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

# FORM 10-Q

**(Mark One)**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019**

**or**

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

**FOR THE TRANSITION PERIOD FROM _____ TO _____**

**Commission file number: 001-38327**

# Cue Biopharma, Inc.

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **47-3324577** |
|---|---|
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **21 Erie St. Cambridge, Massachusetts** | **02139** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**(617) 949-2680**
**(Registrant's Telephone Number, Including Area Code)**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.001 per share | CUE | The Nasdaq Stock Market LLC |

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

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

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

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. ☐

As of November 1, 2019 the registrant had 22,994,143 shares of Common Stock ($0.001 par value) outstanding.

**CUE BIOPHARMA, INC.**
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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Cue Biopharma, Inc.**
**Consolidated Balance Sheets**
**(Unaudited in thousands, except share amounts)**

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 31,379 | $ 20,800 |
| Marketable securities, short term | — | 18,413 |
| Accounts receivable | 610 | — |
| Restricted cash, short-term | — | 50 |
| Prepaid expenses and other current assets | 1,001 | 1,347 |
| Total current assets | 32,990 | 40,610 |
| Property and equipment, net | 2,031 | 2,781 |
| Operating lease right-of-use | 6,656 | — |
| Deposits | 2,589 | 1,013 |
| Restricted cash, long term | 150 | 150 |
| Other long term assets | 793 | 809 |
| Total assets | $ 45,209 | $ 45,363 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,178 | $ 2,035 |
| Accrued expenses | 1,555 | 1,788 |
| Research and development contract liability, current portion | 3,225 | 2,012 |
| Deferred rent | — | 381 |
| Operating lease liability, current portion | 4,434 | — |
| Total current liabilities | 10,392 | 6,216 |
| Research and development contract liability, net of current portion | 5,185 | 5,175 |
| Operating lease liability, net of current portion | 2,610 | — |
| Total liabilities | $ 18,187 | $ 11,391 |
| | | |
| Stockholders' equity: | | |
| Preferred Stock, $0.001 par value; 10,000,000 shares authorized and 0 shares issued and outstanding at September 30, 2019 and December 31, 2018 | — | — |
| Common stock, $0.001 par value; 50,000,000 shares authorized; 22,969,966 and 20,697,453 shares issued and outstanding, at September 30, 2019 and December 31, 2018, respectively | 23 | 21 |
| Additional paid in capital | 126,582 | 105,763 |
| Accumulated other comprehensive loss | — | (11) |
| Accumulated deficit | (99,583) | (71,801) |
| Total stockholders' equity | 27,022 | 33,972 |
| Total liabilities and stockholders' equity | $ 45,209 | $ 45,363 |

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

**Cue Biopharma, Inc.**
**Consolidated Statements of Operations and Other Comprehensive Loss**
**(Unaudited in thousands, except share and per share amounts)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Collaboration revenue** | $ 984 | $ 449 | $ 2,409 | $ 812 |
| **Operating expenses:** | | | | |
| General and administrative | 2,776 | 2,895 | 9,640 | 6,821 |
| Research and development | 5,302 | 10,313 | 20,523 | 21,721 |
| Total operating expenses | 8,078 | 13,208 | 30,163 | 28,542 |
| **Loss from operations** | (7,094) | (12,759) | (27,754) | (27,730) |
| **Other income:** | | | | |
| Interest income | 99 | 102 | 309 | 272 |
| Other income, net | 5 | 98 | 77 | 99 |
| Total other income | 104 | 200 | 386 | 371 |
| **Loss before income taxes** | $ (6,990) | $ (12,559) | $ (27,368) | $ (27,359) |
| Income tax expense | — | — | (413) | — |
| **Net loss** | $ (6,990) | $ (12,559) | $ (27,782) | $ (27,359) |
| Unrealized gains (losses) from available-for-sale securities, net of tax of $0 | — | (20) | 11 | (20) |
| **Comprehensive loss** | $ (6,990) | $ (12,579) | $ (27,771) | $ (27,379) |
| Net loss per common share – basic and diluted | $ (0.31) | $ (0.62) | $ (1.30) | $ (1.36) |
| Weighted average common shares outstanding – basic and diluted | 22,450,071 | 20,132,277 | 21,334,195 | 20,111,519 |

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

**Cue Biopharma, Inc.**
**Consolidated Statements of Stockholders' Equity**
**(Unaudited in thousands, except share and per share amounts)**

**For the nine months ended September 30, 2019 and 2018:**

| | Common Stock | | Common Stock to be Issued | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Shares | Par Value | | | | |
| Balance, December 31, 2017 | 19,459,194 | $ 19 | 671,572 | $ 1 | $ 94,408 | $ — | $ (32,821) | $ 61,607 |
| Stock-based compensation | — | — | — | — | 5,163 | — | — | 5,163 |
| Common stock to be issued pursuant to license agreements | 671,572 | 1 | (671,572) | (1) | — | — | — | — |
| Exercise of stock options | 2,500 | — | | — | 13 | — | — | 13 |
| Net loss | — | — | — | — | — | (20) | (27,359) | (27,379) |
| Balance at September 30, 2018 | 20,133,266 | $ 20 | — | $ — | $ 99,584 | $ (20) | $ (60,180) | $ 39,404 |
| | | | | | | | | |
| Balance, December 31, 2018 | 20,697,453 | $ 21 | — | $ — | $ 105,763 | $ (11) | $ (71,801) | $ 33,972 |
| Issuance of common stock from public offerings, net of underwriter commissions and fees | 2,084,615 | 2 | — | — | 15,650 | — | — | 15,652 |
| Stock-based compensation | — | — | — | — | 4,525 | — | — | 4,525 |
| Exercise of stock options | 187,898 | — | — | — | 644 | — | — | 644 |
| Other comprehensive income (loss) | — | — | — | — | — | 11 | — | 11 |
| Net loss | — | — | — | — | — | — | (27,782) | (27,782) |
| Balance at September 30, 2019 | 22,969,966 | $ 23 | — | $ — | $ 126,582 | $ — | $ (99,583) | $ 27,022 |

**For the three months ended September 30, 2019 and 2018:**

| | Common Stock | | Common Stock to be Issued | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Shares | Par Value | | | | |
| Balance, July 1, 2018 | 20,130,766 | $ 20 | — | $ — | $ 96,841 | $ — | $ (47,629) | $ 49,232 |
| Stock-based compensation | — | — | — | — | 2,743 | — | — | 2,743 |
| Exercise of stock options | 2,500 | — | — | — | | — | — | — |
| Other comprehensive income (loss) | — | — | — | — | — | (20) | — | (20) |
| Net loss | — | — | — | — | — | — | (12,551) | (12,551) |
| Balance, September 30, 2018 | 20,133,266 | $ 20 | — | — | $ 99,584 | (20) | $ (60,180) | $ 39,404 |
| | | | | | | | | |
| Balance, July 1, 2019 | 21,313,570 | $ 21 | — | — | $ 112,852 | — | $ (92,593) | $ 20,280 |
| Issuance of common stock from public offerings, net of underwriter commissions and fees | 1,560,541 | 2 | — | — | 11,935 | — | — | 11,937 |
| Stock-based compensation | — | — | — | — | 1,440 | — | — | 1,440 |
| Exercise of stock options | 95,855 | — | — | — | 355 | — | — | 355 |
| Other comprehensive income (loss) | — | — | — | — | — | — | — | — |
| Net loss | — | — | — | — | — | — | (6,990) | (6,990) |
| Balance at September 30, 2019 | 22,969,966 | $ 23 | — | $ — | $ 126,582 | $ — | $ (99,583) | $ 27,022 |

**Cue Biopharma, Inc.**
**Consolidated Statements of Cash Flows**
**(Unaudited in thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| **Cash flows from operating activities** | | |
| Net loss | $ (27,782) | $ (27,359) |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Depreciation | 605 | 556 |
| Stock-based compensation | 4,525 | 5,163 |
| Deferred rent | — | 188 |
| Operating lease right of use amortization | 3,036 | — |
| Non-cash investment expense | (68) | (52) |
| Loss on disposal of fixed asset | 54 | — |
| Changes in operating assets and liabilities: | | |
| Account receivable | (610) | — |
| Prepaid expenses and other current assets | 346 | (101) |
| Other Assets | 8 | |
| Operating lease liability | (3,029) | — |
| Deposits | (1,576) | (551) |
| Accounts payable | (857) | (662) |
| Accrued expenses | (233) | 1,117 |
| Research and development contract liability | 1,222 | (812) |
| Net cash used in operating activities | (24,359) | (22,513) |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (36) | (1,734) |
| Purchases of marketable securities | — | (23,307) |
| Cash received from sale of fixed asset | 127 | — |
| Maturity and redemption of short term investments | 18,501 | — |
| Net cash provided by (used in) investing activities | 18,592 | (25,041) |
| **Cash flows from financing activities** | | |
| Proceeds from the public offering of common stock, net of underwriter's commission and fees | 15,652 | — |
| Proceeds from exercise of stock options | — | 12 |
| Proceeds from the exercise of common stock | 644 | — |
| Net cash provided by financing activities | 16,296 | 12 |
| **Net increase/(decrease) in cash, cash equivalents, and restricted cash** | 10,529 | (47,542) |
| Cash, cash equivalents, and restricted cash at beginning of period | 21,000 | 63,584 |
| Cash, cash equivalents, and restricted cash at end of period | $ 31,529 | $ 16,042 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid for interest | $ — | $ — |
| Cash paid for income taxes | $ (413) | $ — |

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

## 1. Organization and Nature of Business

Cue Biopharma, Inc. (the "Company") was incorporated in the State of Delaware on December 31, 2014 under the name Imagen Biopharma, Inc., and completed its organization, formation, and initial capitalization activities effective as of January 1, 2015. In October 2016, the Company changed its name to Cue Biopharma, Inc. The Company's corporate office and research facilities are located in Cambridge, Massachusetts.

The Company is in the development stage and has incurred recurring losses and negative cash flows from operations. As of September 30, 2019, the Company had cash and cash equivalents of approximately $31,379,000. Management believes that current cash and cash equivalents on hand at September 30, 2019, along with the funds available to the Company through its at-the-market equity offering sales agreement with Stifel Nicolaus & Company, Inc., should be sufficient to fund operations for the next twelve months from the date of issuance of these financial statements; however, the future viability of the Company is dependent on its ability to raise additional capital to finance its operations and to fund increased research and development costs in order to seek approval for commercialization of its product candidates. The Company's failure to raise capital as and when needed would have a negative impact on its financial condition and its ability to pursue its business strategies as this capital is necessary for the Company to perform the research and development activities required to develop the Company's product candidates in order to generate future revenue streams.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying unaudited consolidated financial statements as of September 30, 2019, and for the three and nine months ended September 30, 2019, and 2018, have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and Generally Accepted Accounting Principles in the United States ("U.S. GAAP") for financial information, which prescribes elimination of all significant intercompany accounts and transactions in the accounts of the Company and its wholly owned subsidiary Cue Biopharma Securities Corporation, Inc. which was formed in December 2018 and incorporated in the Commonwealth of Massachusetts. In the opinion of management, these financial statements reflect all adjustments which are necessary for a fair statement of the Company's financial position and results of its operations, as of and for the periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K filed with the SEC on March 14, 2019, as amended on Form 10-K/A filed with the SEC on April 30, 2019 and on Form 10K/A filed with the SEC on July 9, 2019.

Interim results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019, or any future periods.

### *Public Offerings*

In June 2019, the Company entered into an at-the-market equity offering sales agreement with Stifel Nicolaus & Company, Inc. ("Stifel") to sell shares of the Company's common stock for aggregate gross proceeds of up to $30 million, from time to time, through an "at-the-market" equity offering program under which Stifel acts as sales agent. The sales agreement will terminate upon the earliest of (a) the sale of $30 million of shares of the Company's common stock or (b) the termination of the sales agreement by the Company or Stifel. As of September 30, 2019, the Company had sold 2,084,615 shares of common stock under the sales agreement for proceeds of approximately $15.7 million, net of commissions paid, but excluding estimated transaction expenses.

### *Consolidation*

The accompanying consolidated financial statements include the Company and its wholly owned subsidiary, Cue Biopharma Securities Corporation, Inc. The Company has eliminated all intercompany transactions.

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Significant estimates include estimates related to collaboration revenue, the accounting for potential liabilities and accrued expenses, the assumptions utilized in valuing stock-based compensation issued for services, the realization of deferred tax assets, and the useful life with respect to long-lived assets and intangibles. Actual results could differ from those estimates.

***Cash Concentrations***

The Company maintains its cash balances with a financial institution in Federally insured accounts and may periodically have cash balances in excess of insurance limits. The Company maintains its accounts with a financial institution with a high credit rating. The Company has not experienced any losses to date and believes that it is not exposed to any significant credit risk on cash.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. The Company currently invests available cash in money market funds.

***Marketable Securities***

Marketable securities consist of investments with original maturities greater than ninety days and less than one year from the balance sheet date. The Company classifies all of its investments as available-for-sale securities. Accordingly, these investments are recorded at fair value, which is based on quoted market prices. Unrealized gains and losses are recognized and determined on a specific identification basis and are included in other comprehensive loss. Realized gains and losses are determined on a specific identification basis and are included in other income (loss) on the income statement. Amortization and accretion of discounts and premiums is recorded in interest income. The Company may invest available cash in United States Treasury obligations.

***Restricted Cash***

The Company purchased a $50,000 certificate of deposit to collateralize a credit card account with a commercial bank that was classified as short-term restricted cash as of December 31, 2018. As of September 30, 2019, the account was closed, resulting in a $0 balance in short-term restricted cash. The Company also had $150,000 in restricted cash with a commercial bank to collateralize a credit card as of September 30, 2019 and December 31, 2018.

***Property and Equipment***

Property and equipment is recorded at cost. Major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Gains and losses from disposition of property and equipment are included in income and expense when realized. Amortization of leasehold improvements is provided using the straight-line method over the shorter of the lease term or the useful life of the underlying assets. Depreciation of property and equipment is provided using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Laboratory equipment | 5 years |
| Computer and office equipment | 3 years |
| Furniture and fixtures | 3-8 years |

The Company recognizes depreciation and amortization expense in general and administrative expenses and in research and development expenses in the Company’s statements of operations, depending on how each category of property and equipment is utilized in the Company’s business activities.

***Trademark***

Trademark consists of the Company’s right, title and interest to the CUE BIOLOGICS Mark, and any derivative mark incorporating CUE, throughout the world, together with all associated goodwill and common law rights appurtenant thereto, including, but not limited to, any right, title and interest in any corporate name, company name, business, name, trade name, dba, domain name, or other source identifier incorporating CUE.

The Company has classified the trademark as a component of other long-term assets, having a useful life of 15 years at September 30, 2019. The Company evaluates the status of this intangible asset for amortization and impairment at each quarter end and year end reporting date.

***Revenue Recognition***

The Company adopted Accounting Standards Codification, Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), during 2018. The Company generates revenue solely through collaboration arrangements with strategic partners for the development and commercialization of product candidates. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods and/or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and/or services. To determine the appropriate amount of revenue to be recognized for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following steps: (i) Identify the contract(s) with the customer, (ii) Identify the performance obligations in the contract, (iii) Determine the transaction price, (iv) Allocate the transaction price to the performance obligations in the contract and (v) Recognize revenue when (or as) each performance obligation is satisfied.

The Company recognizes collaboration revenue under certain of the Company's license or collaboration agreements that are within the scope of ASC 606. The Company's contracts with customers typically include promises related to licenses to intellectual property and research and development services. If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenue from non-refundable, up-front fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. Accordingly, the transaction price is generally comprised of a fixed fee due at contract inception and variable consideration in the form of milestone payments due upon the achievement of specified events and tiered royalties earned when customers recognize net sales of licensed products. The Company measures the transaction price based on the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods and/or services to the customer. The Company utilizes the "most likely amount" method to estimate the amount of variable consideration, to predict the amount of consideration to which it will be entitled for its one open contract. Amounts of variable consideration are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. At the inception of each arrangement that includes development and regulatory milestone payments, the Company evaluates whether the associated event is considered probable of achievement and estimates the amount to be included in the transaction price using the most likely amount method. Currently, the Company has one contract with an option to acquire additional goods and/or services in the form of additional research and development services for additional product candidates.

***Research and Development Expenses***

Research and development expenses consist primarily of compensation costs, fees paid to consultants, outside service providers and organizations (including research institutes at universities), facility costs, and development and clinical trial costs with respect to the Company's product candidates.

Research and development expenses incurred under contracts are expensed ratably over the life of the underlying contracts, unless the achievement of milestones, the completion of contracted work, or other information indicates that a different pattern of performance is more appropriate. Other research and development expenses are charged to operations as incurred.

Nonrefundable advance payments are recognized as an expense as the related services are performed. The Company evaluates whether it expects the services to be rendered at each quarter end and year end reporting date. If the Company does not expect the services to be rendered, the advance payment is charged to expense. Nonrefundable advance payments for research and development services are included in prepaid and other current assets on the balance sheet. To the extent that a nonrefundable advance payment is for contracted services to be performed within 12 months from the reporting date, such advance is included in current assets; otherwise, such advance is included in non-current assets.

The Company evaluates the status of its research and development agreements and contracts, and the carrying amount of the related assets and liabilities, at each quarter end and year end reporting date, and adjusts the carrying amounts and their classification on the balance sheet as appropriate.

***Patent Expenses***

The Company is the exclusive worldwide licensee of, and has patent applications pending for, numerous domestic and foreign patents. Due to the significant uncertainty associated with the successful development of one or more commercially viable product candidates based on the Company's research efforts and any related patent applications, all patent costs, including patent-related legal fees, filing fees and other costs are charged to expense as incurred. For the three and nine months ended September 30, 2019, patent expenses were $476,000 and $1,323,000, respectively, and $225,000 and $493,000 for the three and nine months ended September 30, 2018. Patent expenses are included in general and administrative expenses in the Company's statements of operations.

***Licensing Fees and Costs***

Licensing fees and costs consist primarily of costs relating to the acquisition of the Company's license agreement with the Albert Einstein College of Medicine ("Einstein"), including related royalties, maintenance fees, milestone payments and product development costs. Licensing fees and costs are charged to expense as incurred.

***Long-Lived Assets***

The Company reviews long-lived assets, consisting of property and equipment, for impairment at each fiscal year end or when events or changes in circumstances indicate the carrying value of these assets may exceed their current fair values. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the assets. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The Company has not historically recorded any impairment to its long-lived assets. In the future, if events or market conditions affect the estimated fair value to the extent that a long-lived asset is impaired, the Company will adjust the carrying value of these long-lived assets in the period in which the impairment occurs.

***Leases***

In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires a lessee to record a right-of-use asset and a corresponding lease liability, for most lease arrangements on the balance sheet. Under the standard, disclosure of key information about leasing arrangements to assist users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases are required. The new standard is effective for fiscal years beginning after December 15, 2018.

The standard permits two transition methods, (1) to apply the new lease requirements at the beginning of the earliest period presented, or (2) to apply the new lease requirements at the effective date. The Company adopted ASC 842 as of January 1, 2019 using the effective date method, in which we did not restate prior periods. Upon adoption, the Company elected the package of practical expedients permitted under the transition guidance within ASC 842, which among other things, allowed it to carry forward the historical lease classification.

The adoption of ASC 842 on January 1, 2019 resulted in the recognition of approximately $ 9,692,000 of right-of-use asset and $9,347,000 of lease liabilities on the Company's balance sheet. The adoption did not have a material net impact on the Company's consolidated statements of operations or accumulated deficit. Please refer to Note 11 for more detail.

***Stock-Based Compensation***

The Company periodically issues stock options to officers, directors, employees, Scientific and Clinical Advisory Board members, non-employees and consultants for services rendered. Such issuances vest and expire according to terms established at the issuance date.

Stock-based payments to officers, directors, members of the Company's Scientific and Clinical Advisory Board, non-employees and outside consultants and employees, including grants of employee stock options, are recognized in the financial statements based on their grant date fair values. Stock option grants, which are generally time-vested, are measured at the grant date fair value and charged to operations on a straight-line basis over the service period, which generally approximates the vesting term. The Company also grants performance-based awards to periodically to officers of the Company. The Company recognizes compensation costs related to performance awards over the requisite service period if and when the Company concludes that it is probable that the performance condition will be achieved.

The fair value of stock options is determined utilizing the Black-Scholes option-pricing model, which is affected by several variables, including the risk-free interest rate, the expected dividend yield, the life of the equity award, the exercise price of the stock option as compared to the fair value of the common stock on the grant date, and the estimated volatility of the common stock over the term of the equity award.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Until the Company has established a trading market for its common stock, estimated volatility is based on the average historical volatilities of comparable public companies in a similar industry. The expected dividend yield is based on the current yield at the grant date; the Company has never declared or paid dividends and has no plans to do so for the foreseeable future. As permitted by Staff Accounting Bulletin No. 107, due to the Company's lack of trading history and option activity, management utilizes the simplified method to estimate the expected term of options at the date of grant. The exercise price is determined based on the fair value of the Company's common stock at the date of grant. The Company accounts for forfeitures as they occur.

The Company recognizes the fair value of stock-based compensation in general and administrative expenses and in research and development expenses in the Company's statements of operations, depending on the type of services provided by the recipient of the equity award.

***Comprehensive Income (Loss)***

Components of comprehensive income or loss, including net income or loss, are reported in the financial statements in the period in which they are recognized. Other comprehensive income or loss is defined as the change in equity during a period from transactions and other and other events and circumstances from non-owner sources. Net income (loss) and other comprehensive income (loss) are reported net of any related tax effect to arrive at comprehensive income (loss). Comprehensive loss includes net loss as well as changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company's only element of other comprehensive loss in all periods presented was unrealized gain or loss on available-for-sale securities.

***Earnings (Loss) Per Share***

The Company's computation of earnings (loss) per share ("EPS") for the respective periods includes basic and diluted EPS. Basic EPS is measured as the income (loss) attributable to common stockholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares that would result from the exercise of outstanding stock options and warrants as if they had been exercised at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. Basic and diluted loss per common share is the same for all periods presented because all outstanding stock options and warrants are anti-dilutive.

At September 30, 2019, the Company excluded the outstanding securities summarized below, which entitle the holders thereof to acquire shares of common stock, from its calculation of earnings per share, as their effect would have been anti-dilutive.

| | September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Common stock warrants | 1,252,441 | 1,252,441 |
| Common stock options | 4,629,085 | 4,427,821 |
| Total | 5,881,526 | 5,680,262 |

***Fair Value of Financial Instruments***

The authoritative guidance with respect to fair value established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels and requires that assets and liabilities carried at fair value be classified and disclosed in one of three categories, as presented below.

Level 1. Observable inputs such as quoted prices in active markets for an identical asset or liability that the Company has the ability to access as of the measurement date. Financial assets and liabilities utilizing Level 1 inputs include active-exchange traded securities and exchange-based derivatives.

Level 2. Inputs, other than quoted prices included within Level 1, which are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, mutual funds, and fair-value hedges.

Level 3. Unobservable inputs in which there is little or no market data for the asset or liability which requires the reporting entity to develop its own assumptions. Financial assets and liabilities utilizing Level 3 inputs include infrequently traded non-exchange-based derivatives and commingled investment funds and are measured using present value pricing models.

The Company determines the level in the fair value hierarchy within which each fair value measurement falls in its entirety, based on the lowest level input that is significant to the fair value measurement in its entirety. In determining the appropriate levels, the Company performs an analysis of the assets and liabilities at each reporting period end.

The Company had approximately $19,425,000 in cash equivalents and $0 in short-term marketable securities that were measured and recorded at fair value on the Company's balance sheet as of September 30, 2019. The Company had approximately $10,548,000 in cash equivalents and $18,412,000 in short-term marketable securities that were measured and recorded at fair value on the Company's balance sheet as of December 31, 2018.

The carrying value of financial instruments (consisting of cash, a certificate of deposit, accounts payable, accrued compensation and accrued expenses) is considered to be representative of their respective fair values due to the short-term nature of those instruments.

***Recent Accounting Pronouncements***

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, or ASU 2018-03. The guidance in this ASU modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. Under the new guidance, transfers between asset classes and the valuation related to level 3 assets is modified. The new standard is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within each annual reporting period. The Company is currently evaluating the impact of the adoption of this ASU on the financial statements.

Management does not believe that any other recently issued, but not yet effective, authoritative guidance, if currently adopted, would have a material impact on the Company's financial statement presentation or disclosures.

## 3. Fair Value

The Company accounts for its financial assets and liabilities using fair value measurements. The authoritative accounting guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following table presents information about the Company's assets that are measured at fair value on a recurring basis as of September 30, 2019 and indicate the level of the fair value hierarchy utilized to determine such fair value:

| | Fair Value Measurements as of September 30, 2019 (in thousands) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Cash equivalents | $ 19,425 | $ — | $ — | $ 19,425 |
| Marketable securities | — | — | — | — |
| Total | $ 19,425 | $ — | $ — | $ 19,425 |

| | Fair Value Measurements as of December 31, 2018 (in thousands) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Cash equivalents | $ 10,548 | $ — | $ — | $ 10,548 |
| Marketable securities | — | 18,412 | — | 18,412 |
| Total | $ 10,548 | $ 18,412 | $ — | $ 28,960 |

As of September 30, 2019, the Company reported approximately $19,425,000 of cash equivalents. The Company's cash equivalents that are invested in money market funds are valued using Level 1 inputs for identical securities. The Company measures the fair value of marketable securities that are invested in United States Treasury securities using Level 2 inputs and primarily relies on quoted prices in active markets for similar marketable securities. During the three and nine months ended September 30, 2019, there were no transfers between Level 2 and Level 3. As of December 31, 2018, the Company reported approximately $28,960,000 of cash equivalents and marketable securities. During the year ended December 31, 2018, there were no transfers between Level 2 and Level 3.

The carrying values of accounts receivable, prepaid expenses, other current assets, accounts payable and accrued expenses approximate their fair value due to the short-term nature of these balances.

## 4. Marketable Securities

As of September 30, 2019 the Company had no investments in marketable securities. As of December 31, 2018, the fair value of available-for-sale marketable securities by type of security was as follows:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| *(In thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Treasury Securities | $ 18,423 | $ — | $ (11) | $ 18,412 |
| | $ 18,423 | $ — | $ (11) | $ 18,412 |

At September 30, 2019, there were $0 of investments in marketable securities. At December 31, 2018, marketable securities consisted of approximately $18,413,000 of investments that mature within twelve months.

## 5. Property and Equipment

Property and equipment as of September 30, 2019 and December 31, 2018 consisted of the following:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| | (in thousands) | |
| Computer equipment | $ 192 | $ 182 |
| Laboratory equipment | 3,578 | 3,872 |
| Furniture and fixtures | 93 | 93 |
| | 3,863 | 4,147 |
| Less: Accumulated depreciation | $ (1,832) | $ (1,366) |
| Total property and equipment, net | $ 2,031 | $ 2,781 |

Depreciation expense for the nine months ended September 30, 2019 and 2018 was approximately $605,000 and $556,000, respectively. During the nine months ended September 30, 2019, the Company sold lab equipment with an acquisition cost of $319,000 and accumulated depreciation of approximately $138,000 and realized a loss of approximately $54,000. Depreciation expense for the three months ended September 30, 2019 and 2018 was approximately $194,000 and $195,000, respectively.

## 6. Stock-Based Compensation

For stock options requiring an assessment of value during the nine months ended September 30, 2019, the fair value of each stock option award was estimated using the Black-Scholes option-pricing model utilizing the following assumptions:

| | September 30, 2019 |
|---|---|
| Risk-free interest rate | 1.76 to 2.59% |
| Expected dividend yield | 0% |
| Expected volatility | 82.0-94.0% |
| Expected life | 4.0 to 6.25 years |

A summary of stock option activity for the nine months ended September 30, 2019 is as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in Years) |
|---|---|---|---|
| Stock options outstanding at December 31, 2018 | 4,540,321 | $ 7.08 | 5.16 |
| Granted | 825,600 | 6.37 | |
| Exercised | (187,898) | 3.43 | |
| Cancelled | (548,938) | 9.17 | |
| Stock options outstanding at September 30, 2019 | 4,629,085 | 6.86 | 5.36 |
| Stock options exercisable at September 30, 2019 | 2,172,376 | $ 5.82 | 4.58 |

As of September 30, 2019, total unrecognized stock-based compensation was approximately $11,046,000, which is expected to be recognized as an operating expense in the Company's statement of operations through June 2023.

The intrinsic value of exercisable but unexercised in-the-money stock options at September 30, 2019, was approximately $7,594,000, based on a fair value of $8.43 per share on September 30, 2019.

Stock-based compensation for the three and nine months ended September 30, 2019 and 2018 was included in the statement of operations as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| General and administrative | $ 520 | $ 856 | $ 1,483 | $ 1,828 |
| Research and development | 919 | 1,875 | 3,042 | 3,335 |
| Total | $ 1,439 | $ 2,731 | $ 4,525 | $ 5,163 |

## 7. Warrants

The Company had two tranches of common stock warrants outstanding at September 30, 2019. The first tranche is exercisable for 370,370 shares of common stock issued on June 15, 2015 with an exercise price of $2.70 per share. These warrants were issued with a 7 year life and expire on June 15, 2022. The second tranche is exercisable for 882,071 shares of common stock was issued on December 27, 2017 with an exercise price of $9.38 per share. These warrants were issued with a 5 year life and expire on December 26, 2022. The intrinsic value of exercisable but unexercised in-the-money common stock warrants at September 30, 2019 was approximately $2,122,000 based on a fair value of $8.43 per share on September 30, 2019.

Each tranche of warrants was evaluated under ASC 480, *Distinguishing Liabilities from Equity,* and ASC 815, *Derivatives and Hedging*, and the Company determined that equity classification was appropriate.

## 8. Revenue Recognition

The Company recognizes collaboration revenue under certain of the Company's license or collaboration agreements that are within the scope of ASC 606. The Company's contracts with customers typically include promises related to licenses to intellectual property and research and development services. If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenue from non-refundable, up-front fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The Company's contracts may include options to acquire additional goods and/or services.

The terms of the Company's arrangements with customers typically include the payment of one or more of the following: (i) Non-refundable, up-front payment, (ii) Development, regulatory and commercial milestone payments, (iii) Future options and (iv) Royalties on net sales of licensed products. Accordingly, the transaction price is generally comprised of a fixed fee due at contract inception and variable consideration in the form of milestone payments due upon the achievement of specified events and tiered royalties earned when customers recognize net sales of licensed products. The Company measures the transaction price based on the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods and/or services to the customer. The Company utilizes the "most likely amount" method to estimate the amount of variable consideration, to predict the amount of consideration to which it will be entitled for its one open contract. Amounts of variable consideration are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Milestone payments that are not within the control of the Company or the licensee, such as those dependent upon receipt of regulatory approval, are not considered to be probable of achievement until the triggering event occurs. At the end of each reporting period, the Company reevaluates the probability of achievement of each milestone and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and net loss in the period of adjustment.

For arrangements that include sales-based royalties, including milestone payments based upon the achievement of a certain level of product sales, the Company recognizes revenue upon the later of: (i) When the related sales occur or (ii) When the performance obligation to which some or all of the payment has been allocated has been satisfied (or partially satisfied). To date, the Company has not recognized any development, regulatory or commercial milestones or royalty revenue resulting from any of its collaboration arrangements. Consideration that would be received for optional goods and/or services is excluded from the transaction price at contract inception.

The Company allocates the transaction price to each performance obligation identified in the contract on a relative standalone selling price basis, when applicable. However, certain components of variable consideration are allocated specifically to one or more particular performance obligations in a contact to the extent both of the following criteria are met: (i) The terms of the payment relate specifically to the efforts to satisfy the performance obligation or transfer the distinct good or service and (ii) Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective of the standard whereby the amount allocated depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services. The Company develops assumptions that require judgement to determine the standalone selling price for each performance obligation identified in each contract. The key assumptions utilized in determining the standalone selling price for each performance obligation may include forecasted revenues, development timelines, estimated research and development costs, discount rates, likelihood of exercise and probabilities of technical and regulatory success.

Revenue is recognized based on the amount of the transaction price that is allocated to each respective performance obligation when or as the performance obligation is satisfied by transferring a promised good and/or service to the customer. For performance obligations that are satisfied over time, the Company recognizes revenue by measuring the progress toward complete satisfaction of the performance obligation using a single method of measuring progress which depicts the performance in transferring control of the associated goods and/or services to the customer. The Company uses input methods to measure the progress toward the complete satisfaction of performance obligations satisfied over time. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and net loss in the period of adjustment.

As it relates to the Collaboration Agreement with Merck Sharp & Dohme Corp. (“Merck”) the Company recognized the upfront payment associated with its one open contract as a contract liability upon receipt of payment as it requires deferral of revenue recognition to a future period until the Company performs its obligations under the arrangement. Amounts expected to be recognized as revenue within the twelve months following the balance sheet date are classified in current liabilities. Amounts not expected to be recognized as revenue within the twelve months following the balance sheet date are classified as contract liabilities, net of current portion. The Company determined that there was one performance obligation; consisting of the license and research development services. Thus, the transaction price of $2.5 million was allocated to the single performance obligation.

The Company does not believe that any variable consideration should be included in the transaction price at September 30, 2019. Such assessment considered the application of the constraint to ensure that estimates of variable consideration would be included in the transaction price only to the extent the Company had a high degree of confidence that revenue would not be reversed in a subsequent reporting period. The Company will re-evaluate the transaction price, including the estimated variable consideration included in the transaction price and all constrained amounts, in each reporting period and as other changes in circumstances occur. For the three months ended September 30, 2019 and 2018, the Company recorded approximately $174,000 and $449,000, respectively and for the nine months ended September 30, 2019 and 2018, the Company recognized approximately $874,000 and $812,000, respectively, in collaboration revenue related to this agreement. As of September 30, 2019, the Company recorded short and long-term research and development liabilities on its balance sheet dated of approximately $484,000 and $0, respectively.

On November 6, 2018, the Company entered into a Collaboration Agreement with LG Chem Life Sciences (“LG Chem”) related to the development of the Company’s Immuno-STATs focused in the field of oncology. Pursuant to the Collaboration Agreement the Company granted LG Chem an exclusive license to develop, manufacture and commercialize the Company’s lead product, CUE-101, as well as Immuno-STATs that target T-cells against two additional cancer antigens, in certain Asian countries (collectively, the “LG Chem Territory”). LG Chem has the option to elect one additional Immuno-STAT for an oncology target within two years of the agreement for a worldwide development and commercialization license, and Cue Biopharma will retain an option to co-develop and co-commercialize the additional program worldwide. Cue Biopharma retains rights to develop and commercialize all assets included in the agreement in the United States and in global markets outside of Asia. In exchange for the licenses and other rights granted to LG Chem under the Collaboration Agreement, LG Chem made a $5.0 million equity investment in common stock of Cue Biopharma, Inc. and a $5.0 million nonrefundable upfront cash payment. Cue Biopharma is also be eligible to receive up to an additional $400 million in research, development, regulatory and sales milestones. In addition, the Collaboration Agreement also provides that LG Chem will pay the Company tiered single-digit royalties on net sales of commercialized product candidates in the LG Chem Territory.

As it relates to the LG Chem Agreement, the Company recorded the $5.0 million upfront payment as a contract liability upon receipt of payment as it requires deferral of revenue recognition to a future period until the Company performs its obligations under the arrangement. Of the $5.0 million upfront payment, $825,000 was recognized as tax withholding, shown as income tax expense on the statement of operations and comprehensive loss for the year ended December 31, 2018. The Company also recorded approximately $829,000 in premium paid for the stock purchased by LG Chem pursuant to the Stock Purchase Agreement dated November 6, 2018, as a contract liability upon receipt of payment. These amounts require deferral of revenue recognition to a future period until the Company performs its obligations under the arrangement. Amounts expected to be recognized as revenue within the twelve months following the balance sheet date are classified in current liabilities. Amounts not expected to be recognized as revenue within the twelve months following the balance sheet date are classified as contract liabilities, net of current portion. Thus, the transaction price of $5.8 million was recorded in short and long-term research and development liabilities on its balance sheet dated December 31, 2018.

On May 16, 2019, LG Chem paid the Company a $2.5 million milestone payment for the United States Food and Drug Administration ("FDA") acceptance of the Investigational New Drug ("IND") for the Company's lead drug candidate, CUE-101, pursuant to the LG Chem Agreement. The $2.5 million milestone payment was recorded as a contract liability upon receipt of payment as it requires deferral of revenue recognition to a future period until the Company performs its obligations under the arrangement. Of the $2.5 million milestone payment, approximately $413,000 was recognized as tax withholding, shown as income tax expense on the statement of operations and comprehensive loss. The Company recorded short and long-term research and development liabilities on its balance sheet dated of approximately $2,741,000 and $5,185,000, respectively, as of September 30, 2019.

Aside from the $2.5 million milestone payment, the Company does not believe that any variable consideration should be included in the transaction price as of September 30, 2019. Such assessment considered the application of the constraint to ensure that estimates of variable consideration would be included in the transaction price only to the extent the Company had a high degree of confidence that revenue would not be reversed in a subsequent reporting period. The Company will re-evaluate the transaction price, including the estimated variable consideration included in the transaction price and all constrained amounts, in each reporting period and as other changes in circumstances occur. For the three and nine months ended September 30, 2019, the Company recognized revenue of approximately $810,000 and approximately $1,535,000, respectively, related to this agreement.

The Company considered the capitalization of contract costs under the guidance in ASC 340-40, *Other Assets and Deferred Costs: Contracts with Customers*. There were no contract costs identified in the Collaboration Agreement with Merck. As it related to the LG Chem agreement, the Company capitalized license expenses of approximately $592,000 as of September 30, 2019, pursuant to the Einstein license agreement which requires the Company to pay a percentage of sublicenses related to the Company's patent rights for components of its core technology that is licensed from Einstein. This amount is comprised of approximately $438,000 of capitalized license expenses related to the upfront payment received from LG Chem in December 2018 and approximately $313,000 in capitalized license expenses related to the milestone payment received in June 2019, net of accumulated amortization of approximately $159,000. As of September 30, 2019, $215,000 was included in prepaid expenses and other short-term assets and $377,000 is included in other long-term assets. Related to the LG Chem agreement, the Company capitalized license expenses of approximately $438,000 as of December 31, 2018, pursuant to the Einstein license agreement. Of the total approximately, $54,000 is included in prepaid expenses and other short-term assets and approximately $384,000 is included in other long-term assets as of December 31, 2018.

## 9. Related Party Transactions

The former interim Chief Financial Officer of the Company, who is also the Chief Financial Officer of MDB Capital Group, LLC, a related party, was compensated at a rate of $6,000 per month, reflecting an aggregate charge to operations for the three and nine months ended September 30, 2018 of $0, and $24,000, respectively. There was no charge to operations for the three and nine months ended September 30, 2019.

## 10. Commitments and Contingencies

***Einstein License and Service Agreement***

In 2015, the Company entered into the Einstein License with Einstein for certain patent rights relating to the Company's core technology platform for the engineering of biologics to control T-cell activity, precision, immune-modulatory drug candidates, and two supporting technologies that enable the discovery of costimulatory signaling molecules (ligands) and T-cell targeting peptides. On July 31, 2017, the Company entered into an amended and restated license agreement which modified certain obligations of the parties under the Einstein License. For the three and nine months ended September 30, 2019 the Company incurred approximately $150,000, and $325,000 respectively, for the three and nine months ended September 30, 2018 the Company incurred approximately $12,500 and $25,000, respectively, in fees and expenses to Einstein in relation to this license.

The Company's remaining commitments with respect to the Einstein License are based on the attainment of future milestones. The aggregate amount of milestone payments made under the Einstein License may equal up to $1.85 million for each product, process or service that use the patents covered by the Einstein License, including certain technology received from Einstein relating thereto ("Licensed Products"), and up to $1.85 million for each new indication of a Licensed Product. Additionally, the aggregate amount of one-time milestone payments based on cumulative sales of all Licensed Products may equal up to $5.75 million. The Company is also party to a service agreement with Einstein to support the Company's ongoing research and development activities.

***Agreements with Catalent***

On March 7, 2017, the Company entered into an agreement with Catalent Pharma Solutions, LLC ("Catalent") for Catalent to provide services on a sequential milestone basis with respect to the development and manufacture of the Company's lead drug candidate, CUE-101. The services under the agreement are designed to support the preparation and filing of an Investigational New Drug Application with the United States Food and Drug Administration to allow for the commencement of a Phase 1 clinical trial of CUE-101 in the United States. The Company incurred total direct costs under this agreement aggregating $0.6 million during the nine months ended September 30, 2019. Certain of these agreements contain nonrefundable advance payments for which the Company anticipates receiving the contracted services within 12 months from the date of payment. Management periodically reviews and updates the project's estimated budget and timeline.

***Collaboration Agreement with Merck***

On November 14, 2017, the Company entered into the Collaboration Agreement with Merck for a partnership to research and develop certain of the Company's proprietary biologics that target certain autoimmune disease indications (the "Initial Indications"). We view this Collaboration Agreement as a component of our development strategy since it will allow us to advance our autoimmune programs in partnership with a world class pharmaceutical company, while also continuing our focus on our more advanced cancer programs. The research program outlined in the Collaboration Agreement entails (1) our research, discovery and development of certain Immuno-STAT™ drug candidates up to the point of demonstration of certain biologically relevant effects ("Proof of Mechanism") and (2) the further development by Merck of the Immuno-STAT™ drug candidates that have demonstrated Proof of Mechanism (the "Proposed Product Candidates") up to the point of demonstration of all or substantially all of the properties outlined in such Proposed Product Candidates' profiles as described in the Collaboration Agreement.

In exchange for the licenses and other rights granted to Merck under the Collaboration Agreement, Merck paid to the Company a $2.5 million nonrefundable up-front payment. Additionally, the Company may be eligible to receive funding in developmental milestone payments, as well as tiered royalties, if all research, development, regulatory and commercial milestones agreed upon by both parties are successfully achieved. Excluding the up-front payment described above, the Company is eligible to earn up to $101 million for the achievement of certain research and development milestones, $120 million for the achievement of certain regulatory milestones and $150 million for the achievement of certain commercial milestones, in addition to tiered royalties on sales, if all pre-specified milestones associated with multiple products across the primary disease indication areas are achieved. The Collaboration Agreement requires the Company to use the first $2.5 million of milestone payments we receive under the agreement to fund contract research. The amount of the royalty payments is a percentage of product sales ranging in the single digits based on the amount of such sales.

***Collaboration Agreement with LG Chem Life Sciences***

On November 6, 2018, the Company entered into a Collaboration Agreement with LG Chem. related to the development of the Company's Immuno-STATs focused in the field of oncology. Pursuant to the Collaboration Agreement the Company granted LG Chem an exclusive license to develop, manufacture and commercialize the Company's lead product, CUE-101, as well as Immuno-STATs that target T-cells against two additional cancer antigens, in certain Asian countries (collectively, the "LG Chem Territory"). LG Chem has the option to elect one additional Immuno-STAT for an oncology target within two years of the agreement for a worldwide development and commercialization license, and Cue Biopharma will retain an option to co-develop and co-commercialize the additional program worldwide. Cue Biopharma retains rights to develop and commercialize all assets included in the agreement in the United States and in global markets outside of Asia. In exchange for the licenses and other rights granted to LG Chem under the Collaboration Agreement, LG Chem made a $5.0 million equity investment in common stock of Cue Biopharma, Inc. and a $5.0 million nonrefundable upfront cash payment. Cue Biopharma is also be eligible to receive up to an additional $400 million in research, development, regulatory and sales milestones. In addition, the Collaboration Agreement also provides that LG Chem will pay the Company tiered single-digit royalties on net sales of commercialized product candidates in the LG Chem Territory.

On May 16, 2019, LG Chem paid the Company a $2.5 million milestone payment for the FDA acceptance of the IND for the Company's lead drug candidate, CUE-101, pursuant to the LG Chem Agreement. The $2.5 million milestone payment was recorded as a contract liability upon receipt of payment as it requires deferral of revenue recognition to a future period until the Company performs its obligations under the arrangement pursuant to the Company's revenue recognition policy.

***Contingencies***

The Company accrues for contingent liabilities to the extent that the liability is probable and estimable. There are no accruals for contingent liabilities in these consolidated financial statements.

The Company may be subject to various legal proceedings from time to time as part of its business. As of September 30, 2019, the Company was not a party to any legal proceedings or threatened legal proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on its business, financial condition or results of operations.

**11. Leases**

The Company adopted ASC 842 as of January 1, 2019 using the effective date method, in which we did not restate prior periods. Upon adoption, the Company elected the package of practical expedients permitted under the transition guidance within ASC 842, which among other things, allowed it to carry forward the historical lease classification. The Company does not allocate consideration in its leases to lease and non-lease components and does not record leases on its balance sheets with terms of 12 months or less.

The Company uses its estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The Company's incremental borrowing rate represents the rate of interest that it would have to pay to borrow over a similar term an amount equal to the lease payments in a similar economic environment.

The adoption of ASC 842 on January 1, 2019 resulted in the recognition of approximately $ 9,692,000 of right-of-use asset and $9,347,000 of lease liabilities on the Company's balance sheet. The adoption did not have a material net impact on the Company's consolidated statements of operations or accumulated deficit. The Company will review the classification of newly entered leases as either an operating or a finance lease and recognize a related right-of-use asset and lease liability on its balance sheet upon commencement.

On January 9, 2018, the Company entered into an operating lease agreement for its corporate headquarters in Cambridge, Massachusetts, with a termination date of April 2021. This lease was amended on June 18, 2019 to provide the Company with a reduction in rental fees in exchange for prepayment of a portion of the fees. The lease contains escalating payments during the lease period. The Company records monthly rent expense on a straight-line basis, equal to the total of the lease payments over the lease term divided by the number of months of the lease term. As of September 30, 2019, and December 30, 2018, a security deposit of approximately $777,000 is included in deposits on the Company's balance sheet.

On September 20, 2018, the Company entered into an operating lease for additional laboratory space in Cambridge, Massachusetts for the period from October 15, 2018 through April 14, 2021. The lease contains escalating payments during the lease period. The monthly rental rate under the lease agreement is $72,600 for the first 12 months and $78,600 for the remainder of the term. Upon execution of this lease agreement the Company prepaid twelve months rent pursuant to the lease agreement executed on September 20, 2018. As of September 30, 2019, and December 31, 2018, a security deposit of approxima1ely $236,000 is included in deposits on the Company's balance sheet.

On September 16, 2019, the Company entered into an amended lease agreement that removed one holding room from the additional laboratory space lease entered into on September 20, 2018. The amendment was effective beginning on October 1, 2019 and expires on April 14, 2021. The monthly rental rate under the amended lease agreement decreased from $78,600 to $58,995, for the remainder of the lease term.

Future minimum lease payments under these leases at September 30, 2019 are as follows:

| Year | (in thousands) |
|---|---|
| 2019 | $ 1,057 |
| 2020 | 4,911 |
| 2021 | 1,432 |
| Total lease payment | $ 7,400 |
| Less: present value discount | (356) |
| Total | $ 7,044 |

Total rent expense of approximately $1,137,000 and $863,000 was included in the statement of operations for the three months ended September 30, 2019 and 2018, respectively, and $3,411,000 and $2,250,000 for the nine months ended September 30, 2019 and 2018, respectively. Other information pertaining to the Company's operating leases for the nine months ended September 30, 2019 are summarized in the table below.

| **Other information** *(in thousands)* | **Three Months Ended September 30, 2019** | **Nine Months Ended September 30, 2019** |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ 893 | $ 2,677 |
| Operating lease cost | $ 1,137 | $ 3,411 |
| Weighted average discount rate | 6.0% | 6.0% |
| Weighted average remaining lease term | 1.58 years | 1.58 years |

The Company recorded a right of use asset of approximately $6,656,000 and lease liability of approximately $7,044,000 at September 30, 2019. The change in the right of use asset and lease liability is due to rental expense of approximately $1,137,000 and $3,411,000, recorded during the three and nine months ended September 30, 2019, respectively.

## 12. Subsequent Event

The Company has evaluated subsequent events through the date on which the consolidated financial statements were issued, to ensure that this submission includes appropriate disclosure of events both recognized in the consolidated financial statements and events which occurred subsequently but were not recognized in the consolidated financial statements.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of Cue Biopharma, Inc. ("Cue," "we", "us" "our" or the "Company") should be read in conjunction with our financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes thereto for the fiscal year ended December 31, 2018 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K filed by us with the Securities and Exchange Commission, or SEC, on March 14, 2019.

***Forward-Looking Statements***

*This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be covered by the "safe harbor" created by those sections. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of forward-looking terms such as "believe," "expect," "may," "will," "should," "would," "could," "seek," "intend," "plan," "goal," "project," "estimate," "anticipate," "strategy," "future," "likely" or other comparable terms. All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q regarding our strategies, prospects, financial condition, operations, costs, plans and objectives are forward-looking statements. Examples of forward-looking statements include, among others, statements we make regarding anticipated results of our drug development efforts, including study results, our expectations regarding regulatory developments and expected future operating results. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, our limited operating history, limited cash and a history of losses; our ability to achieve profitability; potential setbacks in our research and development efforts, our ability to secure required Food and Drug Administration ("FDA") or other governmental approvals for our product candidates and the breadth of any approved indication; negative or inconclusive results from our clinical studies or serious and unexpected drug-related side effects or other safety issues experienced by participants in our clinical trials; delays and changes in regulatory requirements, policy and guidelines including potential delays in submitting required regulatory applications to the FDA; our reliance on licensors, collaborations and strategic alliances; our ability to obtain adequate financing to fund our business operations in the future; and the other risks and uncertainties described in the Risk Factors and in Management's Discussion and Analysis of Financial Condition and Results of Operations sections of our most recently filed Annual Report on Form 10-K and any subsequently filed Quarterly Report(s) on Form 10-Q. Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.*

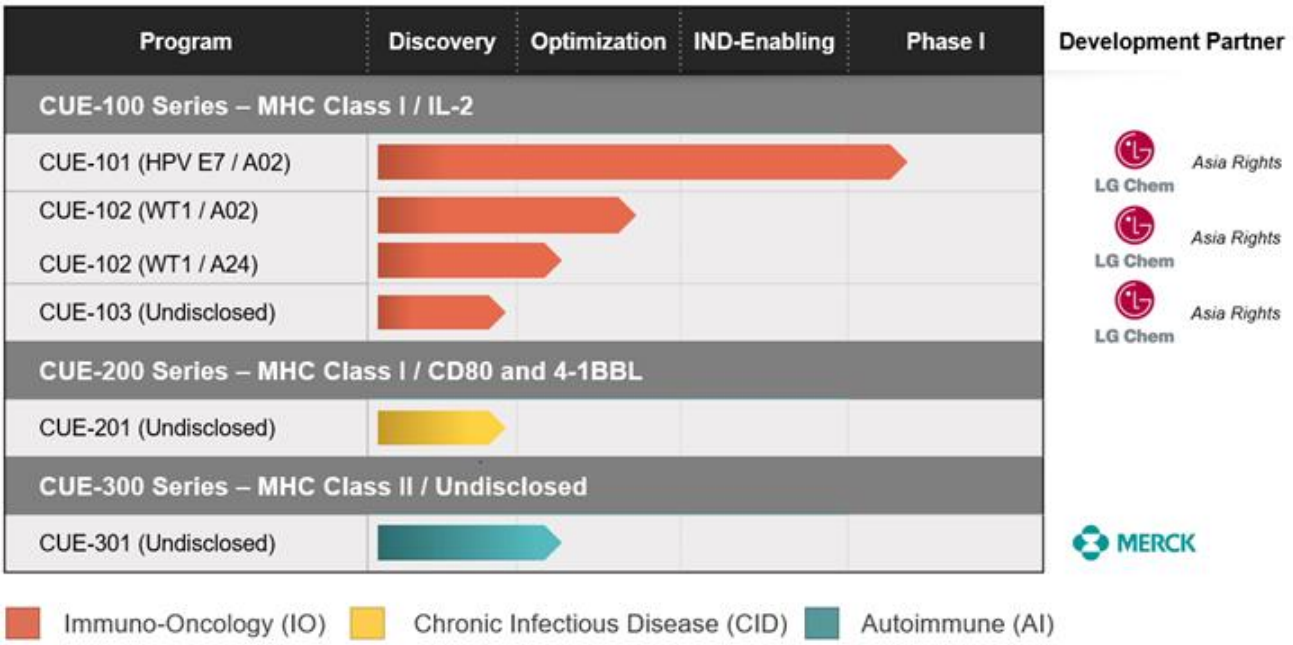
**Overview**

Cue Biopharma is a clinical stage biopharmaceutical company dedicated to designing and developing a novel and proprietary class of biologic product candidates engineered to selectively modulate the human immune system. Our Immuno-STAT™ (Selective Targeting and Alteration of T Cells) platform enables us to engineer product candidates that we call Immuno-STATs™ or Immuno-STAT biologics™ that directly engage with and direct the activity of antigen specific T cells in a patient's body through a singular molecular framework. We believe this precise targeting of disease relevant T cells will allow us to harness the fullest potential of an individual's intrinsic immune repertoire while avoiding broad immune activation (for immuno-oncology or infectious immunity) or broad immune suppression (for autoimmunity and inflammation). In addition to the selective control of T cell activity, we believe Immuno-STATs offer several key points of potential differentiation over competing approaches, including broad disease coverage, manufacturability, and convenient administration.

Through rational protein engineering, we leverage the modular and versatile nature of the Immuno-STAT platform to design therapeutics for selective immune modulation in cancer, chronic infectious disease, and autoimmune disease. To address the needs of these clinical indications, we have developed three biologic series, CUE-100, CUE-200, and CUE-300, each possessing distinct signaling modules that underscore unique biological mechanisms that may be applied across many diseases.

The Company's product candidates are in various stages of clinical and preclinical development, and the Company's activities are subject to significant risks and uncertainties. The Company has not yet commenced any commercial revenue-generating operations, does not have any cash flows from operations, and will need to raise additional capital to fund its growth and ongoing business operations.

Our Immuno-STAT Pipeline




We have made significant progress with the CUE-100, CUE-200 and CUE-300 series and in May 2019 received FDA approval of our Investigational New Drug application (IND) for our most advanced program CUE-101 in HPV-associated cancers and initiated clinical trials during the third quarter of 2019. This program is representative of the CUE-100 series for which we have generated a robust preclinical data package, including activation of human HPV specific T cells from human blood. We are advancing a pipeline of additional promising preclinical candidates with the potential to treat multiple cancers, autoimmune disorders and chronic infectious diseases to that end our second asset CUE-102 incorporates T cell epitopes from Wilms Tumor 1 (“WT1”) antigen. WT1 is a non-viral, oncofetal antigen that is over-expressed in a number of cancers, including solid tumors and hematologic malignancies.

**Plan of Operation**

Our technology is in the development phase. We believe that our licensed platforms have the potential for creating a robust pipeline of drug candidates addressing multiple medical indications. The Company intends to maximize the value and probability of commercialization of its Immuno-STAT™ immunotherapeutics by focusing on research, testing, optimizing, conducting pilot studies, performing early stage clinical development and partnering for more extensive, later stages of clinical development, as well as seeking extensive patent protection and intellectual property development.

Since we are a development stage company, the majority of our business activities to date and our planned future activities will be devoted to further research and development.

A fundamental part of our corporate development strategy is to establish one or more strategic partnerships with leading pharmaceutical or biotechnology organizations that will allow the Company to more fully exploit the potential of its technology platform, such as those described below under the headings “Collaboration Agreement with Merck” and “Collaboration with LG Chem”.

**Critical Accounting Policies and Significant Judgements and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of our financial statements, and the reported revenue and expenses during the reported periods. We evaluate these estimates and judgments, including those described below, on an ongoing basis. We base our estimates on historical experience, known trends and events, contractual milestones and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018, have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. There were no material changes to our critical accounting policies and estimates during the nine months ended September 30, 2019.

***Revenue Recognition***

The Company adopted Accounting Standards Codification, Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), during 2018. The Company generates revenue solely through collaboration arrangements with strategic partners for the development and commercialization of product candidates. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods and/or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and/or services. To determine the appropriate amount of revenue to be recognized for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following steps: (i) Identify the contract(s) with the customer, (ii) Identify the performance obligations in the contract, (iii) Determine the transaction price, (iv) Allocate the transaction price to the performance obligations in the contract and (v) Recognize revenue when (or as) each performance obligation is satisfied.

The Company recognizes collaboration revenue under certain of the Company's license or collaboration agreements that are within the scope of ASC 606. The Company's contracts with customers typically include promises related to licenses to intellectual property and research and development services. If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenue from non-refundable, up-front fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. Accordingly, the transaction price is generally comprised of a fixed fee due at contract inception and variable consideration in the form of milestone payments due upon the achievement of specified events and tiered royalties earned when customers recognize net sales of licensed products. The Company measures the transaction price based on the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods and/or services to the customer. The Company utilizes the "most likely amount" method to estimate the amount of variable consideration, to predict the amount of consideration to which it will be entitled for its one open contract. Amounts of variable consideration are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. At the inception of each arrangement that includes development and regulatory milestone payments, the Company evaluates whether the associated event is considered probable of achievement and estimates the amount to be included in the transaction price using the most likely amount method. Currently, the Company has one contract with an option to acquire additional goods and/or services in the form of additional research and development services for additional product candidates.

***Research and Development Costs***

Research and development expenses consist primarily of compensation costs, fees paid to consultants, outside service providers and organizations (including research institutes at universities), facility costs, and development and clinical trial costs with respect to the Company's product candidates.

Research and development expenses incurred under contracts are expensed ratably over the life of the underlying contracts, unless the achievement of milestones, the completion of contracted work, or other information indicates that a different pattern of performance is more appropriate. Other research and development expenses are charged to operations as incurred. Payments made pursuant to research and development contracts are initially recorded as research and development contract advances in the Company's balance sheet and then charged to research and development expenses in the Company's statement of operations as those contract services are performed. Expenses incurred under research and development contracts in excess of amounts advanced are recorded as research and development contract liabilities in the Company's balance sheet, with a corresponding charge to research and development expenses in the Company's statement of operations.

Nonrefundable advance payments for future research and development activities pursuant to an executory contractual arrangement are recorded as advances as described above. Nonrefundable advance payments are recognized as an expense as the related services are performed. The Company evaluates whether it expects the services to be rendered at each quarter end and year end reporting date. If the Company does not expect the services to be rendered, the advance payment is charged to expense. To the extent that a nonrefundable advance payment is for contracted services to be performed within 12 months from the reporting date, such advance is included in current assets; otherwise, such advance is included in non-current assets.

The Company evaluates the status of its research and development agreements and contracts, and the carrying amount of the related assets and liabilities, at each quarter end and year end reporting date, and adjusts the carrying amounts and their classification on the balance sheet as appropriate.

**Stock-Based Compensation**

The Company periodically issues stock options to officers, directors, employees, Scientific and Clinical Advisory Board members, non-employees and consultants for services rendered. Such issuances vest and expire according to terms established at the issuance date.

Stock-based payments to officers, directors and employees, including grants of employee stock options, are recognized in the financial statements based on their grant date fair values. Stock option grants, which are generally time-vested, are measured at the grant date fair value and charged to operations on a straight-line basis over the service period, which generally approximates the vesting term. The Company also grants performance-based awards periodically to officers of the Company. The Company recognizes compensation costs related to performance awards over the requisite service period if and when the Company concludes that it is probable that the performance condition will be achieved. Stock options granted to members of the Company's Scientific and Clinical Advisory Board, non-employees and outside consultants are valued at the grant date fair value and charged to operations on a straight-line basis over the service period, which generally approximates the vesting term.

The fair value of stock options is determined utilizing the Black-Scholes option-pricing model, which is affected by several variables, including the risk-free interest rate, the expected dividend yield, the life of the equity award, the exercise price of the stock option as compared to the fair value of the common stock on the grant date, and the estimated volatility of the common stock over the term of the equity award.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Until the Company has established a trading market for its common stock, estimated volatility is based on the average historical volatilities of comparable public companies in a similar industry. The expected dividend yield is based on the current yield at the grant date; the Company has never declared or paid dividends and has no plans to do so for the foreseeable future. As permitted by Staff Accounting Bulletin No. 107, due to the Company's lack of trading history and option activity, management utilizes the simplified method to estimate the expected term of options at the date of grant. The exercise price is determined based on the fair value of the Company's common stock at the date of grant. The Company accounts for forfeitures as they occur.

The Company recognizes the fair value of stock-based compensation in general and administrative expenses and in research and development expenses in the Company's statements of operations, depending on the type of services provided by the recipient of the equity award.

**Recent Accounting Pronouncements and Adopted Standards**

A discussion of recent accounting pronouncements is included in Note 2 to the consolidated financial statements in this Quarterly Report on Form 10-Q.

**Significant Contracts and Agreements Related to Research and Development Activities**

***License Agreement***

On January 14, 2015, the Company entered into a license agreement, as amended and restated on July 31, 2017 (the "Einstein License"), with Einstein for certain patent rights relating to the Company's core technology platform for the engineering of biologics to control T cell activity, precision, immune-modulatory drug candidates, and two supporting technologies that enable the discovery of costimulatory signaling molecules (ligands) and T cell targeting peptides. The Company holds an exclusive worldwide license, with the right to sublicense, import, make, have made, use, provide, offer to sell, and sell all products, processes and services that use the patents covered by the Einstein License, including certain technology received from Einstein related thereto (the "Licensed Products"). Under the Einstein License, the Company is required to:

- Pay royalties based on certain percentage of proceeds, as defined in the Einstein License, from sales of Licensed Products, including sublicense agreements.
- Pay escalating annual maintenance fees, which are non-refundable, but are creditable against the amount due to Einstein for royalties.
- Make significant payments based upon the achievement of certain milestones, as defined in the Einstein License. At September 30, 2019, none of these milestones had been achieved by the Company.
- Incur minimum product development costs per year until the first commercial sale of the first Licensed Product.

The Company was in compliance with its obligations under the Einstein License at September 30, 2019.

The Einstein License expires upon the expiration of the last obligation to make royalty payments to Einstein which may be due with respect to certain Licensed Products, unless terminated earlier under the provisions thereof. The Einstein License includes certain termination provisions if the Company fails to meet its obligations thereunder. three and nine months ended September 30, 2019

Pursuant to the Einstein License, the Company issued to Einstein 671,572 shares of common stock of the Company in connection with the consummation of the initial public offering of its common stock on December 27, 2017.

***Collaboration Agreement with Merck***

On November 14, 2017, the Company entered into an Exclusive Patent License and Research Collaboration Agreement (the "Collaboration Agreement") with Merck Sharp & Dohme Corp. ("Merck") for a partnership to research and develop certain of the Company's proprietary biologics that target certain autoimmune disease indications (the "Initial Indications"). We view this Collaboration Agreement as a component of our development strategy since it will allow us to advance our autoimmune programs in partnership with a world class pharmaceutical company, while also continuing our focus on our more advanced cancer programs. The research program outlined in the Collaboration Agreement entails (1) our research, discovery and development of certain Immuno-STAT™ drug candidates up to the point of demonstration of certain biologically relevant effects ("Proof of Mechanism") and (2) the further development by Merck of the Immuno-STAT™ drug candidates that have demonstrated Proof of Mechanism (the "Proposed Product Candidates") up to the point of demonstration of all or substantially all of the properties outlined in such Proposed Product Candidates' profiles as described in the Collaboration Agreement.

For the purposes of this collaboration, the Company granted to Merck under the Collaboration Agreement an exclusive license under certain of is patent rights, including a sublicense of patent rights licensed from Einstein, to the extent applicable to the specific Immuno-STAT™ that are elected to be developed by Merck. From the effective date of the Collaboration Agreement until the earlier of (i) the first achievement of Proof of Mechanism for a Immuno-STAT™ drug candidate or (ii) 18 months after the Company notifies the joint steering committee that the first Product Candidate has been synthesized under the research program, the Company is required to forebear from researching, developing or licensing to a third party rights related to any Immuno-STAT™ drug candidate for the treatment of autoimmune diseases other than pursuant to the Collaboration Agreement. On July 12, 2018, the Company announced the generation of the first Product Candidate, Immuno-STAT™, establishing the end-date of the forbearance period as no later than December 14, 2019. In addition, so long as Merck continues product development on a Proposed Product Candidate, the Company is restricted from conducting any development activities within the Initial Indication covered by such Proposed Product Candidate other than pursuant to the Collaboration Agreement. The Company is not required to forbear at any time, however, from developing other Immuno-STAT™ for use in therapeutic areas other than autoimmune diseases, e.g., for use in treating cancer or infectious diseases.

In exchange for the licenses and other rights granted to Merck under the Collaboration Agreement, Merck paid to the Company a $2.5 million nonrefundable up-front payment. Additionally, the Company may be eligible to receive funding in developmental milestone payments, as well as tiered royalties, if all research, development, regulatory and commercial milestones agreed upon by both parties are successfully achieved. Excluding the up-front payment described above, the Company is eligible to earn up to $101 million for the achievement of certain research and development milestones, $120 million for the achievement of certain regulatory milestones and $150 million for the achievement of certain commercial milestones, in addition to tiered royalties on sales, if all pre-specified milestones associated with multiple products across the primary disease indication areas are achieved. The Collaboration Agreement requires the Company to use the first $2.5 million of milestone payments we receive under the agreement to fund contract research. The amount of the royalty payments is a percentage of product sales ranging in the single digits based on the amount of such sales. For the three and nine months ended September 30, 2019, the Company recorded approximately $174,000 and $874,000, respectively, in collaboration revenue related to this agreement.

The term of the Collaboration Agreement extends until the expiration of all royalty obligations following a product candidate's receipt of marketing authorization, at which point Merck's licenses and sublicenses granted under the agreement shall become fully paid-up, perpetual licenses and sublicenses, as applicable. Royalties on each product subject to the Collaboration Agreement shall continue on a country-by-country basis until the expiration of the later of: (1) the last-to-expire patent claiming the compound on which such product is based and (2) a period of ten years after the first commercial sale of such product in such country.

Notwithstanding the foregoing, Merck may terminate the Collaboration Agreement at any time upon 30 days' notice to the Company. The Collaboration Agreement may also be terminated by either party if the other party is in breach of its obligations thereunder and fails to cure such breach within 90 days after notice or by either party if the other party files for bankruptcy or other similar insolvency proceedings.

***Collaboration Agreement with LG Chem***

Effective November 6, 2018, we entered into the LG Chem Agreement with LG Chem, related to the development of Immuno-STATs focused in the field of oncology.

Pursuant to the LG Chem Agreement, we granted LG Chem an exclusive license to develop, manufacture and commercialize our lead product, CUE-101, as well as Immuno-STATs that target T-cells against two additional cancer antigens ("Product Candidates"), in Australia, Japan, Republic of Korea, Singapore, Malaysia, Vietnam, Thailand, Philippines, Indonesia, China (including Macau and Hong Kong) and Taiwan (collectively, the "LG Chem Territory"). On December 20, 2018, the Company reported the selection of Wilms Tumor 1 ("WT1") as the first target antigen for a Product Candidate under the LG Chem Agreement. We retain rights to develop and commercialize all assets included in the LG Chem Agreement in the United States and in global markets outside of the LG Chem Territory. Under the LG Chem Agreement, we will engineer the selected Immuno-STATs for up to three alleles, which are expected to include the predominant alleles in the LG Chem Territory, thereby enhancing Cue's market reach by providing for greater patient coverage of populations in global markets, while LG Chem will establish a chemistry, manufacturing and controls ("CMC") process for the development and commercialization of selected Product Candidates. In addition, LG Chem has the option to select one additional Immuno-STAT for an oncology target (an "Additional Immuno-STAT") within two years of the effective date of the LG Chem Agreement for an exclusive worldwide development and commercialization license. If LG Chem exercises this option, then the parties will execute a license and collaboration agreement ("Global License and Collaboration Agreement") setting forth the terms and conditions relating to such arrangement. We will retain an option to co-develop and co-commercialize the additional program worldwide.

Under the terms of the LG Chem Agreement, LG Chem paid us a $5.0 million non-refundable, non-creditable upfront payment and purchased approximately $5.0 million of shares of our common stock at a price per share equal to a twenty percent (20%) premium to the volume weighted-average closing price per share over the thirty (30) trading day period immediately prior to the effective date of the LG Chem Agreement. We are also eligible to receive additional aggregate payments of approximately $400 million if certain research, development, regulatory and commercial milestones are successfully achieved. On May 16, 2019, the Company earned a $2.5 million milestone payment for the FDA acceptance of the IND for the Company's lead drug candidate, CUE-101, pursuant to the LG Chem Agreement. In addition, the LG Chem Agreement also provides that LG Chem will pay us tiered single-digit royalties on net sales of commercialized Product Candidates ("Collaboration Products") in the LG Chem Territory on a product-by-product and country-by-country basis, until the later of expiration of patent rights in a country, the expiration of regulatory exclusivity in such country, or ten years after the first commercial sale of a Collaboration Product in such country, subject to certain royalty step-down provisions set forth in the LG Chem Agreement.

Pursuant to the LG Chem Agreement, the parties will share research costs related to Collaboration Products, and LG Chem will provide CMC process development for selected Product Candidates and potentially additional downstream manufacturing capabilities, including clinical and commercial supply for Collaboration Products. In return for performing CMC process development, LG Chem is eligible to receive low-single digit royalty payments on the sales of Collaboration Products sold in all countries outside the LG Chem Territory. Furthermore, should the parties enter into a Global License and Collaboration Agreement for an Additional Immuno-STAT, LG Chem will pay us a one-time, non-refundable, non-creditable upfront payment and we will be eligible to receive up to approximately $470 to $675 million in fees and milestone payments as well as tiered royalty payments on future global sales that range from high-single digits to mid-double digit teens in the United States and mid-single to low-double digits outside of the United States. The amount of fees and milestone payments, as well as whether we receive royalty payments, will depend on when LG Chem nominates the Additional Immuno-STAT Biologic, the number of alleles selected by LG Chem and whether we exercise our option to co-develop and co-commercialize the additional program worldwide, in which case we would share costs and profits instead of receiving royalties and post-option-exercise milestones. For the three and nine months ended September 30, 2019, the Company recognized approximately $810,000 and $1,535,000, respectively, in collaboration revenue related to this agreement.

The LG Chem Agreement includes various representations, warranties, covenants, indemnities and other customary provisions. LG Chem may terminate the LG Chem Agreement for convenience or change of control of the Company on a program-by-program, product-by-product or country-by-country basis, or in its entirety, at any time following the notice period set forth in the LG Chem Agreement. Either party may terminate the LG Chem Agreement, in its entirety or on a program-by-program, product-by-product or country-by-country basis, in the event of an uncured material breach. The LG Chem Agreement is also terminable by either party (i) upon the bankruptcy, insolvency or liquidation of the other party or (ii) for certain activities involving the challenge of certain patents controlled by the other party. Unless earlier terminated, the LG Chem Agreement will expire on a product-by-product and country-by-country basis upon the expiration of the applicable royalty term.

**Results of Operations**

**Collaboration Revenue**

The Company has not generated commercial revenue from product sales. To date, the Company has generated collaboration revenue from the Merck and LG Chem Agreement.

**Operating Expenses**

The Company generally recognizes operating expenses as they are incurred in two general categories, general and administrative expenses and research and development expenses. The Company's operating expenses also include non-cash components related to depreciation and amortization of property and equipment and stock-based compensation, which are allocated, as appropriate, to general and administrative expenses and research and development expenses.

General and administrative expenses consist of salaries and related expenses for executive, legal, finance, human resources, information technology and administrative personnel, as well as professional fees, insurance costs, and other general corporate expenses. Management expects general and administrative expenses to increase in future periods as the Company adds personnel and incurs additional expenses related to an expansion of its research and development activities and its operation as a public company, including higher legal, accounting, insurance, compliance, compensation and other expenses.

Research and development expenses consist primarily of compensation expenses, fees paid to consultants, outside service providers and organizations (including research institutes at universities), facility expenses, and development and clinical trial expenses with respect to the Company's product candidates. The Company charges research and development expenses to operations as they are incurred. Management expects research and development expenses to increase in the future as the Company increases its efforts to develop technology for potential future products based on its technology and research.

**Three and Nine Months Ended September 30, 2019 and 2018**

The Company's statements of operations for the three and nine months ended September 30, 2019 and 2018, as discussed herein are presented below.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (in thousands) | | (in thousands) | |
| **Collaboration revenue** | $ 984 | $ 449 | $ 2,409 | $ 812 |
| **Operating expenses:** | | | | |
| General and administrative | 2,776 | 2,895 | 9,640 | 6,821 |
| Research and development | 5,302 | 10,313 | 20,523 | 21,721 |
| Total operating expenses | 8,078 | 13,208 | 30,163 | 28,542 |
| **Loss from operations** | (7,094) | (12,759) | (27,754) | (27,730) |
| **Other income:** | | | | |
| Interest income | 99 | 102 | 309 | 272 |
| Other income, net | 5 | 98 | 77 | 99 |
| Total other income | 104 | 200 | 386 | 371 |
| **Loss before income taxes** | (6,990) | (12,559) | (27,368) | (27,359) |
| Income tax expense | — | — | (413) | — |
| **Net loss** | $ (6,990) | $ (12,559) | $ (27,782) | (27,359) |
| Unrealized gains (losses) from available-for-sale securities, net of tax of $0 | — | (20) | — | (20) |
| **Comprehensive loss** | $ (6,990) | $ (12,579) | $ (27,771) | (27,379) |
| Net loss per common share – basic and diluted | $ (0.31) | $ (0.62) | $ (1.30) | $ (1.36) |
| Weighted average common shares outstanding – basic and diluted | 22,450,071 | 20,132,277 | 21,334,195 | 20,111,519 |

**Collaboration Revenue**

Collaboration revenue was $984,000 and $449,000 for the three months ended September 30, 2019 and 2018, respectively. The Company recognized collaboration revenue of approximately $2,409,000 and $812,000 for the nine months ended September 30, 2019 and 2018, respectively. All collaboration revenue recognized was related to the performance of services under our Collaboration Agreements with Merck and LG Chem in 2019.

**General and Administrative**

General and administrative expenses totaled approximately $2,776,000 and $2,895,000 for the three months ended September 30, 2019 and 2018, respectively. This decrease of approximately $119,000 was due primarily to a decrease in headcount. We expect our general and administrative expenses to increase as we expand our operations.

General and administrative expenses for the three months ended September 30, 2019 consisted of expenses related to employee and board compensation of approximately $849,000, stock based compensation of $520,000, professional and consulting fees of $950,000, rent of $242,000, insurance expense of $44,000, depreciation and amortization of $23,000, travel of $26,000, and other expenses of $122,000. General and administrative expenses for the three months ended September 30, 2018 included expenses related to employee and board compensation of approximately $700,000, professional and consulting fees of $881,000, rent of $112,000, depreciation and amortization of $9,000, insurance expense of $140,000, stock-based compensation of $856,000, travel of $65,000, and other expenses of $132,000.

General and administrative expenses totaled approximately $9,640,000 and $6,821,000 for the nine months ended September 30, 2019 and 2018, respectively. This increase of approximately $2,819,000 was due primarily to the growth of the Company and its activities. We expect our general and administrative expenses to continue to increase as we expand our operations.

General and administrative expenses for the nine months ended September 30, 2019 consisted of expenses related to employee and board compensation of approximately $2,724,000 stock based compensation of $1,483,000, professional and consulting fees of $3,702,000, rent of $721,000, insurance expense of $406,000, depreciation and amortization of $60,000, travel of $131,000, and other expenses of $413,000. General and administrative expenses for the nine months ended September 30, 2018 included expenses related to employee and board compensation of approximately $1,722,000, professional and consulting fees of $1,589,000, rent of $341,000, depreciation and amortization of $25,000, insurance expense of $416,000, stock-based compensation of $1,828,000, travel of $300,000, investor relations of $163,000, and other expenses of $437,000.

**Research and Development**

Research and development expenses totaled approximately $5,302,000 and $10,313,000 for the three months ended September 30, 2019 and 2018, respectively. This decrease of approximately $5,011,000 was due primarily to a reduction in headcount and decreases in stock based compensation associated with this reduction, as well as, a reduction in laboratory and drug substance manufacturing costs. We expect our research and development expenses to increase as we expand our clinical development activities.

Research and development expenses for the three months ended September 30, 2019 included expenses related to employee and Scientific and Clinical Advisory Board compensation of approximately $1,431,000, stock-based compensation of $919,000, depreciation and amortization of $241,000, research and laboratory expenses of $808,000, clinical expenses of $628,000, rent of $895,000, other professional fees of $59,000, licensing fees of $22,000, insurance expense of $118,000, and other expenses of $181,000. Research and development expenses for the three months ended September 30, 2018 included expenses related to employee and Scientific and Clinical Advisory Board compensation of $1,698,000, depreciation and amortization of $186,000, stock-based compensation of $1,875,000, research and laboratory expenses of $5,423,000, rent of $751,000, other professional fees of $219,000, licensing fees of $32,000, and other expenses of $129,000.

Research and development expenses totaled approximately $20,523,000 and $21,721,000 for the nine months ended September 30, 2019 and 2018, respectively. This decrease of approximately $1,198,000 was due primarily to a reduction in headcount and decreases in stock based compensation and laboratory costs associated with this reduction. We expect our research and development expenses to increase as we expand our clinical development activities.

Research and development expenses for the nine months ended September 30, 2019 included expenses related to employee and Scientific and Clinical Advisory Board compensation of approximately $5,015,000, stock-based compensation of $3,042,000, depreciation and amortization of $677,000, research and laboratory expenses of $5,082,000, Clinical expenses of $1,341,000, rent of $2,690,000, other professional fees of $1,194,000, licensing fees of $636,000, insurance expense of $119,000, travel expenses of $86,000 and other expenses of $641,000. Research and development expenses for the nine months ended September 30, 2018 included expenses related to employee and Scientific and Clinical Advisory Board compensation of $4,170,000, depreciation and amortization of $530,000, stock-based compensation of $3,335,000, research and laboratory expenses of $10,882,000, rent of $1,909,000, other professional fees of $337,000, licensing fees of $90,000, and other expenses of $427,000.

**Interest Income**

Interest income was approximately $99,000 for the three months ended September 30, 2019, as compared to $102,000 for the three months ended September 30, 2018. Interest income was approximately $309,000 for the nine months ended September 30, 2019, as compared to $272,000 for the nine months ended September 30, 2018.

**Other Income and Expense**

Other income for the three months ended September 30, 2019 was comprised of approximately $5,000 in income resulting from the amortization discounts received on certain of the Company's marketable securities, compared to $98,000 for the three months ended September 30, 2018. Other income was approximately $77,000 for the nine months ended September 30, 2019, as compared to $99,000 for the nine months ended September 30, 2018. Other expenses for three months ended September 30, 2019 were de minimis. three and nine months ended September 30, 2019 three and nine months ended September 30, 2018

**Liquidity and Capital Resources**

The Company has financed its working capital requirements primarily through private and public offerings of equity securities and cash received from Merck and LG Chem under the respective collaboration agreements. At September 30, 2019, the Company had cash and cash equivalents totaling approximately $31,379,000 available to fund the Company's ongoing business activities. Additional information concerning the Company's financial condition and results of operations is provided in the financial statements included in this report.

The amounts that the Company actually spends for any specific purpose may vary significantly and will depend on a number of factors, including, but not limited to, the Company's research and development activities and programs, clinical testing, regulatory approval, market conditions, and changes in or revisions to the Company's business strategy and technology development plans. Investors will be relying on the judgment of the Company's management regarding the application of the proceeds from the sale of the Company's common stock.

The Company believes that its existing cash resources along with the funds available to the Company through its at-the-market equity offering sales agreement with Stifel Nicolaus & Company, Inc. will be sufficient to fund the Company's projected operating requirements for the next 12 months from the issuance of this report based on current operating plans. Until the Company is able to generate sustainable revenues that generate operating profitability and positive operating cash flows, the Company expects to finance its future cash needs through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. However, there can be no assurances that the Company will be able to obtain additional financing on acceptable terms and in the amounts necessary to fully fund its future operating requirements, if at all. If the Company is unable to obtain sufficient cash resources to fund its operations, the Company may be forced to reduce or discontinue its operations entirely.

In June 2019, the Company entered into an at-the-market equity offering sales agreement with Stifel Nicolaus & Company, Inc. ("Stifel") to sell shares of the Company's common stock for aggregate gross proceeds of up to $30 million, from time to time, through an "at-the-market" equity offering program under which Stifel acts as sales agent. The sales agreement will terminate at upon the earliest of (a) the sale of $30 million of shares of the Company's common stock or (b) the termination of the sales agreement by the Company or Stifel. As of September 30, 2019, the Company had sold 2,084,615 common shares under the sales agreement for proceeds of approximately $15.7 million, net of commissions paid, but excluding estimated transaction expenses. As of the issuance date of this report, the Company had sold 2,084,615 common shares under the sales agreement for proceeds of approximately $15.7 million, net of commissions paid, but excluding estimated transaction expenses.

If the Company issues additional equity securities to raise funds, the ownership percentage of the Company's existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of the Company's common stock. If the Company issues debt securities, the Company may be required to grant security interests in its assets, could have substantial debt service obligations, and lenders may have a senior position (compared to stockholders) in any potential future bankruptcy or liquidation of the Company. Additionally, corporate collaboration and licensing arrangements may require us to incur non-recurring and other charges, give up certain rights relating to our intellectual property and research and development activities, increase our near and long-term expenditures, issue securities that dilute our existing stockholders, issue debt which may require liens on our assets and which will increase our monthly expense obligations, or disrupt our management and business.

The following table summarizes our changes in cash, cash equivalents, and restricted cash for the nine months ended September 30, 2019 and 2018:

| | Nine Months Ended September 30, | |
|---|---|---|
| **(in thousands)** | **2019** | **2018** |
| Net cash provided by (used in): | | |
| Operating activities | $ (24,359) | $ (22,513) |
| Investing activities | 18,592 | (25,041) |
| Financing activities | 16,296 | 12 |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | $ 10,529 | $ (47,542) |

**Operating Activities**

During the nine months ended September 30, 2019, the Company used cash of approximately $24,359,000 in operating activities, as compared to approximately $22,513,000 in operating activities during the nine months ended September 30, 2018, an increase of approximately $1,846,000. Cash used in operating activities during the nine months ended September 30, 2019 consisted primarily of our net loss of approximately $27,782,000, and increases of approximately $610,000 in accounts receivable, $1,222,000 in research and development contract liabilities and other current assets, offset by decreases of approximately $3,029,000 in operating lease liability, $857,000 in accounts payable, $233,000 in accrued expenses, and $346,000 in prepaid expenses, as well as non-cash charges in operating lease right of use amortization of approximately $3,036,000, depreciation of $605,000, and stock based compensation of $4,525,000. Cash used in operating activities during the nine months ended September 30, 2018, consisted primarily of our net loss of approximately $27,359,000, offset by changes in our operating assets and liabilities of $1,009,000 and non-cash charges of $5,855,000. Changes in our non-cash charges consisted primarily of depreciation of $556,000, stock-based compensation of $5,163,000, deferred rent of $188,000, offset by $52,000 of non-cash investment expense. Changes in our operating assets and liabilities consisted of an increase in accrued expenses of $1,117,000, offset by cash paid for deposits of $551,000, decreases in accounts payable of $662,000 and research and development contract liabilities of $812,000, and $101,000 in prepaid expenses.

**Investing Activities**

During the nine months ended September 30, 2019, the Company's investing activities provided $18,592,000 in cash, compared to cash used in investing activities of approximately $25,041,000 during the nine months ended September 30, 2018. Cash provided by investing activities during the nine months ended September 30, 2019 consisted primarily of approximately $18,501,000 for the redemption of short-term investments, and $127,500 cash received for the sale of lab equipment, offset by the purchase of property and equipment of approximately $36,000. Cash used in the nine months ended September 30, 2018 consisted of $23,307,000 for the purchase of marketable securities and $1,734,000 for the purchase of office and laboratory equipment.

**Financing Activities**

During the nine months ended September 30, 2019, the Company generated cash from financing activities of approximately $16,296,000, compared to approximately $12,000 in financing activities during the nine months ended September 30, 2018, an increase of approximately $16,285,000. Cash from financing activities during the nine months ended September 30, 2019, consisted of cash proceeds from the common stock sold through our at-the-market sales agreement with Stifel of approximately $15,652,000, net of underwriting commissions and fees, and the exercise of common stock options of approximately $644,000. Cash received in the nine months ended September 30, 2018, was from the exercise of common stock options.

**Principal Commitments**

**Einstein License Agreement and Einstein Service Agreement**

The Company's commitments with respect to the Einstein License and service agreement are summarized above at "Significant Contracts and Agreements Related to Research and Development Activities".

**Contractual obligations**

The following table sets forth certain information concerning the Company's estimated fixed obligations and commitments to make future payments under existing contracts at September 30, 2019. This table excludes potential milestone and royalty payments due under our Einstein License agreements.

| | | Payments Due by Period (in thousands) | | | |
|---|---|---|---|---|---|
| Description | Total | Less Than One Year | 1 - 3 Years | 3 - 5 Years | More Than 5 Years |
| Operating lease obligations | 7,044 | 4,232 | 2,485 | — | — |
| Total | $ 7,044 | $ 4,232 | $ 2,485 | $ — | $ — |

**Off-balance sheet arrangements**

At September 30, 2019, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item 3.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

We are responsible for maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Based on our management's evaluation (with the participation of our principal executive officer and our principal financial officer) of our disclosure controls and procedures as required by Rule 13a-15 under the Exchange Act, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2019, the end of the period covered by this report.

### Inherent Limitations on Effectiveness of Controls

Our management, including our principal executive officer and our principal financial officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of control effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 30, 2019that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings.

### ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. The occurrence of any of these risks could harm our business, financial condition, results of operations and/or growth prospects or cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and those we may make from time to time. In evaluating the Company and its business, you should carefully consider the information included in this Quarterly Report on Form 10-Q and in other documents we file with the SEC, the risk factors previously disclosed in "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018, and in "Part II, Item 1A. Risk Factors" in any subsequently filed Quarterly Report(s) on Form 10-Q. There have been no material changes to such risk factors as of September 30, 2019.

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

**Use of Proceeds from Registered Securities**

On December 14, 2017, our Registration Statement on Form S-1, as amended (File No. 333-220550), was declared effective by the SEC and, on December 21, 2017, our Registration Statement on Form S-1 (File No. 333-222211) became effective upon filing with the SEC. Each such Registration Statement was filed in connection with our initial public offering that closed on December 27, 2017, as a result of which we raised net proceeds of approximately $61.9 million.

There has been no material change in the planned use of proceeds from our initial public offering as described in the final prospectus with the SEC pursuant to Rule 424(b) under the Securities Act on December 21, 2017.

### 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 | | | | |
|---|---|---|---|---|---|---|
| | | Filed Herewith | Form | Exhibit | Filing Date | Registration/File No. |
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant | | 8-K | 3.1 | 12/27/17 | 001-38327 |
| 3.2 | Amended and Restated Bylaws of the Registrant | | S-1 | 3.5 | 12/05/17 | 333-220550 |
| 31.1 | Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 | X | | | | |
| 31.2 | Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 | X | | | | |
| 32.1 | Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 101.INS | XBRL Instance Document | X | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Documents | X | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Documents | X | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Documents | X | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Documents | X | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Documents | X | | | | |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cue Biopharma, Inc.

Dated: November 7, 2019

By: /s/ Daniel R. Passeri

Daniel R. Passeri
Chief Executive Officer and Director
(Principal Executive Officer)

Dated: November 7, 2019

By: /s/ Kerri-Ann Millar

Kerri-Ann Millar
Vice President, Finance
(Principal Financial and Accounting Officer)

**EXHIBIT 31.1**

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel R. Passeri, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cue Biopharma, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: November 7, 2019

/s/ Daniel R. Passeri
Name: Daniel R. Passeri
Title: Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 31.2**

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kerri-Ann Millar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cue Biopharma, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: November 7, 2019

/s/ Kerri-Ann Millar
Name: Kerri-Ann Millar
Title: Vice President of Finance
(Principal Financial Officer and Principal Accounting Officer)

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-Q of Cue Biopharma, Inc. (the "Company") for the three months ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Daniel R. Passeri, Chief Executive Officer of the Company, and Kerri-Ann Millar, Vice President of Finance of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to our knowledge that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Cue Biopharma, Inc. and will be retained by Cue Biopharma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Daniel R. Passeri
Name: Daniel R. Passeri
Title: Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2019

/s/ Kerri-Ann Millar
Name: Kerri-Ann Millar
Title: Vice President of Finance
(Principal Financial Officer and Principal Accounting Officer)

Date: November 7, 2019