect to which Borrowers have complied with the requirements of Section 6.12, and (c) the Excluded Locations.

"Permitted Transfers" means

(a) sales of Inventory (including but not limited to Inventory considered Excluded Inventory and Equipment) by a Loan Party or any of its Subsidiaries in the Ordinary Course of Business;

(b) non-exclusive licenses and similar arrangements for the use of Intellectual Property of a Loan Party or any of its Subsidiaries in the Ordinary Course of Business, and licenses that could not result in a legal transfer of title of the licensed property but that may be exclusive with respect to territory only as to specific geographical regions outside of the United States or exclusive globally with respect to specific indications;

(c) dispositions of worn-out, obsolete or surplus Equipment (including but not limited to Equipment considered Excluded Inventory and Equipment) in the Ordinary Course of Business;

(d) Transfers consisting of the granting of Permitted Liens and the making of Permitted Investments;

(e) the use or transfer of money or Cash Equivalents in the Ordinary Course of Business in a manner that is not prohibited by the Loan Documents; and

(f) other Transfers of assets having a fair market value of not more than Five Hundred Thousand Dollars (\$500,000) per fiscal year.

“Person” means any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

“Prime Rate” means, at any time, the greater of (i) the rate of interest noted in The Wall Street Journal, Money Rates section, as the “Prime Rate”, and (ii) 5.50%. In the event that The Wall Street Journal quotes more than one rate, or a range of rates, as the Prime Rate, then the Prime Rate shall mean the average of the quoted rates. In the event that The Wall Street Journal ceases to publish a Prime Rate, then the Prime Rate shall be the average of the three (3) largest U.S. money center commercial banks, as determined by Lenders.

“Pro Rata Share” means, with respect to any Lender and as of any date of determination, the percentage obtained by dividing (i) the aggregate Commitments of such Lender by (ii) the aggregate Commitments of all Lenders provided, that to the extent any Commitment has expired or been terminated, with respect to such Commitment, the applicable outstanding balance of the Loans made pursuant to such Commitment held by such Lender and all the Lenders, respectively, shall be used in lieu of the amount of such Commitment, provided further, that with respect to all matters relating to a particular Loan, the Commitment or outstanding balance of the applicable Loan, shall be used in lieu of the aggregate Commitment or outstanding balance of all Loans in the foregoing calculation. “Ratable” and related terms shall mean, determined by reference to such Lender’s Pro Rata Share.

“Products” means any products material to the Loan Parties’ business manufactured, sold, developed, tested or marketed by a Loan Party or any of its Subsidiaries, provided that Products shall not include product candidates in preclinical development and for which a CTA is not required by any Requirement of Law.

“Qualified Financing” means the next offering of common stock, convertible preferred stock or other equity securities (or instruments exercisable for, or convertible into, shares of common stock, convertible preferred stock or other equity securities) of Borrower Representative consummated after the Closing Date that is broadly marketed and offered to multiple investors.

“Registered Organization” means any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“Required Lenders” means, as of any date of determination, Lenders holding more than 50% of the sum of aggregate principal amount of all Loans outstanding and the aggregate amount of all unfunded commitments to make Loans, at such date of determination.

“Requirement of Law” means as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Responsible Officer” means with respect to any Person, any of the Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Vice President of Finance, or the Controller of such Person, as well as any other officer or employee identified as in the Secretary’s Certificate delivered by Borrower Representative to Administrative Agent. Unless the context otherwise requires, each reference to a Responsible Officer herein shall be a reference to a Responsible Officer of Borrower Representative.

“Restricted License” means any material in-bound license or other similar material agreement (other than ordinary course customer contracts, off the shelf software licenses, licenses that are commercially available to the public, and open source licenses) to which a Loan Party or Subsidiary is a party (a) that prohibits or otherwise restricts such Loan Party or Subsidiary from granting a security interest in its interest in such license or agreement or in any other property, or (b) for which a default under, or termination of which, could reasonably be expected to interfere with Collateral Trustee’s right to sell any Collateral.

“Second Tranche Availability Period” means the period commencing on December 1, 2019 and ending June 1, 2020, inclusive.

“Second Tranche Term Loan” has the meaning set forth in [Section 2.2\(a\)](#).

“Second Tranche Term Loan Commitment” means, as to any Lender, the aggregate principal amount of Second Tranche Term Loans committed to be made by such Lender, as set forth on [Schedule 1](#) hereto.

“Securities Account” means any “securities account” as defined in the Code with such additions to such term as may hereafter be made.

“Security Instrument” means any security agreement, assignment, pledge agreement, financing or other similar statement or notice, continuation statement, other agreement or instrument, or any amendment or supplement to any thereof, creating, governing or providing for, evidencing or perfecting any security interest or Lien.

“Shares” means all of the issued and outstanding Equity Interests owned or held of record by a Loan Party or other Loan Party in each of its Subsidiaries, except as expressly excluded from Collateral.

“Subordinated Debt” means Indebtedness incurred by a Loan Party on terms and to holders reasonably acceptable to Administrative Agent and that is subordinated in writing to all of the Obligations, pursuant to a Subordination Agreement.

“Subordination Agreement” means any subordination agreement in form and substance satisfactory to Administrative Agent entered into from time to time with respect to Subordinated Debt.

“Subsidiary” means, with respect to any Person, any corporation, partnership, limited liability company or joint venture in which (i) any general partnership interest or (ii) more than fifty percent (50%) of the stock, limited liability company interest, joint venture interest or other Equity Interest which by the terms thereof has the ordinary voting power to elect the Board of that Person, at the time as of which any determination is being made, is owned or controlled by such Person, directly or indirectly. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

“**Taxes**” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“**Term Loan**” and “**Term Loans**” each, have the meaning set forth in [Section 2.2](#) hereof.

“**Term Loan Maturity Date**” means August 1, 2024.

“**Third Tranche Availability Period**” means the period commencing on the date the Third Tranche Milestone is met, and ending January 15, 2021, inclusive.

“**Third Tranche Milestone**” means that (i) the First Tranche Term Loan Commitment and Second Tranche Term Loan Commitment shall have been funded in full, and (ii) Borrowers shall have demonstrated positive Phase 2 clinical results (interim or final) in a product candidate that is progressing in human clinical trials and have at least two (2) distinct product candidates in human clinical trials under active IND or CTA applications, in each case, as determined by Administrative Agent in its good faith business judgment.

“**Third Tranche Term Loan**” has the meaning set forth in [Section 2.2\(a\)](#).

“**Third Tranche Term Loan Commitment**” means, as to any Lender, the aggregate principal amount of Third Tranche Term Loans committed to be made by such Lender, as set forth on [Schedule 1](#) hereto.

“**Trademarks**” means any trademark and servicemark rights of a Person, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business connected with and symbolized by such trademarks.

“**Transfer**” means defined in [Section 7.1](#).

“**UK Subsidiary**” means a Subsidiary of Borrower Representative organized under the laws of England and Wales.

“**Unrestricted Cash**” means, as of any date of determination, the aggregate amount of unrestricted cash held by Loan Parties in Collateral Accounts subject to an Account Control Agreement in favor of Collateral Trustee.

“**Voting Stock**” means, with respect to any Person, all classes of Equity Interests issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors or managers (or Persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

EXHIBIT B

COLLATERAL DESCRIPTION

The Collateral consists of all of each Borrower's right, title and interest in and to the following personal property wherever located, whether now owned or existing or hereafter acquired, created or arising:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles, commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and all such Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds (both cash and non-cash) and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include:

(i) any Intellectual Property; provided further, however, that at all times the Collateral shall include all Accounts and all proceeds of the foregoing. If a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds thereof, then the Collateral shall automatically, and effective as of the Closing Date, include such Intellectual Property to the extent necessary to permit perfection of Bank's security interest in such Accounts and such other property of such Borrower that are proceeds thereof;

(ii) with respect to any Foreign Subsidiary, to the extent Borrower Representative has determined that the pledge of more than 65% of the Voting Stock of such Subsidiary would reasonably be expected to result in a material adverse tax consequence to Borrowers, and for as long as such consequence would reasonably be expected by Borrower Representative to result, such portion of the Voting Stock of such Subsidiary, which, if excluded from Collateral, would avoid such material adverse tax consequence, provided the excluded portion shall not exceed 35% of the Voting Stock of such Subsidiary;

(iii) any interest of Borrower as a lessee or sublessee under a real property lease;

(iv) property (including any attachments, accessions or replacements) that is subject to an Equipment lien, if the grant of a security interest with respect to such property would be prohibited by the agreement creating such lien or would otherwise constitute a default thereunder, provided, that such property will be deemed "Collateral" hereunder upon the termination and release of such lien;

(v) property that is non-assignable by its terms without the consent of the licensor thereof or another party (but only to the extent such prohibition on transfer is enforceable under applicable law, including, without limitation, §25-9-406 and §25-9-408 of the Code); and

(vi) property for which the granting of a security interest therein is contrary to applicable law, provided that upon the cessation of any such restriction or prohibition, such property shall automatically become part of the Collateral.

EXHIBIT C

LOAN REQUEST

Date: __

Reference is made to that certain Loan and Security Agreement, dated July 19, 2019 (as amended, restated, supplemented or otherwise modified, from time to time, the “**Agreement**”), among **EVELO BIOSCIENCES, INC.**, a Delaware corporation (“**Borrower Representative**”), and each other Person party thereto as a borrower from time to time (collectively, “**Borrowers**”, and each, a “**Borrower**”), **K2 HEALTHVENTURES LLC** and any other lender from time to time party thereto (collectively, “**Lenders**”, and each, a “**Lender**”), **K2 HEALTHVENTURES LLC**, as administrative agent for Lenders (in such capacity, and together with its successors, “**Administrative Agent**”), and **ANKURA TRUST COMPANY, LLC**, as collateral agent for Lenders (in such capacity, together with its successors, “**Collateral Trustee**”). Capitalized terms have meanings as defined in the Agreement.

Borrower Representative hereby requests a Loan in the amount of \$[] on [] (the “**Funding Date**”) pursuant to the Agreement, and authorizes Lenders to:

(a) Wire Funds to:

Bank:
Address:

ABA Number:
Account Number:
Account Holder:

(b) Deduct amounts from the foregoing advance to be applied to Lender Expenses and outstanding fees then due as set forth on the attached Schedule 1.

Borrower Representative represents that each of the conditions precedent to the Loans set forth in the Agreement are satisfied and shall be satisfied on the Funding Date, including but not limited to: (i) the representations and warranties set forth in the Agreement and in the other Loan Documents to which it is a party are and shall be true and correct in all material respects on and as of the Funding Date with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date (in which case they remain true and correct in all material respects as of such earlier date); provided, however, that such materiality qualifiers shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof, (ii) no Default or Event of Default has occurred and is continuing, and (iii) no event that has had or would reasonably be expected to have a Material Adverse Effect has occurred and is continuing. [Borrower Representative certifies that the Third Tranche Milestone has been achieved and any supporting documents requested by Administrative Agent in connection therewith have been provided to Administrative Agent.]

Borrower Representative agrees to notify Lenders promptly before the Funding Date if any of the matters which have been represented above shall not be true and correct in all material respects on the Funding Date and if Lenders have received no such notice before the Funding Date then the statements set forth above shall be deemed to have been made and shall be deemed to be true and correct in all material respects as of the Funding Date.

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[SIGNATURE PAGE TO LOAN REQUEST]

This Loan Request is hereby executed as of the date first written above.

BORROWER REPRESENTATIVE:

EVELO BIOSCIENCES, INC.

By:

Name:

Title: _

EXHIBIT D

COMPLIANCE CERTIFICATE

TO: K2 HEALTHVENTURES LLC, as Administrative Agent Date: __
FROM: EVELO BIOSCIENCES, INC.

Reference is made to that certain Loan and Security Agreement, dated July 19, 2019 (as amended, restated, supplemented or otherwise modified, from time to time, the “**Agreement**”), among **EVELO BIOSCIENCES, INC.**, a Delaware corporation (“**Borrower Representative**”), and each other Person party thereto as a borrower from time to time (collectively, “**Borrowers**”, and each, a “**Borrower**”), **K2 HEALTHVENTURES LLC** and any other lender from time to time party thereto (collectively, “**Lenders**”, and each, a “**Lender**”), **K2 HEALTHVENTURES LLC**, as administrative agent for Lenders (in such capacity, and together with its successors, “**Administrative Agent**”), and **ANKURA TRUST COMPANY, LLC**, as collateral agent for Lenders (in such capacity, together with its successors, “**Collateral Trustee**”). Capitalized terms have meanings as defined in the Agreement.

The undersigned authorized officer of Borrower Representative, solely in his or her capacity as an officer of Borrower Representative and not in his or her individual capacity, hereby certifies in accordance with the terms of the Agreement as follows:

(1) Each Borrower is in compliance for the period ending _____ with all covenants set forth in the Agreement; (2) no Event of Default has occurred and is continuing; and (3) the representations and warranties in the Agreement are true and correct in all material respects on this date; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date.

The undersigned certifies that all financial statements delivered herewith are prepared in accordance with GAAP (other than, with respect to unaudited financials for the absence of footnotes and being subject to normal year-end adjustments), consistently applied from one period to the next. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under “Complies” column.

Reporting Covenants	Required	Complies
Monthly financial statements and Compliance Certificate	Monthly, within 30 days	Yes No
A/R and A/P Aging Reports	Together with monthly financial statements (upon request)	Yes No
Quarterly financial statements	Quarterly, within 45 days (deemed delivered by posting/linking related SEC filing to/on Borrower Representative’s website)	Yes No
Annual Projections	Annually, within 30 days of fiscal year end or within 5 Business Days of any Board approval of a material update thereto	Yes No
Annual audited financial statements and any management letters	Annually, within 90 days of fiscal year end (deemed delivered by posting/linking related SEC filing to/on Borrower Representative’s website)	Yes No
Statements, reports and notices to Subordinated Debt holders	Within 5 Business Days of delivery	Yes No
SEC filings	Within 5 Business Days after filing with SEC (deemed delivered by posting to/linking on Borrower Representative’s website)	Yes No
Legal action notices and updates (claims over \$500,000)	Promptly	Yes No
IP report	At the end of each calendar quarter	Yes No
Bank account statements (with transaction detail)	Together with monthly financial statements (upon request) or when received	Yes No
Product related material correspondence, reports, documents and other filings	Within 5 Business Days after receipt	Yes No

Other Covenants	Required	Actual	Complies
Equipment financing Indebtedness (not existing on such Equipment when acquired or Equipment considered Excluded Inventory and Equipment)	Not to exceed \$500,000 outstanding	\$	Yes No
Cash repurchases of stock from former employees, officers and directors (not including cancellation of Indebtedness)	Not to exceed \$500,000 per fiscal year in cash	\$	Yes No
Deposits or pledges for bids, tenders, contracts, leases, surety or appeal bonds	Not to exceed \$250,000 at any time	\$	Yes No
Letter of credit reimbursement obligations and associated cash collateral	Not to exceed \$2,500,000 at any time	\$	Yes No

Investments (i) among Loan Parties, (ii) by Subsidiaries which are not

Other Matters

Please list any SEC filings made since the most recently delivered Compliance Certificate: [] None

Has any Borrower changed its legal name, jurisdiction of organization or chief executive office? If yes, please complete details below: Yes No

Have any new Subsidiaries been formed? If yes, please provide complete schedule below. Yes No

Legal Name of Subsidiary	Jurisdiction of Organization	Holder of Subsidiary Equity Interests	Equity Interests Certificated? (Y/N)	Jurisdiction

Do Subsidiaries which are not Loan Parties maintain (i) cash and other assets with an aggregate value for all such Subsidiaries in excess of 10% of consolidated assets, (ii) revenue in excess of 10% of consolidated revenues for any twelve month period then ended, (iii) any Intellectual Property which is material to the business of Borrowers as a whole, or (iv) any contracts which are material to the business of Borrowers as a whole? If yes, please attach relevant details.

Yes

No

Have any new Deposit Accounts or Securities Accounts been opened? If yes, please complete schedule below.

Yes

No

<u>Accountholder</u>	<u>Deposit Account / Intermediary</u>	<u>Address</u>	<u>Account Number</u>	<u>Account Control Agreement in place? (Y/N)</u>

Is there any new Product material to the Loan Parties' business not previously disclosed on the Perfection Certificate or any prior Compliance Certificate? If yes, please complete details below:

Yes

No

Has any Loan Party entered into a Restricted License? If yes, please describe below:

Yes

No

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

BORROWER REPRESENTATIVE:

EVELO BIOSCIENCES, INC.

By: __
 Name: __
 Title: __

EXHIBIT E

REQUIREMENTS FOR INSURANCE DOCUMENTATION

Contact Information for Insurance Documentation:

Ankura Trust Company, LLC, as Collateral Agent
140 Sherman Street, Fourth Floor
Fairfield, CT 06824
Attention: Lisa Price

Document Requirements:

<u>DOCUMENT</u>	<u>REQUIREMENT</u>
1. Certificate of Liability Insurance (ACORD FORM 25)	<ul style="list-style-type: none">• Ankura Trust Company, LLC and its successors and assigns, as collateral agent, to be designated as “Additional Insured”.• Ankura Trust Company, LLC name and address to be listed as Certificate Holder.
2. General Liability Endorsement (Additional Insured Endorsement)	<ul style="list-style-type: none">• Ankura Trust Company, LLC and its successors and assigns, as collateral agent, to be named in additional insured endorsement.
3. Evidence of Commercial Property Insurance (ACORD FORM 28)	<ul style="list-style-type: none">• All-risk commercial property insurance incurring all of each Borrower’s property• Ankura Trust Company, LLC and its successors and assigns, as collateral agent, to be designated as “Lender’s Loss Payable,” with Lender’s Loss Payable provision designated.• Ankura Trust Company, LLC name and address to be designated in Name and Address of Additional Interest.• Insured locations to include all locations of Borrowers listed in the Perfection Certificate
4. Commercial Property Endorsement (Lender’s Loss Payable Endorsement)	<ul style="list-style-type: none">• Ankura Trust Company, LLC and its successors and assigns, as collateral agent, to be scheduled and designated as “Lender Loss Payable” by endorsement• Lender loss payable clause with stipulation that coverage will not be cancelled without a minimum of 10 days’ prior written notice for non-payment of premium, or 30 days for any other cancellation.

EXHIBIT F

AUTOMATIC PAYMENT AUTHORIZATION

Effective as of July 19, 2019, **EVELO BIOSCIENCES, INC.**, a Delaware corporation (“**Borrower Representative**”) hereby authorizes K2 HEALTHVENTURES LLC (“**K2**”), or any affiliate acting on its behalf pursuant to the Loan Agreement and the bank or financial institution named below (“**Bank**”) to automatically debit through the Automatic Clearing House (ACH) from, and initiate variable debit and/or credit entries to, the deposit, checking or savings accounts as designated below maintained in the name of a Borrower, and to cause electronic funds transfers to an account of K2 to be applied to the payment of any and all amounts due under the Loan and Security Agreement, dated July 19, 2019 (as amended, restated, supplemented or otherwise modified, from time to time, the “**Agreement**”), among **EVELO BIOSCIENCES, INC.**, a Delaware corporation, and each Person party thereto as a borrower from time to time (collectively, “**Borrowers**”, and each, a “**Borrower**”), K2, and any other lender from time to time party thereto (collectively, “**Lenders**”), and Ankura Trust Company, LLC, as collateral agent for Lenders, the administrative agent party thereto, including without limitation, principal, interest, and reasonable and documented out-of-pocket fees, expenses and charges (including Lender Expenses) solely of Administrative Agent and the Lenders, in accordance with the Agreement. Capitalized terms not otherwise defined herein, have the meanings given in the Agreement.

This Authorization shall remain in effect until the Loan Agreement has been terminated.

Bank:

Address:

ABA Number:

Account Number:

Account Holder:

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO AUTOMATIC PAYMENT AUTHORIZATION]

This Authorization is executed as of the date set forth above by the undersigned authorized representative of Borrower Representative:

EVELO BIOSCIENCES, INC.

By: __
Name: __
Title: __

EXHIBIT G

**FORM OF
SECURED PROMISSORY NOTE**

\$_[_____]

[_____, 20__]

FOR VALUE RECEIVED, the undersigned, **EVELO BIOSCIENCES, INC.**, a Delaware corporation, and each Person party thereto as a borrower from time to time (collectively, "**Borrowers**", and each, a "**Borrower**"), hereby unconditionally, jointly and severally, promise to pay _____ (together with its successors and assigns, the "**Holder**") at the times, in the amounts and at the address set forth in the Loan and Security Agreement, dated as of July 19, 2019 (as amended, restated, supplemented or otherwise modified from time to time, the "**Loan Agreement**"; capitalized terms used herein without definition have the meanings assigned to such terms in the Loan Agreement), among Borrowers, the Holder, any other lender from time to time party thereto (collectively, "**Lenders**"), and **ANKURA TRUST COMPANY, LLC**, as collateral agent for Lenders (in such capacity, "**Collateral Trustee**"), the lesser of (i) the principal amount of _____ Dollars (\$_____) and (ii) the aggregate outstanding principal amount of Loans made by the Holder to Borrowers according to the terms of Section 2.2 of the Loan Agreement. Borrowers further, jointly and severally, promise to pay interest in accordance with Section 2.3 of the Loan Agreement. In no event shall interest hereunder exceed the maximum rate permitted under applicable law. All payments of principal, interest and any other amounts due shall be made as set forth in Section 2.5 of the Loan Agreement.

The Obligations evidenced by this Secured Promissory Note (as amended, restated, supplemented or otherwise modified from time to time, this "**Note**") are subject to acceleration in accordance with Section 9.1 of the Loan Agreement. Borrower hereby waives presentment, demand, notice of default or dishonor, notice of payment and nonpayment, protest and all other demands and notices in connection with the execution, delivery, acceptance, performance, default or enforcement of this Note.

This Note is secured by a security interest in the Collateral granted to Collateral Trustee, for the ratable benefit of Lenders, pursuant to certain other Loan Documents.

The terms of Section 11 are incorporated herein, *mutatis mutandis*.

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[SIGNATURE PAGE TO SECURED PROMISSORY NOTE]

IN WITNESS WHEREOF, Borrowers have caused this Note to be duly executed and delivered on the date set forth above by the duly authorized representative of each Borrower.

EVELO BIOSCIENCES, INC.

By_ _____
Name: _____
Title: _____

SCHEDULE 1
COMMITMENTS

LENDER	FIRST TRANCHE TERM LOAN COMMITMENT	SECOND TRANCHE TERM LOAN COMMITMENT	THIRD TRANCHE TERM LOAN COMMITMENT	TOTAL COMMITMENTS
K2 HEALTHVENTURES LLC	\$20,000,000.00	\$10,000,000.00	\$15,000,000.00	\$45,000,000.00

SCHEDULE 2

POST-CLOSING DELIVERIES

1. Within 30 days of the Closing Date (or such later date as Administrative Agent agrees to in its reasonable discretion), duly executed Collateral Access Agreement(s) for such locations as Administrative Agent may require (other than Excluded Locations), in accordance with Section 6.12 hereof.
2. Within 30 days of the Closing Date (or such later date as Administrative Agent agrees to in its reasonable discretion), the certificate(s) for any certificated pledged Equity Interests, accompanied by a stock power or other appropriate instrument of assignment duly executed in blank, in accordance with Sections 4.4 and 6.11 hereof.
3. Within 30 days of the Closing Date (or such later date as Administrative Agent agrees to in its reasonable discretion) duly executed signatures to the Account Control Agreement(s) required in accordance with Section 6.6(b);

SCHEDULE 3

TAXES; INCREASED COSTS

1. **Defined Terms.** For purposes of this Schedule 3:

(a) **“Connection Income Taxes”** means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

(b) **“Excluded Taxes”** means any of the following Taxes imposed on or with respect to a Recipient or required to be withheld or deducted from a payment to a Recipient, (i) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (A) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of any Lender, its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (B) that are Other Connection Taxes, (ii) in the case of a Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in a Term Loan or Commitment pursuant to a law in effect on the date on which (A) such Lender acquires such interest in such Term Loan or Commitment or (B) such Lender changes its lending office, except in each case to the extent that, pursuant to Section 2 or Section 4 of this Schedule 3, amounts with respect to such Taxes were payable either to such Lender’s assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed its lending office, or to the extent arising from an assignment after the occurrence and during the continuation of an Event of Default, (iii) Taxes attributable to such Recipient’s failure to comply with Section 7 of this Schedule 3 and (iv) any withholding Taxes imposed under FATCA.

(c) **“FATCA”** means Sections 1471 through 1474 of the Internal Revenue Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code, and any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement, treaty or convention among Governmental Authorities and implementing such Sections of the Internal Revenue Code.

(d) **“Foreign Lender”** means a Lender that is not a U.S. Person.

(e) **“Indemnified Taxes”** means (i) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of the Loan Parties under any Loan Document and (ii) to the extent not otherwise described in clause (i), Other Taxes.

(f) **“Internal Revenue Code”** means the Internal Revenue Code of 1986, as amended.

(g) **“IRS”** means the United States Internal Revenue Service.

(h) **“Other Connection Taxes”** means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Term Loan or Loan Document).

(i) **“Other Taxes”** means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment.

(j) **“Recipient”** means Administrative Agent, the Collateral Trustee or any Lender, as applicable.

(k) **“U.S. Person”** means any Person that is a “United States person” as defined in Section 7701(a)(30) of the Internal Revenue Code.

(l) **“Withholding Agent”** means, individually, the Loan Parties and Administrative Agent.

2. **Payments Free of Taxes.** Any and all payments by or on account of any obligation of the Loan Parties under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable law. If any applicable law (as determined in the good faith discretion of an applicable Withholding Agent) requires the deduction or withholding of any Tax from any such payment by a Withholding Agent, then the applicable Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law and, if such Tax is an Indemnified Tax, then the sum payable by the Loan Parties shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section 2 or Section 4 of this Schedule 3) the applicable Recipient receives an amount equal to the sum it would have received had no such deduction or withholding been made.

3. **Payment of Other Taxes by the Loan Parties.** The Loan Parties shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of Administrative Agent, timely reimburse it for the payment of, any Other Taxes.

4. **Indemnification by the Loan Parties.** The Loan Parties shall indemnify each Recipient, within 10 days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under Section 2 of this Schedule 3 or this Section 4) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Loan Parties by a Lender (with a copy to Administrative Agent), or by Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

5. **Indemnification by the Lenders.** Each Lender shall severally indemnify Administrative Agent and Collateral Trustee, within 10 days after demand therefor, for (a) any Indemnified Taxes attributable to such Lender (but only to the extent that the Loan Parties have not already indemnified Administrative Agent or Collateral Trustee for such Indemnified Taxes and without limiting the obligation of the Loan Parties to do so), (b) any Taxes attributable to such Lender’s failure to comply with the provisions of Section 12.2 of the Agreement relating to the maintenance of a Participant Register and (c) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by Administrative Agent or Collateral Trustee in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by Administrative Agent or Collateral Trustee, as applicable, shall be conclusive absent manifest error. Each Lender hereby authorizes Administrative Agent and Collateral Trustee to set off and apply any and all amounts at any time owing to such Lender under any Loan Document or otherwise payable by Administrative Agent or Collateral Trustee, as applicable, to the Lender from any other source against any amount due to Administrative Agent or Collateral Trustee under this Section 5.

6. **Evidence of Payments.** As soon as practicable after any payment of Taxes by the Loan Parties to a Governmental Authority pursuant to the provisions of this Schedule 3, the Loan Parties shall deliver to Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to Administrative Agent.

7. **Status of Lenders.**

(a) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to the Loan Parties and Administrative Agent, at the time or

times reasonably requested by the Loan Parties or Administrative Agent, such properly completed and executed documentation reasonably requested by the Loan Parties or Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by the Loan Parties or Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Loan Parties or Administrative Agent as will enable the Loan Parties or Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Sections 7(b)(i), 7(b)(ii) and 7(b)(iv) of this Schedule 3) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.

(b) Without limiting the generality of the foregoing, in the event that any Loan Party is a U.S. Person,

(i) any Lender that is a U.S. Person shall deliver to such Loan Party and Administrative Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of such Loan Party or Administrative Agent), executed copies of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

(ii) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to such Loan Party and Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of such Loan Party or Administrative Agent), whichever of the following is applicable:

A. in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed copies of IRS Form W-8BEN or IRS Form W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN or IRS Form W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty;

B. executed copies of IRS Form W-8ECI;

C. in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Internal Revenue Code, (x) a certificate, in form and substance reasonably acceptable to such Loan Party and Administrative Agent, to the effect that such Foreign Lender (or other applicable Person) is not a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, a "10 percent shareholder" of such Loan Party within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or a "controlled foreign corporation" related to such Loan Party as described in Section 881(c)(3)(C) of the Internal Revenue Code (a "**U.S. Tax Compliance Certificate**") and (y) executed copies of IRS Form W-8BEN or IRS Form W-8BEN-E; or

D. to the extent a Foreign Lender is not the beneficial owner, executed copies of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN, IRS Form W-8BEN-E, a U.S. Tax Compliance Certificate, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate on behalf of each such direct and indirect partner;

(iii) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to such Loan Party and Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date

on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of such Loan Party or Administrative Agent), executed copies of any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit such Loan Party or Administrative Agent to determine the withholding or deduction required to be made; and

(iv) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to such Loan Party and Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by such Loan Party or Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by such Loan Party or Administrative Agent as may be necessary for such Loan Party and Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount, if any, to deduct and withhold from such payment. Solely for purposes of this clause (iv), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(c) Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Loan Parties and Administrative Agent in writing of its legal inability to do so.

8. Treatment of Certain Refunds. If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to the provisions of this Schedule 3 (including by the payment of additional amounts pursuant to the provisions of this Schedule 3), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under the provisions of this Schedule 3 with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this Section 8 (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this Section 8, in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this Section 8 the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This Section 8 shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

9. Increased Costs. If any change in applicable law shall subject any Recipient to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (ii) through (iv) of the definition of Excluded Taxes and (C) Connection Income Taxes) on its loans, loan principal, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto, and the result shall be to increase the cost to such Recipient of making, converting to, continuing or maintaining any Term Loan or of maintaining its obligation to make any such Term Loan, or to reduce the amount of any sum received or receivable by such Recipient (whether of principal, interest or any other amount), then, upon the request of such Recipient, the Loan Parties will pay to such Recipient such additional amount or amounts as will compensate such Recipient for such additional costs incurred or reduction suffered.

10. Survival. Each party's obligations under the provisions of this Schedule 3 shall survive the resignation or replacement of Administrative Agent or Collateral Trustee or any assignment of rights by, or the replacement of, a Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

August 5, 2019

Evelo Biosciences, Inc.
620 Memorial Drive, Suite 500 West
Cambridge, MA 02139
Attention: Daniel Char and Jonathan Poole

Re: Loan and Security Agreement

Ladies and Gentlemen:

Reference is made to that certain Loan and Security Agreement, dated as of July 19, 2019 (as amended, restated, supplemented or otherwise modified, from time to time, the "**Agreement**"), among **EVELO BIOSCIENCES, INC.**, a Delaware corporation ("**Borrower Representative**"), and each other Person party thereto as a borrower from time to time (collectively, "**Borrowers**", and each, a "**Borrower**"), **K2 HEALTHVENTURES LLC** and any other lender from time to time party thereto (collectively, "**Lenders**", and each, a "**Lender**"), **K2 HEALTHVENTURES LLC**, as administrative agent for Lenders (in such capacity, and together with its successors, "**Administrative Agent**"), and **ANKURA TRUST COMPANY, LLC**, as collateral agent for Lenders. Capitalized terms not defined herein have meanings as defined in the Agreement. The parties desire to amend the Agreement in accordance with the terms of this letter agreement (the "**Amendment**"), effective as of the date hereof.

NOW, THEREFORE, the parties agree as follows:

1) Section 6.14 of the Agreement is hereby amended and restated in its entirety to read as follows:

"6.14 Right to Invest. In connection with up to three (3) Qualified Financings consummated after the Closing Date, Lenders or their respective assignees or nominees shall have the right, in its discretion to participate in any Qualified Financing, provided that with respect to any public offering of Borrower Representative, Borrower Representative agrees to use commercially reasonable efforts to provide the Lenders or their respective assignees or nominees with the opportunity to invest in each such Qualified Financing if it is lawful to do so (or if the Qualified Financing is an underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, to use commercially reasonable efforts to cause the underwriters for such offering to offer the Lenders or their respective assignees or nominees an allocation of securities in such offering), on the same terms, conditions and pricing afforded to other investors participating in such Qualified Financing; provided that the minimum aggregate investment by Lenders and their respective assignees or nominees for each Qualified Financing shall be \$1,500,000 and that the maximum aggregate investment amount by Lenders and their respective assignees or nominees for all participation in Qualified Financings pursuant to this Section 6.14 shall be \$5,000,000. Borrower Representative shall provide written notice to Administrative Agent not later than the date upon which potential investors are notified of a Qualified Financing, and if a Lender desires to exercise its right to participate in such Qualified Financing, Lender shall cooperate to consummate its investment in such closing promptly upon receipt of documentation with respect thereto. In the event that any such notice contains confidential information, Borrower Representative agrees to maintain the confidentiality of such information and not to use such information for any purposes other than to evaluate its participation in any Qualified Financing. Borrower Representative shall not take any action to avoid or seek to avoid the observance or performance of any of the obligations pursuant to this Section 6.14, but will at all times in good faith assist in the carrying out the same and take all such action as may be necessary or appropriate, but only to the extent permitted by law, to protect the rights of Lenders and their respective assignees or nominees hereunder against impairment."

2) Except as expressly modified by this Amendment, the Agreement shall remain unchanged and in full force and effect in accordance with its terms. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York without regard to principles of conflicts of law that would result in the application of any laws other than those of the State of New York.

If the foregoing accurately sets forth our agreement, please countersign this letter in the space provided below.

Sincerely,

LENDER:
K2 HEALTHVENTURES LLC

By: /s/ Parag Shah
Name: Parag Shah
Title: CEO

ADMINISTRATIVE AGENT:
K2 HEALTHVENTURES LLC

By: /s/ Parag Shah
Name: Parag Shah
Title: CEO

AGREED AND ACCEPTED:

BORROWER REPRESENTATIVE:
EVELO BIOSCIENCES, INC.

By: /s/ Jonathan Poole
Name: Jonathan Poole
Title: CFO

COLLABORATION AGREEMENT

This **COLLABORATION AGREEMENT** ("**Agreement**") is made as of July 9, 2019 (the "**Effective Date**"), by and between Evelo Biosciences, Inc., a Delaware corporation, with principal offices at 620 Memorial Drive, 5th Floor, Cambridge, MA 02139, USA ("**Evelo**"), and Sacco S.r.l., with a registered office at Via A. Manzoni 29/A, 22071 Cadorago (CO), Italy ("**Sacco**"). Evelo and Sacco shall be referred to herein individually as a "**Party**" and collectively as the "**Parties**."

RECITALS

WHEREAS, Evelo is in the field of researching and developing microbial products for treatment of disease;

WHEREAS, Sacco and certain of its Affiliates are experts in the development, manufacture and sale of food and pharmaceutical grade microbial strains;

WHEREAS, certain know-how owned by Evelo will be disclosed to and transferred by Evelo to Sacco and certain of its Affiliates relating to the manufacture of single strain, non-genetically modified microbes for use in pharmaceutical products for oral delivery or oral use ("**Evelo Know-How**");

WHEREAS, the Parties acknowledge that potential collaboration between Sacco or any of its Affiliates, on the one hand, and any Third Parties, on the other hand, with respect to the manufacture of certain single strain, non-genetically modified microbes for use in pharmaceutical products for oral delivery necessarily would risk disclosure of the Evelo Know-How transferred to Sacco and its Affiliates;

WHEREAS, Evelo desires that Sacco and its Affiliates manufacture and supply Pharmaceutical Products (as defined herein) on an exclusive basis for or on behalf of Evelo and its Affiliates as set forth herein, and Sacco agrees to grant Evelo such exclusivity on behalf of itself and its Affiliates.

NOW, THEREFORE, in consideration of the promises and undertakings set forth herein, the Parties agree as follows:

1. **Definitions.** The following capitalized terms shall have the meanings set forth below when used in this Agreement:

1.1 "**Affiliate**" means, with respect to a Party, as of any point in time and for so long as such relationship continues to exist, any other Person that controls, is controlled by or is under common control with such Party. A Person will be regarded as in control of another Person if it (a) owns or controls, directly or indirectly, more than fifty percent (50%) of the equity securities of the subject Person entitled to vote in the election of directors (or, in the case of a Person that is not a corporation, for the election of the corresponding managing authority), or (b) possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of any such Person (whether through ownership of securities or other ownership interests, by contract or otherwise). Notwithstanding anything to the contrary set forth herein, for purposes of this Agreement, (y) CSL is, and shall remain, an Affiliate of Sacco, and (z) Flagship Pioneering, Inc. and its subsidiaries shall not be deemed Affiliates of Evelo.

1.2 "**Annual Exclusivity Fee**" has the meaning set forth in Section 2.3.

1.3 "**Audit**" has the meaning set forth in Section 2.4.

1.4 "**Business Day**" means a day (other than a Saturday, Sunday or national public holiday in either the USA or Italy).

- 1.5 “**CSL**” means Centro Sperimentale del Latte S.r.l., with a registered office at 26839 Zelo Buon Persico (LO), Italy.
- 1.6 “**Contract Year**” means each twelve (12) month period commencing on the Effective Date or any anniversary thereof, and ending on the day immediately prior to the next anniversary of the Effective Date.
- 1.7 “**Cut-Off Date**” means June 1, 2019.
- 1.8 “**Defaulting Party**” has the meaning set forth in Section 5.2.1.
- 1.9 “**Effective Date**” has the meaning set forth in the Preamble.
- 1.10 “**Evelo Know-How**” has the meaning set forth in the Recitals.
- 1.11 “**Existing Customer**” means any customer (a) with whom Sacco and/or its Affiliates has entered into a written, signed agreement that (i) was in full force and effect prior to the Cut-Off Date and continues to be in full force and effect as of the Effective Date and (ii) obligates Sacco and/or its Affiliates to perform manufacturing process development services for, Manufacturing and/or supply of a Product and (b) to whom Sacco and/or its Affiliates has issued an invoice prior to the Cut-Off Date for the performance of manufacturing process development services for, Manufacturing and/or supply of a Product by Sacco and/or its Affiliates.
- 1.12 “**Existing Sacco Agreements**” means (a) the Assignment Agreement between Evelo, Sacco and CSL, dated August 2, 2017; (b) the Option Agreement between Evelo and Sacco, dated April 10, 2018; (c) the Agreement between Evelo and CSL, dated May 12, 2017; (d) the Master Services Agreement between Evelo and CSL, dated August 2, 2017; and (e) the Option Agreement, dated as of July 9, 2019, between Evelo and CSL.
- 1.13 “**Exclusivity Period**” has the meaning set forth in Section 2.1.
- 1.14 “**Genus**” means a collection of species with narrow 16S r-RNA similarity coefficients in accordance with the International Code of Nomenclature of Prokaryotes.
- 1.15 “**Government Authority**” means any court, agency, department, authority or other instrumentality of any federal, national, multinational, state, provincial, county, city or other political subdivision, including any regulatory authority such as the U.S. Food and Drug Administration (FDA).
- 1.16 “**ICC Rules**” has the meaning set forth in Section 6.12.
- 1.17 “**Manufacture**” or “**Manufactured**” or “**Manufacturing**” means activities directed to making, having made, producing, manufacturing, processing, filling, finishing, packaging, labeling, quality control testing and quality assurance release, shipping or storage of a product or any component of or input to a product.
- 1.18 “**New Genus**” has the meaning set forth in Section 2.2(b).
- 1.19 “**New Genus Agreement**” has the meaning set forth in Section 2.2(b).
- 1.20 “**Non-Defaulting Party**” has the meaning set forth in Section 5.2.1.
- 1.21 “**Non-Genetically Modified Microbe**” means a naturally-occurring Strain that has not been engineered for any purpose.

1.22 **“Person”** means an individual, sole proprietorship, partnership, limited partnership, limited liability partnership, corporation, limited liability company, business trust, joint stock company, trust, incorporated association, joint venture or similar entity or organization, including a government or political subdivision or department or agency of a government or other Government Authority.

1.23 **“Pharmaceutical Product”** means any Product that (a) is intended for the treatment, diagnosis or prevention of any human disease or condition in any field and (b) is or will be regulated as a drug product or medicinal product by the FDA in the U.S. or the applicable Governmental Authority outside of the U.S.

1.24 **“Pre-Existing Product”** means any Product that Sacco and/or its Affiliates was performing manufacturing process development services for, Manufacturing, and/or supplying to an Existing Customer prior to the Cut-Off Date.

1.25 **“Product”** means any compound or product that is comprised of or contains a single Non-Genetically Modified Microbe Strain that is intended for oral delivery or oral use.

1.26 **“Regulatory Approval”** means, with respect to a country in the Territory, all technical, medical, scientific licenses, registrations and approvals of the applicable Government Authority in such country necessary for the commercial marketing and sale of a product in such country.

1.27 **“Sacco”** has the meaning set forth in the Preamble.

1.28 **“Strain”** means a single microbial or bacterial isolation in pure culture and any descendants and modified or unmodified derivatives of a single isolation in pure culture in accordance with the International Code of Nomenclature of Prokaryotes.

1.29 **“Territory”** means worldwide.

1.30 **“Third Party”** means any entity other than Evelo or Sacco or any Affiliate of either of them.

1.31 **“U.S.”** means the United States of America and its territories and possessions.

2. **Grant of Exclusivity.**

2.1 **Grant of Exclusivity.** For a period commencing on the Effective Date and continuing until the fifth anniversary of the Effective Date (the **“Exclusivity Period”**), Sacco hereby agrees that it and its Affiliates, shall perform manufacturing process development services for, Manufacture and supply Pharmaceutical Products on an exclusive basis for or on behalf of Evelo and its Affiliates in the Territory. Sacco and its Affiliates shall not conduct any manufacturing process development, Manufacturing or supply activities with respect to any Pharmaceutical Product on behalf of Sacco or its Affiliate or any Third Party, or assist or facilitate any Third Party to conduct manufacturing process development, Manufacturing or supply activities with respect to any Pharmaceutical Product, in any field and anywhere in the Territory.

2.2 **Exclusivity Carveout.** Notwithstanding anything to the contrary set forth in Section 2.1, Sacco and its Affiliates may:

- (a) continue to perform manufacturing process development services, Manufacture and supply any Pre-Existing Product (whether currently or in the future a Pharmaceutical Product) for the applicable Existing Customer. For clarity, Sacco and its Affiliates may perform manufacturing process development services for, Manufacture or supply a Pharmaceutical Product that is a Pre-Existing Product, but only for the applicable Existing Customer to whom Sacco and/or its Affiliates was actually

performing such manufacturing process development services, Manufacturing or supplying the Pre-Existing Product as of the Cut-Off Date.

(b)perform manufacturing process development services for new customers, except that Sacco and its Affiliates may not perform manufacturing process development services with respect to, or otherwise work on, any strain in the [***] or [***] Genus other than on behalf of Evelo or any of its Affiliates. Notwithstanding anything to the contrary set forth in this Section 2.2(b), if after the Effective Date, Evelo or its Affiliate, on the one hand, and Sacco or its Affiliate, on the other hand, enter into a written agreement (a "**New Genus Agreement**") pursuant to which Sacco or its Affiliate will begin work on a strain in any additional Genus (the "**New Genus**"), then after the effective date of such New Genus Agreement, Sacco may not perform any manufacturing process development services with respect to, or otherwise work on, any strain in such New Genus, except on behalf of (i) Evelo or any of its Affiliates or (ii) any existing customers for which Sacco had worked within such New Genus prior to the effective date of the applicable New Genus Agreement.

2.3 Exclusivity Fee. In consideration of the grant of the exclusivity by Sacco and its Affiliates to Evelo during the Exclusivity Period under Section 2.1, Evelo shall pay to Sacco six-hundred thousand (600,000) Euros (the "**Annual Exclusivity Fee**") for each Contract Year during the Exclusivity Period within twenty (20) Business Days after the Effective Date, with respect to the first payment of the Annual Exclusivity Fee, and each anniversary of the Effective Date thereafter, with respect to each subsequent payment of the Annual Exclusivity Fee. For clarity, the maximum amount that Evelo shall pay to Sacco in Annual Exclusivity Fees hereunder shall be three million (3,000,000) Euros, for a maximum period of five (5) Contract Years.

2.4 Access and Audit. Sacco and its Affiliates will give Evelo's representative reasonable access at reasonable times to its facilities to verify that Sacco and its Affiliates are not performing manufacturing process development services, Manufacturing or supplying any Pharmaceutical Products to any Third Party other than the Pre-Existing Products to the applicable Existing Customers or as specifically permitted under Section 2.2(b). Upon not less than thirty (30) days' prior written notice, Sacco shall, and shall require its Affiliates to, permit an independent Third Party representative selected by Evelo, to access and inspect the facilities of Sacco or any of its Affiliates or any of Sacco's or its Affiliates' records, at reasonable times for the sole purpose of verifying compliance with the exclusivity provisions set forth in this Section 2 (an "**Audit**"). Such Audit shall be performed not more frequently than once in any twelve (12)-month period without cause, or at any time with cause. Such Audit shall be conducted under appropriate confidentiality provisions no less restrictive than those set forth herein. Upon completion of the Audit, the independent Third Party shall notify Evelo in writing only whether Sacco and each of its Affiliates are in compliance or not in compliance with the exclusivity provisions set forth in this Section 2, and shall not share any underlying records of Sacco or its Affiliates with Evelo.

3. Representations and Warranties.

3.1 By Sacco. Sacco represents and warrants that:

- (a)Sacco has full right, power and authority to enter into and perform this Agreement without the consent of any Third Party;
- (b)this Agreement does not conflict with (i) any contract or other agreement to which Sacco or any of its Affiliates are a party or (ii) any rights granted by Sacco or any of its Affiliates to any Third Party; and

3.2 By Evelo. Evelo represents and warrants that:

(a)Evelo has full right, power and authority to enter into and perform this Agreement without the consent of any Third Party;
and

(b)this Agreement does not conflict with (i) any contract or other agreement to which Evelo or any of its Affiliates are a party or
(ii) any rights granted by Evelo or any of its Affiliates to any Third Party.

3.3 **Disclaimer of All Other Warranties.** TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EXCEPT FOR THE EXPRESS WARRANTIES IN THIS SECTION 3, NEITHER PARTY MAKES OR GIVES ANY OTHER WARRANTIES, EXPRESS OR IMPLIED (WHETHER BY STATUTE, CUSTOM, COURSE OF DEALING OR OTHERWISE) AND EACH PARTY HEREBY DISCLAIMS ALL OTHER EXPRESS OR IMPLIED WARRANTIES, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE OR USE, NON-INFRINGEMENT AND TITLE.

4. **Liability.**

4.1 **No Waiver for Fraud.** Neither Party limits or excludes its liability in respect of fraud or fraudulent misrepresentation, including Evelo's right to seek any indirect, incidental, special, consequential or punitive damages (including but not limited to lost profits).

5. **Expiration and Termination.**

5.1 **Term.** This Agreement shall commence on the Effective Date and shall continue until the expiration of the Exclusivity Period, unless terminated early in accordance with Section 5.2 or upon the mutual written agreement of the Parties.

5.2 **Termination.**

5.2.1 **Termination for Default.** Either Party ("**Non-Defaulting Party**") may terminate this Agreement on written notice to the other Party ("**Defaulting Party**") if

(a)the Defaulting Party fails to pay any undisputed amount payable under this Agreement within twenty (20) Business Days after the due date;

(b)the Defaulting Party commits a material breach of its obligations under this Agreement and fails to remedy it during a period of twenty (20) Business Days starting on the date of receipt of notice from the Non-Defaulting Party identifying the breach and requiring it to be remedied;

(c)a petition is filed against the Defaulting Party or, in the case of Sacco, including any of its Affiliates, for an involuntary proceeding under any applicable bankruptcy or other similar law and that petition has not been dismissed within sixty (60) days after filing or a court having jurisdiction has appointed a receiver, liquidator, trustee or similar official of the Defaulting Party or, in the case of Sacco, including any of its Affiliates, for any substantial portion of its property, or ordered the winding up or liquidation of its affairs; or

(d)the Defaulting Party or, in the case of Sacco, including any of its Affiliates, commences a voluntary proceeding under applicable bankruptcy or other similar law, has made any general assignment for the benefit of creditors, or has failed generally to pay its debts as they become due.

5.2.2 **Termination by Evelo.** Evelo may terminate this Agreement on written notice to Sacco if an independent Third Party representative concludes after the conduct of an Audit pursuant to Section 2.4 that Sacco and/or any of its Affiliates are not in compliance with the exclusivity provisions of Section 2.

5.2.3 **Termination by Sacco.** Sacco may terminate this Agreement on written notice to Evelo if Sacco or any of its Affiliates have not performed any services for, Manufactured or supplied any products to Evelo under a service or supply agreement for a period of six (6) consecutive months and there are no services scheduled to be performed or products scheduled to be supplied within the next six (6) consecutive months period.

5.3 **Certain Effects of Termination.** In the event that Evelo terminates this Agreement pursuant to Section 5.2.1(b), 5.2.1(c) or Section 5.2.1(d) or Section 5.2.2, Sacco shall promptly reimburse Evelo the Annual Exclusivity Fees in respect of the applicable Contract Year paid by Evelo under Section 2.1 within twenty (20) Business Days after the date of termination of this Agreement. Notwithstanding anything to the contrary set forth herein, Sacco's reimbursement of the Annual Exclusivity Fees under this Section 5.3 in the event of Evelo's termination of this Agreement pursuant to Section 5.2.1(b) shall not constitute Evelo's sole remedy in the event of Sacco's material breach of this Agreement, and Evelo shall have the right to seek other remedies, including the right to seek any indirect, incidental, special, consequential or punitive damages (including but not limited to lost profits).

6. Miscellaneous.

6.1 **Independent Contractor.** This Agreement does not create an employment relationship, partnership or joint venture between Sacco and Evelo. Neither Evelo nor Sacco will in any way represent itself to be a partner or joint venturer of the other Party. Neither Evelo nor Sacco will have the authority to bind or act on behalf of the other Party.

6.2 **Use of Names.** Neither Party has the right to use the other Party's name or the names of the other Party's employees in any advertising, sales promotional material or press release without the prior written permission of the other Party, except to the extent such disclosure is reasonably necessary for regulatory filings, prosecuting or defending litigation, and complying with applicable governmental regulations and legal requirements and the requirements of any stock exchange or stock listing entity.

6.3 **Notices.** All notices required or permitted under this Agreement shall be in writing, properly addressed and shall be deemed to have been duly given or received upon the earlier of (a) actual receipt, (b) the date of confirmed delivery according to the records of the postal service if sent by registered or certified airmail, return receipt requested, (c) the date of confirmed delivery according to the records of a commercially recognized international air express courier with tracking capabilities or (d) the date of confirmed transmission if sent by email with confirmation of delivery.

If to Evelo:

Evelo Biosciences, Inc.
620 Memorial Drive, 5th Floor
Cambridge, MA 02139 USA
Attention: Head of Process Development and Manufacturing
Email: [***]

With a copy to:

Evelo Biosciences, Inc.
620 Memorial Drive, 5th Floor
Cambridge, MA 02139 USA

Attention: General Counsel
Email: [***]

If to Sacco:

Sacco S.r.L.
Via A. Manzoni 29/A 22071
Cadorago (CO)
Italy
Attention: Marco Caspani
Email: [***]

6.4 **Assignment.** This Agreement may not be assigned or transferred, in whole or in part, by either Party, including under operation of law, without the prior written consent of the other Party; *except*, that Evelo may transfer or assign this Agreement, in whole or in part, without the prior written consent of Sacco, to an Affiliate or in connection with a merger, consolidation, or a sale or transfer of all or substantially all of the assets to which this Agreement relates, provided that all obligations of Evelo are assumed by the assignee.

6.5 **Entire Agreement.** This Agreement constitutes the entire agreement of the Parties with regard to the subject matter hereof, and supersedes all previous written or oral representations, agreements and understandings between Evelo and Sacco with regard to such subject matter, *provided, however*, that the Existing Sacco Agreements shall remain in effect in accordance with their terms, *except* that, the provisions of Section 2 of this Agreement shall control over any inconsistent provisions of any Existing Sacco Agreement.

6.6 **No Modification.** This Agreement may be changed only by a writing signed by an authorized representative of each Party.

6.7 **Waiver.** No waiver of any term, provision or condition of this Agreement in any one or more instances will be deemed to be or construed as a further or continuing waiver of any other term, provision or condition of this Agreement. Any such waiver must be evidenced by an instrument in writing executed by an officer authorized to execute waivers.

6.8 **Severability.** The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision. Any provision declared invalid or unenforceable by a court of competent jurisdiction shall be deleted, and the remaining terms and conditions of this Agreement shall remain in full force and effect. The Parties shall consult with each other and use their reasonable best efforts to agree upon a valid and enforceable provision that shall be a reasonable substitute for any such deleted provision in light of the intent of this Agreement.

6.9 **Counterparts.** This Agreement may be executed in counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument. Signatures to this Agreement may be delivered by facsimile or other means of electronic replication and transmission (i.e., PDF delivery by e-mail).

6.10 **Rules of Construction.** The headings, section numbers and section names of this Agreement are for convenience of reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision contained in this Agreement. Except where the context expressly requires otherwise, (a) the use of the singular will be deemed to include the plural (and vice versa), (b) the words "include," "includes," "including" or "e.g." will be deemed to be followed by the phrase "without limitation," (c) any definition of or reference to any agreement, instrument or other document herein will be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments,

supplements or modifications set forth herein or therein), (d) any reference herein to any Person will be construed to include the Person's successors and assigns, (e) the words "herein," "hereof" and "hereunder," and words of similar import, will be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (f) all references herein to Sections or Schedules will be construed to refer to Sections or Schedules of this Agreement, and references to this Agreement include all Schedules hereto, (g) the word "notice" will mean notice in writing (whether or not specifically stated) and will include notices, consents, approvals and other written communications contemplated under this Agreement, and (h) the term "or" will be interpreted in the inclusive sense commonly associated with the term "and/or."

6.11 **Survival.** Except as otherwise expressly set forth herein, the following provisions will survive expiration or termination of this Agreement pursuant to their terms, together with any other provisions necessary for their construction and enforcement: Sections 1, 2.4, 3.3, 4.1, 5.3 and 6.

6.12 **Governing Law; Arbitration.** This Agreement and any disputes relating to or arising out of this Agreement will be governed by, construed, and interpreted in accordance with the laws of England and Wales, without regard to its rules for the conflict of laws. Any disputes, controversy, or claim arising from or in connection with this Agreement, including any questions regarding its validity, construction, existence or termination, shall be referred to and finally settled by binding arbitration under the Rules of Arbitration of the International Chamber of Commerce ("**ICC Rules**") in force when the notice of arbitration is submitted. The seat of arbitration shall be London, England, and the arbitration proceedings shall be conducted in English. The number of arbitrators shall be three (3), with each Party nominating one (1) arbitrator and the two (2) party-nominated arbitrators nominating the third arbitrator. The Emergency Arbitrator Provisions shall not apply.

[remainder of page left intentionally blank]

The Parties have caused this Agreement to be executed by their duly authorized representatives as of the Effective Date.

EVELO BIOSCIENCES, INC.

SACCO S.R.L.

By: /s/ Balkrishan 'Simba' Gill
Name: Balkrishan "Simba" Gill
Title: President & CEO
Date: July 9, 2019

By: /s/ Martino Verga
Name: Martino Verga
Title: Administrator
Date: 09-07-2019

