

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2024  
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: 001-39926

**Terns Pharmaceuticals, Inc.**  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
1065 East Hillsdale Blvd., Suite 100  
Foster City, California  
(Address of principal executive offices)

98-1448275  
(I.R.S. Employer  
Identification No.)  
94404  
(Zip Code)

Registrant's telephone number, including area code: (650) 525-5535

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

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

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

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

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

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

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

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

As of July 26, 2024, the registrant had 70,371,911 shares of common stock, \$0.0001 par value per share, outstanding.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements concerning our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business, operations and financial performance and condition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that are in some cases beyond our control and may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as “aim,” “anticipate,” “assume,” “believe,” “contemplate,” “continue,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “may,” “objective,” “plan,” “predict,” “potential,” “positioned,” “seek,” “should,” “target,” “will,” “would,” and other similar expressions that are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

- our expectations with regard to the results of our clinical studies, preclinical studies and research and development programs, including the timing and availability of data from such studies;
- the location, timing of commencement and data reporting of future nonclinical studies and clinical trials and research and development programs;
- our clinical and regulatory development plans;
- our expectations regarding the product profile, relative benefits and clinical utility of our product candidates;
- our expectations regarding the potential market size and size of the potential patient populations for our product candidates and any future product candidates if approved for commercial use;
- our ability to acquire, discover, develop and advance our product candidates into, and successfully complete, clinical trials;
- our intentions and our ability to establish collaborations and/or partnerships;
- the timing or likelihood of regulatory filings and approvals for our product candidates;
- our commercialization, marketing and manufacturing capabilities and expectations;
- our intentions with respect to the commercialization of our product candidates;
- the pricing and reimbursement of our product candidates, if approved;
- the implementation of our business model and strategic plans for our business and product candidates, including additional indications which we may pursue or elect not to pursue;
- the scope of protection we are able to establish, maintain, protect and enforce for intellectual property rights covering our product candidates including the projected terms of patent protection;
- estimates of our expenses, future revenue, capital requirements, our needs for additional financing and our ability to obtain additional capital and the timing of the sufficiency of our capital resources;
- our future financial performance; and
- developments and projections relating to our competitors and our industry, including competing products.

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# **PART I—FINANCIAL INFORMATION**

## **Item 1. Condensed Consolidated Financial Statements (Unaudited).**

### **Terns Pharmaceuticals, Inc.** **Condensed Consolidated Balance Sheets** **(Unaudited; in thousands, except share and per share data)**

|  | June 30, 2024 | December 31, 2023 |
|--|---------------|-------------------|
| <b>Assets</b>  |               |                   |
| Current assets:  |               |                   |
| Cash and cash equivalents  | \$ 91,496     | \$ 79,926         |
| Marketable securities  | 133,801       | 183,514           |
| Prepaid expenses and other current assets  | 4,941         | 3,992             |
| Total current assets   | 230,238       | 267,432           |
| Property and equipment, net  | 370           | 506               |
| Operating lease assets   | 217           | 523               |
| Other assets   | 55            | 56                |
| Total assets   | \$ 230,880    | \$ 268,517        |
| <b>Liabilities and Stockholders' Equity</b>  |               |                   |
| Current liabilities:   |               |                   |
| Accounts payable   | \$ 1,873      | \$ 2,515          |
| Accrued expenses and other current liabilities   | 8,833         | 8,826             |
| Current portion of operating lease liabilities   | 249           | 603               |
| Total current liabilities  | 10,955        | 11,944            |
| Taxes payable, non-current   | 1,244         | 1,206             |
| Total liabilities  | 12,199        | 13,150            |
| <b>Commitments and contingencies</b>   |               |                   |
| <b>Stockholders' equity:</b>   |               |                   |
| Common stock, \$0.0001 par value, 150,000,000 shares authorized at June 30, 2024 and December 31, 2023; 70,335,636 and 64,576,719 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively | 7             | 6                 |
| Additional paid-in capital   | 596,854       | 588,008           |
| Accumulated other comprehensive loss   | (443)         | (19)              |
| Accumulated deficit  | (377,737)     | (332,628)         |
| Total stockholders' equity   | 218,681       | 255,367           |
| Total liabilities and stockholders' equity   | \$ 230,880    | \$ 268,517        |

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

**Terns Pharmaceuticals, Inc.**  
**Condensed Consolidated Statements of Operations and Comprehensive Loss**  
(Unaudited; in thousands, except share and per share data)

|   | Three Months Ended June 30, |                    | Six Months Ended June 30, |                    |
|---|-----------------------------|--------------------|---------------------------|--------------------|
|   | 2024                        | 2023               | 2024                      | 2023               |
| Operating expenses:   |                             |                    |                           |                    |
| Research and development  | \$ 18,352                   | \$ 14,151          | \$ 36,939                 | \$ 31,207          |
| General and administrative  | 7,185                       | 7,008              | 14,044                    | 14,109             |
| Total operating expenses  | 25,537                      | 21,159             | 50,983                    | 45,316             |
| Loss from operations  | (25,537)                    | (21,159)           | (50,983)                  | (45,316)           |
| Other income:   |                             |                    |                           |                    |
| Interest income   | 2,876                       | 3,395              | 6,058                     | 6,088              |
| Other expense, net  | (14)                        | (60)               | (26)                      | (64)               |
| Total other income, net   | 2,862                       | 3,335              | 6,032                     | 6,024              |
| Loss before income taxes  | (22,675)                    | (17,824)           | (44,951)                  | (39,292)           |
| Income tax expense  | (61)                        | (72)               | (158)                     | (132)              |
| Net loss  | <u>\$ (22,736)</u>          | <u>\$ (17,896)</u> | <u>\$ (45,109)</u>        | <u>\$ (39,424)</u> |
| Net loss per share, basic and diluted                               | <u>\$ (0.31)</u>            | <u>\$ (0.25)</u>   | <u>\$ (0.61)</u>          | <u>\$ (0.56)</u>   |
| Weighted average common stock outstanding, basic and diluted        | <u>74,459,774</u>           | <u>71,364,110</u>  | <u>74,429,576</u>         | <u>70,575,645</u>  |
| Other comprehensive loss:   |                             |                    |                           |                    |
| Net loss  | \$ (22,736)                 | \$ (17,896)        | \$ (45,109)               | \$ (39,424)        |
| Unrealized (loss) gain on available-for-sale securities, net of tax | (115)                       | (298)              | (408)                     | 120                |
| Foreign exchange translation adjustment, net of tax                 | (7)                         | (61)               | (16)                      | (73)               |
| Comprehensive loss  | <u>\$ (22,858)</u>          | <u>\$ (18,255)</u> | <u>\$ (45,533)</u>        | <u>\$ (39,377)</u> |

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

**Terns Pharmaceuticals, Inc.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(Unaudited; in thousands, except share data)**

**Six Months Ended June 30, 2024**

|   | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|---|------------------------|------------------------|----------------------------------|---|------------------------|----------------------------------|
| Balances at December 31, 2023   | 64,576,719             | \$ 6                   | \$ 588,008                       | \$ (19)                                       | \$ (332,628)           | \$ 255,367                       |
| Vesting of restricted stock units with service conditions                   | 74,974                 | —                      | —                                | —   | —                      | —                                |
| Stock-based compensation expense  | —                      | —                      | 4,028                            | —   | —                      | 4,028                            |
| Unrealized loss on available-for-sale securities                            | —                      | —                      | —                                | (293)   | —                      | (293)                            |
| Foreign exchange translation adjustment                                     | —                      | —                      | —                                | (9)   | —                      | (9)                              |
| Net loss  | —                      | —                      | —                                | —   | (22,373)               | (22,373)                         |
| Balances at March 31, 2024  | 64,651,693             | \$ 6                   | \$ 592,036                       | \$ (321)                                      | \$ (355,001)           | \$ 236,720                       |
| Exercise of stock options   | 4,000                  | —                      | 12                               | —   | —                      | 12                               |
| Issuance of common stock under employee stock purchase plan                 | 87,083                 | —                      | 387                              | —   | —                      | 387                              |
| Issuance of common stock in connection with exercise of pre-funded warrants | 5,564,904              | 1                      | (1)                              | —   | —                      | —                                |
| Vesting of restricted stock units with service conditions                   | 27,956                 | —                      | —                                | —   | —                      | —                                |
| Stock-based compensation expense  | —                      | —                      | 4,420                            | —   | —                      | 4,420                            |
| Unrealized loss on available-for-sale securities                            | —                      | —                      | —                                | (115)   | —                      | (115)                            |
| Foreign exchange translation adjustment                                     | —                      | —                      | —                                | (7)   | —                      | (7)                              |
| Net loss  | —                      | —                      | —                                | —   | (22,736)               | (22,736)                         |
| Balances at June 30, 2024   | <u>70,335,636</u>      | <u>\$ 7</u>            | <u>\$ 596,854</u>                | <u>\$ (443)</u>                               | <u>\$ (377,737)</u>    | <u>\$ 218,681</u>                |

**Six Months Ended June 30, 2023**

|   | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|---|------------------------|------------------------|----------------------------------|---|------------------------|----------------------------------|
| Balances at December 31, 2022   | 53,723,171             | \$ 5                   | \$ 520,178                       | \$ (822)                                      | \$ (242,418)           | \$ 276,943                       |
| Issuance of common stock in at-the-market offering                          | 2,929,922              | —                      | 27,924                           | —   | —                      | 27,924                           |
| Vesting of restricted stock units with service conditions                   | 16,503                 | —                      | —                                | —   | —                      | —                                |
| Stock-based compensation expense  | —                      | —                      | 3,938                            | —   | —                      | 3,938                            |
| Unrealized gain on available-for-sale securities                            | —                      | —                      | —                                | 418   | —                      | 418                              |
| Foreign exchange translation adjustment                                     | —                      | —                      | —                                | (12)  | —                      | (12)                             |
| Net loss  | —                      | —                      | —                                | —   | (21,528)               | (21,528)                         |
| Balances at March 31, 2023  | 56,669,596             | \$ 5                   | \$ 552,040                       | \$ (416)                                      | \$ (263,946)           | \$ 287,683                       |
| Exercise of stock options   | 95,176                 | —                      | 248                              | —   | —                      | 248                              |
| Issuance of common stock under employee stock purchase plan                 | 114,739                | —                      | 241                              | —   | —                      | 241                              |
| Issuance of common stock in connection with exercise of pre-funded warrants | 4,174,960              | 1                      | (1)                              | —   | —                      | —                                |
| Vesting of restricted stock units with service conditions                   | 10,552                 | —                      | —                                | —   | —                      | —                                |
| Stock-based compensation expense  | —                      | —                      | 4,233                            | —   | —                      | 4,233                            |
| Unrealized loss on available-for-sale securities                            | —                      | —                      | —                                | (298)   | —                      | (298)                            |
| Foreign exchange translation adjustment                                     | —                      | —                      | —                                | (61)  | —                      | (61)                             |
| Net loss  | —                      | —                      | —                                | —   | (17,896)               | (17,896)                         |
| Balances at June 30, 2023   | <u>61,065,023</u>      | <u>\$ 6</u>            | <u>\$ 556,761</u>                | <u>\$ (775)</u>                               | <u>\$ (281,842)</u>    | <u>\$ 274,150</u>                |

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

**Terns Pharmaceuticals, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited; in thousands)

|   | Six Months Ended June 30, |                  |
|---|---------------------------|------------------|
|   | 2024                      | 2023             |
| Cash flows from operating activities:                                       |                           |                  |
| Net loss  | \$ (45,109)               | \$ (39,424)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                           |                  |
| Stock-based compensation expense  | 8,448                     | 8,171            |
| Depreciation expense  | 170                       | 148              |
| Accretion on marketable securities  | (925)                     | (1,781)          |
| Change in deferred taxes and uncertain tax positions                        | 68                        | 64               |
| Amortization of operating lease assets                                      | 306                       | 291              |
| Changes in operating assets and liabilities:                                |                           |                  |
| Prepaid expenses and other current assets                                   | (949)                     | (641)            |
| Accounts payable  | (642)                     | 4,171            |
| Accrued expenses and other current liabilities                              | 8                         | 1,951            |
| Operating lease liabilities   | (352)                     | (325)            |
| Net cash used in operating activities                                       | (38,977)                  | (27,375)         |
| Cash flows from investing activities:                                       |                           |                  |
| Purchase of property and equipment  | (42)                      | —                |
| Purchase of investments   | (50,594)                  | (206,693)        |
| Proceeds from sales and maturities of investments                           | 100,824                   | 143,787          |
| Net cash provided by (used in) investing activities                         | 50,188                    | (62,906)         |
| Cash flows from financing activities:                                       |                           |                  |
| Net proceeds from issuance of common stock in at-the-market offering        | —                         | 27,924           |
| Proceeds from stock option exercises  | 12                        | 248              |
| Payment of deferred offering costs  | —                         | (344)            |
| Proceeds from issuance of common stock under employee stock purchase plan   | 387                       | 241              |
| Net cash provided by financing activities                                   | 399                       | 28,069           |
| Effect of exchange rate changes on cash and cash equivalents                | (40)                      | (104)            |
| Net increase (decrease) in cash and cash equivalents                        | 11,570                    | (62,316)         |
| Cash and cash equivalents at beginning of period                            | 79,926                    | 143,235          |
| Cash and cash equivalents at end of period                                  | <u>\$ 91,496</u>          | <u>\$ 80,919</u> |
| Supplemental disclosure of cash flow information:                           |                           |                  |
| Cash paid for amounts included in the measurement of lease liabilities      | \$ 366                    | \$ 357           |

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

**Terns Pharmaceuticals, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. Nature of the Business, Basis of Presentation and Summary of Significant Accounting Policies**

**Nature of the Business**

Terns Pharmaceuticals, Inc. (Terns or the Company) is a clinical-stage biopharmaceutical company developing a portfolio of small-molecule product candidates to address serious diseases including oncology and obesity.

Terns was incorporated as an exempted company in the Cayman Islands in December 2016. In December 2020, the Company effected a de-registration of the Company in the Cayman Islands and a domestication in the State of Delaware, pursuant to which it became a Delaware corporation. Terns owns all of the share capital of Terns Pharmaceutical HongKong Limited (Terns Hong Kong) and Terns, Inc., a Delaware corporation (Terns U.S. Opco). Terns Hong Kong holds all of the share capital of Terns China Biotechnology Co., Ltd. (organized in Shanghai, People's Republic of China (PRC)) (Terns China) and Terns (Suzhou) Biotechnology Co., Ltd. (organized in Suzhou, PRC) (Terns Suzhou).

The Company manages its operations as a single segment for the purposes of assessing performance and making operating decisions.

**Basis of Presentation**

The accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of Terns and its wholly owned subsidiaries Terns U.S. Opco and Terns Hong Kong and its wholly owned subsidiaries Terns China and Terns Suzhou, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The Company's unaudited condensed consolidated financial statements have been prepared in conformity with U.S. GAAP. All intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated balance sheet as of December 31, 2023 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.

Operating results for the three and six months ended June 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024 or for any other future periods.

*Unaudited Interim Financial Information*

These unaudited condensed consolidated financial statements include all adjustments necessary, consisting of only normal recurring adjustments, to fairly state the financial position and the results of the Company's operations and cash flows for interim periods in accordance with U.S. GAAP. Interim period results are not necessarily indicative of results of operations or cash flows for a full year or any subsequent interim periods. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K (the Annual Report) for the fiscal year ended December 31, 2023, as filed with the SEC on March 14, 2024. There have been no significant changes to the Company's significant accounting policies described in Note 1, Nature of the Business, Basis of Presentation and Summary of Significant Accounting Policies, in Notes to Consolidated Financial Statements in Item 8 of Part II of the Form 10-K for the fiscal year ended December 31, 2023.

Any reference to these notes to applicable guidance is meant to refer to the authoritative GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Updates (ASUs) of the Financial Accounting Standards Board (FASB).

*At-the-Market Offering*

In March 2022, the Company entered into a Sales Agreement with Cowen and Company, LLC (Cowen) as sales agent, pursuant to which the Company has the ability to offer and sell, from time to time, through Cowen, shares of its common stock having an aggregate offering price of up to \$75.0 million in an at-the-market offering. The shares are offered pursuant to the Company's shelf registration statement on Form S-3 filed with the Securities and Exchange Commission (SEC), which became effective in March 2022. As of June 30, 2024, there were 9,781,673 shares of our common stock sold for aggregate net proceeds of \$66.6 million after deducting commissions and offering expenses pursuant to this agreement. There were no sales of the Company's common stock pursuant to this agreement during the six months ended June 30, 2024.



In May 2023, the Company entered into a Sales Agreement with Cowen as sales agent, pursuant to which the Company has the ability to offer and sell, from time to time, through Cowen, shares of its common stock having an aggregate offering price of up to \$150.0 million in an at-the-market offering. The shares are offered pursuant to the Company's shelf registration statement on Form S-3 filed with the SEC, which became effective in February 2023. There were no sales of the Company's common stock pursuant to this agreement through June 30, 2024.

## **Summary of Significant Accounting Policies**

### *Use of Estimates*

The preparation of condensed consolidated 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 reported amounts of expenses during the reporting period. Significant estimates and assumptions made in the accompanying condensed consolidated financial statements include, but are not limited to, the estimates for accruals of research and development expenses, accrual of research contract costs, unrecognized tax benefits, fair value of common stock and stock option valuations. On an ongoing basis, the Company evaluates its estimates and judgments, using historical and anticipated results and trends and on various other assumptions that management believes to be reasonable under the circumstances. Actual results could materially differ from those estimates.

### *Cash, Cash Equivalents and Marketable Securities*

Cash and cash equivalents consist of standard checking accounts and money market funds. The Company considers all highly liquid investments with an original maturity of 90 days or less at the date of purchase to be cash equivalents.

The Company classifies as available-for-sale marketable securities with a remaining maturity when purchased of greater than three months. The Company's marketable securities are maintained by investment managers and may consist of U.S. government and non-U.S. government securities, corporate debt securities and commercial paper. Debt securities are carried at fair value with the unrealized gains and losses included in the condensed consolidated statements of operations and comprehensive loss and as a component of stockholders' equity until realized. Any premium arising at purchase is amortized to the earliest call date and any discount arising at purchase is accreted to maturity. Amortization and accretion of premiums and discounts are recorded in interest income and/or expense. Gains and losses on securities sold are recorded based on the specific identification method and are included in Interest income, net in the condensed consolidated statements of operations and comprehensive loss. The Company has not incurred any material realized gains or losses from sales of securities to date.

The Company assesses its available-for-sale debt securities for impairment as of each reporting date in order to determine if a portion of any decline in fair value below carrying value is the result of a credit loss. The Company records credit losses in the condensed consolidated statements of operations and comprehensive loss as credit loss expense within other expense, net, which is limited to the difference between the fair value and the amortized cost of the security. To date, the Company has not recorded any credit losses on its available-for-sale debt securities.

Interest receivable related to the Company's available-for-sale debt securities is presented as marketable securities on the Company's condensed consolidated balance sheets. The Company writes off interest receivable once it has determined that the asset is not realizable. To date, the Company has not written off any interest receivables associated with its marketable securities.

### *Operating Leases and Rent Expense*

At the inception of a contractual arrangement, the Company determines whether the contract contains a lease by assessing whether there is an identified asset and whether the contract conveys the right to control the use of the identified asset in exchange for consideration over a period of time. If both criteria are met, upon lease commencement, the Company records a lease liability which represents the Company's obligation to make lease payments arising from the lease, and a corresponding right-of-use (ROU) asset which represents the Company's right to use an underlying asset during the lease term.

Operating lease ROU assets and liabilities are recognized on the balance sheet at the lease commencement date based on the present value of the future minimum lease payments over the lease term. In determining the net present value of the lease payments, the Company uses its incremental borrowing rate applicable to the underlying asset unless the implicit rate is readily determinable. Any lease incentives received are deferred and recorded as a reduction of the ROU asset and amortized over the term of the lease. The Company does not separate lease and non-lease components and instead treats them as a single component. Rent expense, comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term. The Company determines the lease term as the noncancellable period of the lease and may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options.

The Company elected to not apply the recognition requirements of the new leasing standard to short-term leases with terms of 12 months or less. As a result, leases with a term of 12 months or less are not recognized on the balance sheet.

#### *Research and Development Expenses*

Research and development costs are expensed as incurred. Research and development expenses consist of costs incurred to discover, research and develop drug candidates, including personnel expenses, stock-based compensation expense, allocated facility-related and depreciation expenses, third-party license fees and external costs, including fees paid to consultants and contract research organizations (CROs) in connection with nonclinical studies and clinical trials and other related clinical trial fees, such as for investigator grants, patient screening, laboratory work, clinical trial database management, clinical trial material management and statistical compilation and analysis. Non-refundable prepayments for goods or services that will be used or rendered for future research and development activities are recorded as prepaid expenses. Such amounts are recognized as an expense as the goods are delivered or the related services are performed, or until it is no longer expected that the goods will be delivered, or the services rendered. Costs incurred in obtaining technology licenses are charged immediately to research and development expense if the technology licensed has not reached technological feasibility and has no alternative future uses.

The Company has from time to time entered into various research and development and other agreements with commercial firms, researchers, universities and others for provisions of goods and services. These agreements are generally cancelable, and the related costs are recorded as research and development expenses as incurred. The Company records accruals for estimated ongoing research and development costs. When evaluating the adequacy of the accrued liabilities, the Company analyzes progress of the studies or clinical trials, including the phase or completion of events, invoices received and contracted costs. Estimates are made in determining the accrued balances at the end of any reporting period. Actual results could differ materially from the Company's estimates. Since inception, the Company's historical accrual estimates have not been materially different from the actual costs.

#### *Accrued Expenses and Other Current Liabilities*

Accrued expenses and other current liabilities included the following:

| <i>(in thousands)</i>                                       | June 30, 2024   | December 31, 2023 |
|---|-----------------|-------------------|
| Research and development costs                              | \$ 3,229        | \$ 2,010          |
| Compensation and benefit costs                              | 3,108           | 5,683             |
| Accrued professional fees                                   | 2,176           | 855               |
| Other   | 320             | 278               |
| <b>Total accrued expenses and other current liabilities</b> | <b>\$ 8,833</b> | <b>\$ 8,826</b>   |

#### *Executive Leadership Transition*

In August 2023, the Company and Senthil Sundaram, former chief executive officer, entered into a separation agreement. Pursuant to the separation agreement, Mr. Sundaram was entitled to receive severance in the amount of \$0.6 million and 100% of his annual target discretionary bonus for 2023 in the amount of \$0.3 million. During the year ended December 31, 2023, the Company recorded an accrued liability and recognized expense of \$0.9 million related to the departure of the former chief executive officer. As of June 30, 2024, the ending accrued liability was \$0.3 million and is presented within the Condensed Consolidated Balance Sheets under Accrued expenses and other current liabilities. The vesting of each equity award held by Mr. Sundaram was fully accelerated as of December 31, 2023. As a result of the change in service period for all outstanding unvested option grants to the Company's former chief executive officer in August 2023, the Company recognized \$10.5 million in stock-based compensation expense during the year ended December 31, 2023. The expense was recognized as operating expenses within the Condensed Consolidated Statements of Operations and Comprehensive Loss under General and administrative.

In August 2023, Bryan Yoon, chief operating officer and general counsel, and Mark Vignola, Ph.D., chief financial officer, received retention awards payable in cash in the aggregate amount of \$0.5 million for Mr. Yoon and \$0.7 million for Dr. Vignola. Each retention award is payable in two installments of 33% of the award on February 1, 2024 and 67% of the award on August 1, 2024, subject to the applicable officer's continued employment with the Company through such date. Expense is recognized on a straight-line basis over the requisite service period. During the six months ended June 30, 2024, the Company recorded an accrued liability and recognized expense of \$0.5 million related to the retention awards. These accruals are presented within the Condensed Consolidated Balance Sheets under Accrued expenses and other current liabilities. The expenses were recognized as operating expenses within the Condensed Consolidated Statements of Operations and Comprehensive Loss under General and administrative.

In July 2024, Dr. Vignola entered into a transition agreement with the Company. The transition agreement provides for Dr. Vignola's continued service as chief financial officer for a transition period until the date of his separation from employment, anticipated to be February 1, 2025. Pursuant to the transition agreement, Dr. Vignola is entitled to receive severance in the amount of \$0.5 million, equivalent to 12 months of his annual base salary, the remaining unpaid portion of his retention award of \$0.5 million, his target annual bonus for 2024 of \$0.2 million and, as applicable based on the separation date, a pro rata portion of his target annual bonus for 2025, and the time to exercise any outstanding equity award that is vested as of the separation date shall continue to the end of the 12th month following the separation date. In addition, the Company has agreed to pay Dr. Vignola an additional retention bonus in the amount of \$0.5 million, provided Dr. Vignola remains employed until February 1, 2025, with such additional retention bonus being payable in a pro rata amount under certain conditions per the transition agreement.

In July 2024, Mr. Yoon entered into a separation agreement with the Company. The separation agreement provides for Mr. Yoon's continued service as chief operating officer and special counsel for a transition period until September 3, 2024. Pursuant to the separation agreement, Mr. Yoon is entitled to receive severance in the amount of \$0.5 million, equivalent to 12 months of his annual base salary, the remaining unpaid portion of his retention award of \$0.3 million, a pro rata portion of his target annual bonus for 2024 of \$0.1 million, and the time for Mr. Yoon to exercise any outstanding equity award that is vested as of the separation date shall continue to April 30, 2025.

In November 2023, Erin Quirk, M.D., former president and head of research & development, received a retention award payable in cash in the aggregate amount of \$0.6 million and a recognition bonus in the aggregate amount of \$0.1 million. The retention award is payable in two installments of 33% of the award on February 1, 2024, and 67% of the award on August 1, 2024, and the recognition bonus was payable on January 1, 2024, subject to Dr. Quirk's continued employment with the Company through such date. Expense is recognized on a straight-line basis over the requisite service period. On May 7, 2024, Dr. Quirk entered into a separation agreement with the Company. Pursuant to the separation agreement, Dr. Quirk was entitled to receive severance in the amount of \$0.2 million and the remaining unpaid portion of her recognition bonus of \$0.4 million. As of June 30, 2024, there was no ending accrued liability as all balances have been paid. As of June 30, 2024, the vesting of each equity award held by Dr. Quirk was accelerated with respect to the number of shares of common stock that would have become vested had Dr. Quirk remained employed at the Company through August 31, 2024, and the time for Dr. Quirk to exercise any vested stock options shall continue up to November 30, 2024. As a result of the change in terms for these option grants to Dr. Quirk, in May 2024, the Company recognized \$0.4 million in stock-based compensation expense during the six months ended June 30, 2024. The expenses were recognized as operating expenses within the Condensed Consolidated Statements of Operations and Comprehensive Loss under Research and development.

#### *Income Taxes*

The provision for income taxes primarily relates to projected federal, state and foreign income taxes. To determine the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate, which is generally based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. In addition, the tax effects of certain significant or unusual items are recognized discretely in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

Income taxes are computed using the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements. In estimating future tax consequences, the Company considers all expected future events including the enactment of changes in tax laws or rates. A valuation allowance is recorded, if necessary, to reduce net deferred tax assets to their realizable values if management does not believe it is more likely than not that the net deferred tax assets will be realized. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. When the Company establishes or reduces the valuation allowance against its deferred tax assets, its provision for income taxes will increase or decrease, respectively, in the period such determination is made.

The Company assesses accounting for uncertainty in income taxes by modeling for the recognition, measurement and disclosure in financial statements any uncertain income tax positions that the Company has taken or expects to take on a tax return. The Company accrues interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes.

The Company recorded income tax expense for the three months ended June 30, 2024 and 2023 of less than \$0.1 million. The Company recorded income tax expense for the six months ended June 30, 2024 and 2023 of \$0.2 million and \$0.1 million, respectively. The expenses are primarily related to foreign income tax expenses from China.

### *Comprehensive Loss*

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.

### *Stock-Based Compensation*

Stock-based compensation expense relates to stock options, restricted stock units (RSUs) with service conditions, and RSUs with market conditions issued under the Company's equity incentive plan and rights to acquire stock granted under the Company's employee stock purchase plan (ESPP). Grants are measured at the grant date based on the fair value of the awards and is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. Forfeitures are recognized as they occur.

The Black-Scholes option pricing model estimates the fair value of stock options with time-based vesting and rights to acquire stock under the ESPP. The Company lacks sufficient company-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of a publicly traded set of peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The Company estimates risk-free rates using the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term and dividend yield using the Company's expectations and historical data. The Company uses the simplified method to calculate the expected term of stock option grants as the Company has limited historical information from which to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior for its stock option grants. Under the simplified method, the expected term is estimated to be the mid-point between the vesting date and the contractual term of the option. The fair value is calculated based upon the Company's common stock valuation on the date of the grant.

The fair value of RSUs with service conditions is based upon the Company's common stock valuation on the date of the grant.

The Monte Carlo simulation model estimates the fair value of the RSUs with market conditions, using inputs for the common stock valuation on the date of the grant, volatility, the risk-free interest rate, and the dividend yield. Compensation expense is recognized on a straight-line basis over the derived service period commencing on the grant date. The derived service period is the median duration of the successful stock price paths to meet the price goal for each tranche as simulated in the Monte Carlo valuation model. If the related market condition is achieved earlier than its estimated derived service period, the stock-based compensation expense is accelerated, and a cumulative catch-up expense is recorded during the period in which the market condition is met.

### *Pre-funded Warrants*

Pre-funded warrants are classified as a component of permanent stockholders' equity within additional paid-in capital and are recorded at the issuance date using a relative fair value allocation method. The pre-funded warrants are equity classified because they (i) are freestanding financial instruments that are legally detachable and separately exercisable from the equity instruments, (ii) are immediately exercisable, (iii) do not embody an obligation for the Company to repurchase its shares, (iv) permit the holders to receive a fixed number of shares of common stock upon exercise, (v) are indexed to the Company's common stock and (vi) meet the equity classification criteria. In addition, such pre-funded warrants do not provide any guarantee of value or return. The value of the pre-funded warrants is known at issuance, as their sales price approximates their fair value, and net proceeds from the sale are recorded as a component of additional paid-in capital.

### *Net Loss Per Share of Common Stock*

Basic net income (loss) per share of common stock is computed by dividing the net income (loss) per share of common stock by the weighted average number of shares of common stock outstanding for the period. The weighted-average shares of common stock outstanding as of June 30, 2024 included pre-funded warrants, as the warrants were issued for minimal consideration and were immediately exercisable.

Diluted net income (loss) per share of common stock is computed by adjusting net income (loss) to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted net loss per share of common stock is computed by dividing the diluted net loss by the weighted average number of shares of common stock outstanding for the period, including potentially dilutive shares.

The Company reported a net loss for the three and six months ended June 30, 2024 and 2023. In periods in which the Company reported a net loss, diluted net loss per share of common stock was the same as basic net loss per share of common stock, since dilutive shares were not assumed to have been issued if their effect is anti-dilutive. The Company excluded the following potential shares of common stock, presented based on amounts outstanding at each period end, from the computation of diluted net loss attributable to common stockholders per share of common stock for the periods indicated because including them would have had an anti-dilutive effect:

|   | 2024              | June 30,<br>2023 |
|---|-------------------|------------------|
| Options to purchase common stock                        | 11,366,749        | 8,450,168        |
| Unvested restricted stock units with service conditions | 782,737           | 372,301          |
| Unvested restricted stock units with market conditions  | 150,000           | —                |
| Shares issuable under employee stock purchase plan      | 13,589            | 9,193            |
| <b>Total</b>  | <b>12,313,075</b> | <b>8,831,662</b> |

#### *Deferred Offering Costs*

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated.

After consummation of the equity financing, these costs are recorded as a reduction to the carrying value of stockholders' equity as a reduction of additional paid-in capital or equity generated as a result of such offering. Should an in-process equity financing be abandoned, the deferred offering costs will be expensed immediately as a charge to operating expenses in the consolidated statements of operations and comprehensive loss.

#### *Commitments and Contingencies*

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business. The Company accrues a liability for such matters when it is probable that future expenditures will be made, and such expenditures can be reasonably estimated. For all periods presented, the Company was not a party to any pending material litigation or other material legal proceedings.

#### *Recent Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies. The Company is an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, as amended (JOBS Act). Under the JOBS Act, emerging growth companies have extended transition periods available for complying with new or revised accounting standards. The Company has elected to use this exemption to delay adopting new or revised accounting standards until such time as those standards apply to private companies. Where allowable, the Company has early adopted certain standards as described below.

#### *Recently Issued Accounting Pronouncements Not Yet Adopted*

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures (ASU 2023-09), which requires additional income tax disclosures in the annual consolidated financial statements. The amendments in ASU 2023-09 are intended to enhance the transparency and decision usefulness of income tax disclosures. For public entities, ASU 2023-09 is effective for annual periods beginning after December 15, 2024, with early adoption permitted. For non-public entities, ASU 2023-09 is effective for annual reporting periods beginning after December 15, 2025. Under the JOBS Act, emerging growth companies have extended transition periods available for complying with new or revised accounting standards. The Company is currently evaluating the impact of ASU 2023-09 on its financial statements and related disclosures.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (ASU 2023-07), which expands segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items, and interim disclosures of a reportable segment's profit or loss and assets. The disclosures required under ASU 2023-07 are also required for public entities with a single reportable segment. ASU 2023-07 is effective for the Company's first fiscal year beginning after December 15, 2023 and for interim periods within the Company's first fiscal year beginning after December 15, 2024, with early adoption permitted. The Company does not expect the adoption of ASU 2023-07 to have a material impact on its financial statements and related disclosures.

## 2. Cash Equivalents and Marketable Securities

The amortized cost and fair value of cash equivalents and marketable securities by major security type is as follows:

| (in thousands)             | June 30, 2024     |                  |                   |                   |
|----------------------------|-------------------|------------------|-------------------|-------------------|
|                            | Amortized Cost    | Unrealized Gains | Unrealized Losses | Fair Value        |
| Money market funds         | \$ 77,491         | \$ —             | \$ —              | \$ 77,491         |
| U.S. government securities | 134,052           | 3                | (254)             | 133,801           |
| <b>Total</b>               | <b>\$ 211,543</b> | <b>\$ 3</b>      | <b>\$ (254)</b>   | <b>\$ 211,292</b> |

Classified as:

|                       |                   |
|-----------------------|-------------------|
| Cash equivalents      | \$ 77,491         |
| Marketable securities | 133,801           |
| <b>Total</b>          | <b>\$ 211,292</b> |

| (in thousands)             | December 31, 2023 |                  |                   |                   |
|----------------------------|-------------------|------------------|-------------------|-------------------|
|                            | Amortized Cost    | Unrealized Gains | Unrealized Losses | Fair Value        |
| Money market funds         | \$ 33,788         | \$ —             | \$ —              | \$ 33,788         |
| U.S. government securities | 183,357           | 219              | (62)              | 183,514           |
| <b>Total</b>               | <b>\$ 217,145</b> | <b>\$ 219</b>    | <b>\$ (62)</b>    | <b>\$ 217,302</b> |

Classified as:

|                       |                   |
|-----------------------|-------------------|
| Cash equivalents      | \$ 33,788         |
| Marketable securities | 183,514           |
| <b>Total</b>          | <b>\$ 217,302</b> |

The aggregate fair value of the Company's available-for-sale marketable securities that have been in a continuous unrealized loss position for less than twelve months or twelve months or longer is as follows:

| (in thousands)             | June 30, 2024       |                   |                     |                   |                   |                   |
|----------------------------|---------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
|                            | Less than 12 months |                   | 12 months or longer |                   | Total             |                   |
|                            | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses |
| U.S. government securities | \$ 115,214          | \$ (211)          | \$ 14,073           | \$ (43)           | \$ 129,287        | \$ (254)          |
| <b>Total</b>               | <b>\$ 115,214</b>   | <b>\$ (211)</b>   | <b>\$ 14,073</b>    | <b>\$ (43)</b>    | <b>\$ 129,287</b> | <b>\$ (254)</b>   |

| (in thousands)             | December 31, 2023   |                   |                     |                   |                  |                   |
|----------------------------|---------------------|-------------------|---------------------|-------------------|------------------|-------------------|
|                            | Less than 12 months |                   | 12 months or longer |                   | Total            |                   |
|                            | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value       | Unrealized Losses |
| U.S. government securities | \$ 80,461           | \$ (62)           | \$ —                | \$ —              | \$ 80,461        | \$ (62)           |
| <b>Total</b>               | <b>\$ 80,461</b>    | <b>\$ (62)</b>    | <b>\$ —</b>         | <b>\$ —</b>       | <b>\$ 80,461</b> | <b>\$ (62)</b>    |

At June 30, 2024, the Company had 30 available-for-sale marketable securities in an unrealized loss position without an allowance for credit losses. The Company does not intend to sell these securities and the Company believes it is more likely than not that marketable securities in an unrealized loss position will be held until maturity and that the Company will not be required to sell these securities before recovery of their amortized cost basis. The Company believes that an allowance for credit losses is unnecessary as the securities are of high credit quality and the decline in fair value is due to market conditions and/or changes in interest rates.

### 3. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of inputs that may be used to measure fair value are defined below:

- Level 1—Quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2—Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying values of the Company's other assets, accounts payable and accrued expenses and other current liabilities approximate their fair values due to the short-term nature of these assets and liabilities.

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis:

| (in thousands)                  | Fair Value at June 30, 2024 |            |         |            |
|---------------------------------|-----------------------------|------------|---------|------------|
|                                 | Level 1                     | Level 2    | Level 3 | Total      |
| Cash and cash equivalents       |                             |            |         |            |
| Cash in bank balances           | \$ 14,005                   | \$ —       | \$ —    | \$ 14,005  |
| Money market funds              | 77,491                      | —          | —       | 77,491     |
| Total cash and cash equivalents | \$ 91,496                   | \$ —       | \$ —    | \$ 91,496  |
| Marketable securities           |                             |            |         |            |
| U.S. government securities      | \$ —                        | \$ 133,801 | \$ —    | \$ 133,801 |
| Total marketable securities     | \$ —                        | \$ 133,801 | \$ —    | \$ 133,801 |

| (in thousands)              | Fair Value at December 31, 2023 |            |         |            |
|-----------------------------|---------------------------------|------------|---------|------------|
|                             | Level 1                         | Level 2    | Level 3 | Total      |
| Cash and cash equivalents   |                                 |            |         |            |
| Cash in bank balances       | \$ 46,138                       | \$ —       | \$ —    | \$ 46,138  |
| Money market funds          | 33,788                          | —          | —       | 33,788     |
| Total cash and equivalents  | \$ 79,926                       | \$ —       | \$ —    | \$ 79,926  |
| Marketable securities       |                                 |            |         |            |
| U.S. government securities  | \$ —                            | \$ 183,514 | \$ —    | \$ 183,514 |
| Total marketable securities | \$ —                            | \$ 183,514 | \$ —    | \$ 183,514 |

The aggregate amortized cost and fair value of marketable securities as of June 30, 2024, by contractual maturity, are as follows:

| (in thousands)                       | Amortized Cost | Fair Value |
|--------------------------------------|----------------|------------|
| Due in one year or less              | \$ 109,760     | \$ 109,593 |
| Due after one year through two years | 24,292         | 24,208     |
| Total marketable securities          | \$ 134,052     | \$ 133,801 |

There were no transfers between Level 1, Level 2 and Level 3 during the periods presented.

#### 4. Leases

In March 2019, the Company entered into a lease agreement for office space in Foster City, California which expires October 2024. Additionally, the Company leases office space in Shanghai and Suzhou, China.

Components of lease cost are as follows:

| (in thousands)                        | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|---------------------------------------|-----------------------------|---------------|---------------------------|---------------|
|                                       | 2024                        | 2023          | 2024                      | 2023          |
| Operating lease cost                  | \$ 162                      | \$ 163        | \$ 323                    | \$ 322        |
| Short-term cost                       | 3                           | 5             | 7                         | 8             |
| Total lease cost                      | <u>\$ 165</u>               | <u>\$ 168</u> | <u>\$ 330</u>             | <u>\$ 330</u> |
| Weighted-average remaining lease term | 0.34                        |               |                           |               |
| Weighted-average discount rate        | 6.00%                       |               |                           |               |

The Company's future minimum lease payments are as follows:

| (in thousands)                             | Operating Leases |
|--|------------------|
| 2024                                       | \$ 252           |
| 2025 and thereafter                        | —                |
| Total lease payments                       | 252              |
| Less: Imputed interest                     | (3)              |
| Present value of lease liabilities         | 249              |
| Less: Current portion of lease liabilities | (249)            |
| Total lease liabilities, non-current       | <u>\$ —</u>      |

On July 1, 2024, the Company amended the lease agreement for the office space in Foster City, California to extend for three years commencing as of November 1, 2024, and expiring on October 31, 2027. The Company has the option to extend the amended lease agreement for an additional three years. The other terms of the amendment are substantially the same as the original lease agreement and annual lease payments will be approximately \$0.5 million.

#### 5. Common Stock and Stock-Based Compensation

The Company is authorized to issue 150,000,000 shares of common stock and 10,000,000 shares of preferred stock. All classes of stock have a par value of \$0.0001. There were no shares of preferred stock outstanding as of June 30, 2024 and December 31, 2023.

The Company had reserved shares of common stock for issuance in connection with the following:

|   | June 30, 2024     | December 31, 2023 |
|---|-------------------|-------------------|
| Options outstanding under incentive award plans                           | 11,366,749        | 8,349,922         |
| Unvested restricted stock units with service conditions                   | 782,737           | 365,892           |
| Unvested restricted stock units with market conditions                    | 150,000           | —                 |
| Shares available for future grant under incentive award plans             | 2,876,986         | 1,005,587         |
| Shares available for future grant under employee stock purchase plans     | 614,588           | 701,671           |
| Shares available for future grant under employment inducement award plans | 957,834           | 3,291,000         |
| Pre-funded warrants   | 4,186,500         | 9,751,500         |
| Total shares reserved   | <u>20,935,394</u> | <u>23,465,572</u> |

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, if any, as may be declared by the Company's board of directors. Through June 30, 2024, no cash dividends have been declared or paid by the Company.



### *Stock-Based Compensation Plans*

The Company has three stock-based compensation plans, the 2017 Incentive Award Plan (the 2017 Plan), the 2021 Incentive Award Plan (the 2021 Plan) and the 2022 Employment Inducement Award Plan (the 2022 Inducement Plan). Although awards made under the 2017 Plan continue to be governed by its terms, the 2017 Plan was terminated at the time of the Company's IPO and no further awards are made under this plan. The 2021 Plan, while effective, authorizes the granting of equity awards to employees and directors of the Company, as well as non-employee consultants. The 2022 Inducement Plan authorizes the granting of equity awards to newly hired employees of the Company.

#### *2021 Incentive Award Plan*

In January 2021, the Company's board of directors approved the 2021 Plan which permits the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance bonus awards, performance stock unit awards and other stock awards to employees, directors, officers and consultants. In February 2021, 2,400,007 shares were authorized for issuance under the 2021 Plan, which shall be cumulatively increased on the first day of each year beginning in 2022 and ending in 2031 equal to the lesser of (i) the amount equal to 5% of the number of shares issued and outstanding on the last day of the immediately preceding fiscal year or (ii) such lower number of shares as may be determined by the Company's board of directors. The 2021 Plan is the successor to the 2017 Incentive Award Plan and no additional awards may be issued from the 2017 Plan. However, the 2017 Plan will continue to govern the terms and conditions of the outstanding awards granted under this plan. Shares of common stock subject to awards granted under the 2017 Plan that are forfeited or lapse unexercised and which following the effective date of the 2021 Plan are not issued under the 2017 Plan will be available for issuance under the 2021 Plan. The number of authorized shares reserved for issuance under the 2021 Plan was increased by 3,228,835 shares effective as of January 1, 2024. As of June 30, 2024, 2,876,986 shares of the Company's common stock were available for future grants under the 2021 Plan.

#### *2021 Employee Stock Purchase Plan*

The 2021 Employee Stock Purchase Plan (the 2021 ESPP) was approved by the Company's board of directors in January 2021. In February 2021, a total of 240,000 shares were initially reserved for issuance under this plan, which shall be cumulatively increased on the first day of each year beginning in 2022 and ending in 2031 equal to the lesser of (i) 1% of the shares outstanding (on an as converted basis) on the last day of the immediately preceding fiscal year and (ii) such number of shares as may be determined by the Company's board of directors. The number of authorized shares reserved for issuance under the 2021 ESPP was increased by 645,767 shares effective as of January 1, 2024. As of June 30, 2024, 614,588 shares of the Company's common stock were available for future grants under the 2021 ESPP.

Under the 2021 ESPP, eligible employees may select a rate of payroll deduction up to 15% of their eligible compensation subject to certain maximum purchase limitations. The duration for each offering period is 24 months and is divided into four purchase periods of approximately six months in length. Offerings are concurrent. The purchase price of the shares under the offering is the lesser of 85% of the fair market value of the shares on the offering date or 85% of the fair market value of the shares on the purchase date. A look-back feature in the 2021 ESPP causes the offering period to automatically reset if the fair value of the Company's common stock on the last day of the purchase period is less than that on the original offering date. 2021 ESPP purchases by employees are settled with newly-issued common stock from the 2021 ESPP's previously authorized and available pool of shares.

As of June 30, 2024, there was \$0.7 million of unrecognized stock-based compensation expense related to unvested employee stock purchases. The unrecognized stock-based compensation expense is estimated to be recognized over a period of 1.34 years as of June 30, 2024. There were 87,083 and 114,739 shares purchased by employees under the 2021 ESPP during the six months ended June 30, 2024 and 2023, respectively.

#### *2022 Employment Inducement Award Plan*

In September 2022, the Company's compensation committee approved the 2022 Inducement Plan which authorized 1,400,000 shares of common stock to be issued and permitted the granting of nonqualified stock options, stock appreciation rights, restricted stock awards and restricted stock unit awards to newly hired employees and officers. In September 2023, the Company approved an amendment to the 2022 Inducement Plan which increased the number of authorized shares reserved for issuance by 3,113,250 shares. As of June 30, 2024, 957,834 shares of the Company's common stock were available for future grants under the 2022 Inducement Plan.

#### Pre-Funded Warrants

In August 2022, the Company sold pre-funded warrants to purchase 14,630,000 shares of common stock at a price of \$2.4199 per pre-funded warrant. The purchase price per share of each pre-funded warrant represents the per share offering price for the common stock, minus the \$0.0001 per share exercise price of such pre-funded warrant. As of June 30, 2024, 10,443,500 pre-funded warrants have been exercised.

#### Stock Options

Stock options granted to employees and non-employees under the plans generally vest over four years and allow the holder of the option to purchase common stock at a stated exercise price. Options granted under the plans generally expire ten years after the date of grant. The Company recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period.

The following table summarizes the stock option activity for all stock plans during the six months ended June 30, 2024:

|  | Number<br>of Shares | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
|--|---------------------|---|--|---|
| Outstanding as of December 31, 2023        | 8,349,922           | \$ 9.04                                   | 6.82   | \$ 2,225  |
| Granted                                    | 3,824,500           | 6.50                                      |  |   |
| Exercised                                  | (4,000)             | 3.00                                      |  | 15  |
| Forfeited                                  | (803,673)           | 8.67                                      |  |   |
| Outstanding as of June 30, 2024            | <u>11,366,749</u>   | \$ 8.21                                   | 6.79   | \$ 4,425  |
| Exercisable, June 30, 2024                 | 5,738,075           | \$ 8.96                                   | 4.39   | \$ 1,909  |
| Vested and expected to vest, June 30, 2024 | 11,366,749          | \$ 8.21                                   | 6.79   | \$ 4,425  |

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the stock options and the fair value of the Company's common stock for those stock options that had exercise prices lower than the fair value of the Company's common stock.

As of June 30, 2024, there was \$27.3 million of unrecognized stock-based compensation expense related to unvested stock options which is estimated to be recognized over a period of 2.95 years.

#### Restricted Stock Units with Service Conditions

RSUs with service conditions granted to employees under the plans generally vest over four years. The number of shares issued on the date the RSUs vest is net of the minimum statutory tax withholdings, which are paid in cash to the appropriate taxing authorities on behalf of the Company's employees. The Company recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period.

The following table summarizes the RSUs with service conditions activity for all stock plans during the six months ended June 30, 2024:

|   | Number<br>of Shares | Weighted Average Grant-<br>Date<br>Fair Value |
|---|---------------------|---|
| Unvested restricted stock units as of December 31, 2023 | 365,892             | \$ 8.79                                       |
| Granted   | 632,775             | 6.16  |
| Vested  | (102,930)           | 9.33  |
| Forfeited   | (113,000)           | 6.50  |
| Unvested restricted stock units as of June 30, 2024     | <u>782,737</u>      | \$ 6.92                                       |

As of June 30, 2024, there was \$4.7 million of unrecognized stock-based compensation expense related to RSUs with service conditions which is estimated to be recognized over a period of 3.06 years.

### Restricted Stock Units with Market Conditions

In March 2024, the Company granted 150,000 RSUs with market conditions, which are subject to the achievement of certain escalating stock price thresholds established by the Company's compensation committee of the board of directors. The RSUs with market conditions vest in equal installments upon the achievement of escalating stock price thresholds of \$15.00 and \$20.00, respectively, calculated based on the average price per share of the Company's common stock for a period of 30 consecutive trading days equaling or exceeding the applicable price threshold, with vesting occurring as of the last day of the 30 consecutive trading day period. The escalating stock price thresholds can be met any time after the first anniversary of employment of the recipient but prior to the fourth anniversary of the date of grant.

The Company estimated the fair value of RSUs with market conditions granted using a Monte Carlo simulation model with the following assumptions:

|  | Six Months Ended June 30,<br>2024 |        |
|--|-----------------------------------|--------|
| Expected volatility                              |                                   | 78.45% |
| Risk-free interest rate                          |                                   | 4.27%  |
| Fair value of underlying common stock            | \$                                | 7.31   |
| Weighted average grant-date fair value per share | \$                                | 5.39   |

As of June 30, 2024, none of the escalating stock price thresholds had been met for any of the RSUs with market conditions, resulting in no shares vested.

As of June 30, 2024, there was \$0.6 million of unrecognized stock-based compensation expense related to RSUs with market conditions which is estimated to be recognized over a period of 1.30 years.

### Stock-Based Compensation Expense

The Company estimated the fair value of options granted and rights to acquire stock granted under the Company's employee stock purchase plan using a Black-Scholes option pricing model with the following assumptions presented on a weighted average basis:

|  | Six Months Ended June 30, |         |      |         |
|--|---------------------------|---------|------|---------|
|  | 2024                      |         | 2023 |         |
| Stock Option Plans                               |                           |         |      |         |
| Expected term (years)                            |                           | 6.05    |      | 6.05    |
| Expected volatility                              |                           | 77.61 % |      | 73.68 % |
| Risk-free interest rate                          |                           | 4.26 %  |      | 3.53 %  |
| Fair value of underlying common stock            | \$                        | 6.50    | \$   | 9.82    |
| Weighted average grant-date fair value per share | \$                        | 4.56    | \$   | 6.61    |
| Employee Stock Purchase Plans                    |                           |         |      |         |
| Expected term (years)                            |                           | 1.22    |      | 1.26    |
| Expected volatility                              |                           | 83.43 % |      | 86.49 % |
| Risk-free interest rate                          |                           | 5.10 %  |      | 4.85 %  |
| Fair value of underlying common stock            | \$                        | 6.01    | \$   | 11.30   |
| Weighted average grant-date fair value per share | \$                        | 3.03    | \$   | 5.82    |

Stock-based compensation expense was classified in the condensed consolidated statements of operations and comprehensive loss as follows:

| (in thousands)                         | Three Months Ended June 30, |                 | Six Months Ended June 30, |                 |
|--|-----------------------------|-----------------|---------------------------|-----------------|
|  | 2024                        | 2023            | 2024                      | 2023            |
| Research and development expense       | \$ 2,090                    | \$ 1,576        | \$ 4,178                  | \$ 2,924        |
| General and administrative expense     | 2,330                       | 2,657           | 4,270                     | 5,247           |
| Total stock-based compensation expense | <u>\$ 4,420</u>             | <u>\$ 4,233</u> | <u>\$ 8,448</u>           | <u>\$ 8,171</u> |

## 6. Assignment, License and Collaboration Agreements

### *Assignment Agreement*

In June 2019, the Company entered into an assignment agreement with Vintagene Biotechnology Ltd. (Vintagene) (Vintagene 2019 Assignment Agreement). Under the terms of the Vintagene 2019 Assignment Agreement, Vintagene assigned and agreed to assign to the Company any and all worldwide rights, title, and interest in and to the Vintagene technology and gave Terns a sublicensing right that allows the Company to grant sublicenses to any of its affiliates and/or to licensees or contractors to perform any portion of the development, manufacture, and/or commercialization of covered compounds or covered products. The Company will remain directly responsible for all amounts owed to Vintagene under this agreement, regardless of sublicenses. The Company is required to use commercially reasonable efforts to commercialize the covered product in the field in the major markets.

In June 2019, the Company paid Vintagene an upfront payment of \$0.7 million. In addition, pursuant to the terms of the Vintagene 2019 Assignment Agreement, the Company agreed to pay Vintagene up to CNY 205.0 million in development milestones for the first covered product. The term of the Vintagene 2019 Assignment Agreement will continue in effect on a country-by-country basis until all milestone payments are made. The Company has the right to terminate the agreement in its entirety or on a covered product-by-covered product and country-by-country basis, in its sole discretion by giving 60 days advance written notice to Vintagene. As of June 30, 2024, the Company has paid \$4.4 million to Vintagene which includes a milestone payment of \$1.5 million in connection with the Company's IND filing for TERN-501 in December 2020 and a milestone payment of \$2.2 million in connection with the initiation of dosing in the Phase 2a DUET trial in July 2022. The Company has not recognized any research and development expense during the three and six months ended June 30, 2024 and 2023 related to this agreement.

### *Hansoh Option and License Agreement*

In July 2020, the Company entered into an exclusive option and license agreement with Hansoh (Shanghai) Healthtech Co., Ltd. (Hansoh Healthtech) and Jiangsu Hansoh Pharmaceutical Group Company Ltd. (Jiangsu Hansoh) (collectively, Hansoh) (Hansoh 2020 Option and License Agreement). Under the terms of the Hansoh 2020 Option and License Agreement, the Company granted Hansoh an exclusive, non-transferable, non-sublicensable, fully-paid, royalty-free license to conduct preliminary studies on the licensed compound (TERN-701, formerly known as TRN-000632) with an option to exclusively license the same for development and commercialization of licensed products in all prophylactic, palliative, therapeutic and/or diagnostic uses in connection with all human diseases and disorders (including development and research activities on animal models thereof) in the field of oncology, including all types of cancers (Field) in mainland China, Taiwan, Hong Kong and Macau (collectively, the Territory).

In November 2021, Hansoh exercised its option and was granted an exclusive, royalty-bearing license, with the right to sublicense to exploit licensed compound and licensed products in the Field and in the Territory. In connection with Hansoh's exercise of its option, the Company recognized \$1.0 million in license fee revenue within the consolidated statements of operations and comprehensive loss during the year ended December 31, 2021. In addition, Hansoh has agreed to pay the Company up to \$67.0 million in pre-specified clinical, regulatory and sales milestones. Hansoh must also pay the Company royalties in the mid-single digits based on net sales of all licensed products. The term of the Hansoh 2020 Option and License Agreement will continue until the end of the last-to-expire royalty term. As of June 30, 2024, no milestones have been met and future payments are all constrained.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the SEC on March 14, 2024. In addition to historical financial information, this discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Special Note Regarding Forward-Looking Statements" and "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Our fiscal year ends on December 31 each year.*

### Overview

We are a clinical-stage biopharmaceutical company developing a portfolio of small-molecule product candidates to address serious diseases, including oncology and obesity. Our programs are based on mechanisms of action that have achieved proof-of-concept in clinical trials in indications with significant unmet medical needs. We are advancing multiple drug candidates we believe have the potential to deliver improved clinical outcomes in the target indication as either single-agent or combination therapies. The most advanced product candidates in our pipeline – TERN-701, TERN-601 and TERN-501 – were internally discovered. Additionally, we have an ongoing discovery effort for the TERN-800 series of small-molecule glucose-dependent insulinotropic polypeptide receptor (GIPR) modulators for obesity, which have the potential to be combined with glucagon-like peptide-1 (GLP-1) receptor agonists.

TERN-701 is our proprietary, oral, potent, allosteric BCR-ABL inhibitor. Allosteric BCR-ABL inhibitors are a novel class of therapy for chronic myeloid leukemia (CML) that has demonstrated superior efficacy and safety compared to traditional active-site tyrosine kinase inhibitors (TKIs). In April 2024, we announced that in a Phase 1 healthy volunteer study, pharmacokinetic (PK) data showed no clinically significant difference in exposure between fed and fasted dosing. The ability to dose without regard to food represents a key potential differentiator within the allosteric BCR-ABL inhibitor class. Across the dose ranges administered to date (20 mg to 160 mg), TERN-701 PK was linear with a median half-life ranging from 8 to 12 hours. At the 80 mg and 160 mg doses, TERN-701 exposures over 24 hours met or exceeded the predicted efficacious concentrations based on preclinical data, consistent with observed clinical activity and safety at these doses in the ongoing clinical trial conducted by our partner, Hansoh. Additionally, the PK profile of TERN-701 in Western participants was generally consistent with that observed in the Phase 1 clinical study in Chinese CML patients. Enrollment of our global Phase 1 trial, the CARDINAL trial, continues and includes sites from the United States, Europe and other countries. We expect interim data from initial cohorts in the CARDINAL trial in December 2024. TERN-701 received Orphan Drug Designation for the treatment of CML in March 2024.

TERN-601 is our small-molecule GLP-1 receptor agonist program that is intended to be orally administered for obesity and other metabolic diseases. We initiated a first-in-human, Phase 1 trial of TERN-601 for obesity in the fourth quarter of 2023. The multiple ascending dose (MAD) portion of the Phase 1 study is underway, testing once-daily administration of TERN-601. Preliminary safety findings from the ongoing, blinded Phase 1 SAD/MAD study have been unremarkable to date with no observations of liver enzyme elevations, drug induced liver injury or discontinuations due to treatment-related adverse events. We expect to report top-line 28-day weight loss data in September 2024. The primary endpoints include safety and tolerability assessments, and the secondary and exploratory endpoints include PK and change in body weight over 28 days. Preliminary safety findings continue to be unremarkable to date with no observations of liver enzyme elevations, drug induced liver injury or discontinuations due to treatment-related adverse events. Preparations are underway to allow TERN-601 to rapidly progress to a 12-week, Phase 2a clinical trial for obesity, following supportive data from the Phase 1 trial.

TERN-501 is our thyroid hormone receptor beta (THR- $\beta$ ) agonist initially developed for metabolic dysfunction-associated steatohepatitis (MASH) for which we announced positive top-line data from the Phase 2a DUET trial in August 2023. We have decided to limit spend in MASH given the current regulatory and clinical development requirements for the indication. We continue to evaluate opportunities for TERN-501 in metabolic diseases. Based on non-clinical studies, THR- $\beta$  is an orthogonal mechanism to GLP-1, potentially providing broader metabolic and liver benefits in addition to increased weight loss. In June 2024, we highlighted preclinical data supporting TERN-501 in combination with a GLP-1R agonist for obesity at the American Diabetes Association 84th Scientific Sessions. TERN-501 significantly improved the efficacy of a GLP-1 receptor agonist in an obese mouse model by normalizing energy expenditure, resulting in greater weight loss, increased fat mass loss and relative preservation of lean mass compared to the GLP-1R agonist alone.

The TERN-800 series is our ongoing discovery efforts to discover small molecule GIPR modulators for obesity, which we believe has the potential for combination with GLP-1 receptor agonists. We are prioritizing our discovery efforts towards nominating a GIPR antagonist development candidate based on in-house discoveries and growing scientific rationale supporting the potential of GLP-1 receptor agonist and GIPR antagonist combinations for obesity.

Since the commencement of our operations, we have devoted substantially all of our resources to research and development activities, organizing and staffing our company, business planning, raising capital, establishing and maintaining our intellectual property portfolio, conducting preclinical studies and clinical trials and providing general and administrative support for these operations.

## Results of operations

The following table summarizes our results of operations for the three and six months ended June 30, 2024 and 2023:

| <i>(in thousands)</i>      | Three Months Ended June 30, |                    |                   | Six Months Ended June 30, |                    |                   |
|----------------------------|-----------------------------|--------------------|-------------------|---------------------------|--------------------|-------------------|
|                            | 2024                        | 2023               | Change            | 2024                      | 2023               | Change            |
| Results of operations      |                             |                    |                   |                           |                    |                   |
| Operating expenses:        |                             |                    |                   |                           |                    |                   |
| Research and development   | \$ 18,352                   | \$ 14,151          | \$ 4,201          | \$ 36,939                 | \$ 31,207          | \$ 5,732          |
| General and administrative | 7,185                       | 7,008              | 177               | 14,044                    | 14,109             | (65)              |
| Total operating expenses   | 25,537                      | 21,159             | 4,378             | 50,983                    | 45,316             | 5,667             |
| Loss from operations       | (25,537)                    | (21,159)           | (4,378)           | (50,983)                  | (45,316)           | (5,667)           |
| Other income:              |                             |                    |                   |                           |                    |                   |
| Interest income            | 2,876                       | 3,395              | (519)             | 6,058                     | 6,088              | (30)              |
| Other expense, net         | (14)                        | (60)               | 46                | (26)                      | (64)               | 38                |
| Total other income, net    | 2,862                       | 3,335              | (473)             | 6,032                     | 6,024              | 8                 |
| Loss before income taxes   | (22,675)                    | (17,824)           | (4,851)           | (44,951)                  | (39,292)           | (5,659)           |
| Income tax expense         | (61)                        | (72)               | 11                | (158)                     | (132)              | (26)              |
| Net loss                   | <u>\$ (22,736)</u>          | <u>\$ (17,896)</u> | <u>\$ (4,840)</u> | <u>\$ (45,109)</u>        | <u>\$ (39,424)</u> | <u>\$ (5,685)</u> |

## Revenue

To date, we have not generated, and do not expect to generate for the foreseeable future, any revenue from the sale of products. We may generate revenue from pre-specified clinical, regulatory and sales milestones as part of an exclusive option and license agreement for TERN-701 in greater China with Hansoh.

## Research and development expenses

Research and development expenses account for a significant portion of our operating expenses and consist primarily of external and internal expenses incurred in connection with the discovery and development of our product candidates. To date, our research and development expenses have related primarily to discovery efforts, preclinical and clinical development of our product candidates. Research and development expenses are recognized as incurred and payments made prior to the receipt of goods or services to be used in research and development are capitalized until the goods or services are received. Costs for certain activities, such as manufacturing and preclinical studies and clinical trials, are generally recognized based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors and collaborators.

External expenses include:

- expenses incurred in connection with the discovery, preclinical and clinical development of our product candidates, including those incurred under agreements with third parties, such as consultants and CROs;
- the cost of manufacturing products for use in our preclinical studies and clinical trials, including payments to contract manufacturing organizations (CMOs) and consultants;
- the costs of funding research performed by third-party vendors for performing preclinical testing on our behalf;
- the costs of purchasing lab supplies and non-capital equipment used in designing, developing and manufacturing preclinical study and clinical trial materials;
- costs associated with consultants for chemistry, manufacturing and controls development, regulatory, statistics and other services;
- expenses related to regulatory activities, including filing fees paid to regulatory agencies; and
- expenses incurred in connection with the acquisition or in-licensing of assets from other parties.

Internal expenses include:

- personnel-related expenses, including salaries, benefits and stock-based compensation expense for personnel engaged in research and development functions. We use internal resources primarily to oversee the research and discovery as well as for managing our preclinical development, process development, manufacturing and clinical development activities; and
- other expenses include rent, depreciation, maintenance and allocated overhead.

The following table summarizes our research and development expenses for the three and six months ended June 30, 2024 and 2023:

| <i>(in thousands)</i>                   | Three Months Ended June 30, |                  |                 | Six Months Ended June 30, |                  |                 |
|---|-----------------------------|------------------|-----------------|---------------------------|------------------|-----------------|
|   | 2024                        | 2023             | Change          | 2024                      | 2023             | Change          |
| Research and development expenses       |                             |                  |                 |                           |                  |                 |
| External expenses by program:           |                             |                  |                 |                           |                  |                 |
| TERN-701                                | \$ 3,114                    | \$ 993           | \$ 2,121        | \$ 6,568                  | \$ 1,642         | \$ 4,926        |
| TERN-601                                | 5,121                       | 716              | 4,405           | 9,258                     | 2,415            | 6,843           |
| TERN-501                                | 378                         | 4,835            | (4,457)         | 651                       | 13,778           | (13,127)        |
| Other programs                          | 2,364                       | 2,193            | 171             | 5,853                     | 3,445            | 2,408           |
| Total external expenses                 | 10,977                      | 8,737            | 2,240           | 22,330                    | 21,280           | 1,050           |
| Unallocated internal expenses:          |                             |                  |                 |                           |                  |                 |
| Personnel-related expenses              | 7,082                       | 5,154            | 1,928           | 13,968                    | 9,411            | 4,557           |
| Other expenses                          | 293                         | 260              | 33              | 641                       | 516              | 125             |
| Total research and development expenses | <u>\$ 18,352</u>            | <u>\$ 14,151</u> | <u>\$ 4,201</u> | <u>\$ 36,939</u>          | <u>\$ 31,207</u> | <u>\$ 5,732</u> |

The increase in research and development expenses for the three months ended June 30, 2024, compared to the same period in 2023, was primarily due to a \$2.2 million increase in clinical and preclinical program expenses and a \$1.9 million increase in personnel-related expenses due to higher headcount.

The increase in research and development expenses for the six months ended June 30, 2024, compared to the same period in 2023, was primarily due to a \$4.6 million increase in personnel-related expenses due to higher headcount and a \$1.1 million increase in clinical and preclinical program expenses.

#### General and administrative expenses

General and administrative expenses consist of personnel-related expenses, including salaries, benefits and stock-based compensation expense, for personnel in administrative functions. General and administrative expenses also include professional fees for legal, patent, consulting, investor and public relations, accounting and tax services.

The increase in general and administrative expenses for the three months ended June 30, 2024, compared to the same period in 2023, was primarily due to a \$0.2 million increase in personnel-related expenses due to higher headcount.

The decrease in general and administrative expenses for the six months ended June 30, 2024, compared to the same period in 2023, was primarily due to a \$0.2 million decrease in expenses related to insurance costs, partially offset by a \$0.1 million increase in personnel-related expenses due to higher headcount.

#### Interest income

Interest income primarily consists of interest income on our cash equivalents and marketable securities.

Interest income for the three months ended June 30, 2024 was \$2.9 million, compared to \$3.4 million for the same period in 2023. The decrease in interest income was primarily due to a decrease in marketable securities.

Interest income for the six months ended June 30, 2024 and 2023 was \$6.1 million.

#### *Other expense, net*

Other expense, net for the three and six months ended June 30, 2024 and 2023 was less than \$0.1 million.

#### *Income tax expense*

Income tax expense for the three months ended June 30, 2024 and 2023 was less than \$0.1 million.

Income tax expense for the six months ended June 30, 2024 was \$0.2 million, compared to \$0.1 million for the same period in 2023.

### **Liquidity and capital resources**

#### ***Uses of cash***

Our primary use of cash is to fund operating expenses, which consist primarily of research and development expenditures and general and administrative expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the change in our outstanding accounts payable and accrued expenses.

We believe that our existing cash and cash equivalents will be sufficient to fund our planned operating expenses and capital expenditure requirements into 2026, including key clinical data readouts from our lead programs in CML and obesity. However, we continue to anticipate that our research and development expenses, general and administrative expenses and capital expenditures will remain significant to support our ongoing and planned activities. We expect to continue to incur net operating losses for at least the next several years.

#### ***Sources of liquidity***

We have primarily funded our operations through proceeds from the sale of shares of our common stock. We have devoted substantially all of our resources to research and development activities, organizing and staffing our company, raising capital, establishing and maintaining our intellectual property portfolio, conducting preclinical studies and clinical trials and providing general and administrative support for these operations.

Since our inception, we have not generated any revenue from product sales and we have incurred significant operating losses and negative cash flows from our operations. As of June 30, 2024, we had an accumulated deficit of approximately \$377.7 million and cash, cash equivalents and marketable securities of \$225.3 million. For the six months ended June 30, 2024, we had a net loss of approximately \$45.1 million and negative cash flows from operations of approximately \$39.0 million.

In March 2022, we entered into a Sales Agreement with Cowen and Company, LLC (Cowen), as sales agent, pursuant to which we have the ability to offer and sell, from time to time, through Cowen, shares of our common stock having an aggregate offering price of up to \$75.0 million in an at-the-market offering. The shares are offered pursuant to our shelf registration statement on Form S-3 filed with the Securities and Exchange Commission (SEC), which became effective in March 2022. As of June 30, 2024, there were 9,781,673 shares of our common stock sold for aggregate net proceeds of \$66.6 million after deducting commissions and offering expenses pursuant to this agreement.

In May 2023, we entered into a Sales Agreement with Cowen, as sales agent, pursuant to which we have the ability to offer and sell, from time to time, through Cowen, shares of our common stock having an aggregate offering price of up to \$150.0 million in an at-the-market offering. The shares are offered pursuant to our shelf registration statement on Form S-3 filed with the SEC, which became effective in February 2023. There were no sales of our common stock pursuant to this agreement through June 30, 2024.

We believe that our existing cash and cash equivalents will be sufficient to fund our planned operating expenses and capital expenditure requirements into 2026. We will need substantial additional funding to support our operating activities.



### ***Future funding requirements***

We expect to incur significant expenses and operating losses for the foreseeable future as we advance the preclinical and clinical development of our product candidates. We expect that our research and development and general and administrative costs will remain significant for the foreseeable future in connection with conducting additional preclinical studies and clinical trials for our current and future research programs and product candidates, contracting with CROs and CMOs to support preclinical studies and clinical trials, expanding our intellectual property portfolio, and providing general and administrative support for our operations. As a result, we will need additional capital to fund our operations, which we may obtain from additional equity or debt financings, collaborations, licensing arrangements or other sources.

Our primary uses of cash are to fund our research and development activities, business planning, establishing and maintaining our intellectual property portfolio, hiring personnel, raising capital and providing general and administrative support for these operations.

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the research and development of, continue or initiate clinical trials of, and seek marketing approval for, our product candidates. In addition, if we obtain marketing approval for our product candidates, we expect to incur significant commercialization expenses related to any approved products, marketing, manufacturing and distribution to the extent that such sales, marketing and distribution are not the responsibility of potential collaborators. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce, or eliminate our research and development programs or future commercialization efforts.

Identifying potential product candidates and conducting preclinical studies and clinical trials is a time-consuming, expensive, and uncertain process that takes many years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of product candidates that we do not expect to be commercially available for many years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us on acceptable terms, or at all.

### ***Cash flows***

#### ***Operating activities***

Net cash used in operating activities during the six months ended June 30, 2024 was \$39.0 million and consisted primarily of our net loss of \$45.1 million, a \$1.9 million decrease from changes in operating assets and liabilities primarily attributable to the timing of expenses incurred and payments issued as well as a non-cash adjustment of \$0.9 million due to net accretion on marketable securities. This was partially offset by non-cash adjustments of \$8.4 million of stock-based compensation, \$0.3 million in amortization of operating lease assets and \$0.2 million of depreciation.

Net cash used in operating activities during six months ended June 30, 2023 was \$27.4 million and consisted primarily of our net loss of \$39.4 million as well as a non-cash adjustment of \$1.8 million net accretion on marketable securities. This was partially offset by a \$5.2 million increase from changes in operating assets and liabilities, non-cash adjustments of \$8.2 million of stock-based compensation, \$0.3 million in amortization of operating lease assets and \$0.1 million of depreciation.

#### ***Investing activities***

Net cash provided by investing activities during the six months ended June 30, 2024 was \$50.2 million and consisted primarily of proceeds from the sale and maturity of investments of \$100.8 million partially offset by \$50.6 million in purchases of investments.

Net cash used in investing activities during the six months ended June 30, 2023 was \$62.9 million and consisted primarily of \$206.7 million in purchases of investments, partially offset by proceeds from the sale and maturity of investments of \$143.8 million.

#### ***Financing activities***

Net cash provided by financing activities during the six months ended June 30, 2024 was \$0.4 million and consisted primarily of \$0.4 million in proceeds from the issuance of common stock under our employee stock purchase plan.

Net cash provided by financing activities during the six months ended June 30, 2023 was \$28.1 million and consisted primarily of \$27.9 million in net proceeds from the issuance of common stock in an at-the-market offering, \$0.2 million in proceeds from the

issuance of common stock under our employee stock purchase plan and \$0.2 million in proceeds from stock option exercises. This was partially offset by \$0.3 million in payments of deferred offering costs.

### **Critical Accounting Policies and Estimates**

There have been no material changes to our critical accounting policies and use of estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023. For a discussion of our critical accounting policies and use of estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Significant Estimates in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2023.

### **Recent Accounting Pronouncements**

We are subject to several recently issued accounting pronouncements. Note 1 – Nature of the Business, Basis of Presentation, and Summary of Significant Accounting Policies – Recent Accounting Pronouncements which is contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, describes these new accounting pronouncements and is incorporated herein by reference.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements (as defined by applicable regulations of the SEC) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

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

There have been no material changes to the information provided under Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" which is included and described in our Annual Report on Form 10-K for the year ended December 31, 2023.

### **Item 4. Controls and Procedures.**

#### **Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures**

As of June 30, 2024, management, with the supervision and participation of our chief executive officer and the chief financial officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports 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, and that such information is accumulated and communicated to our management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our chief executive officer and the chief financial officer concluded that, as of June 30, 2024, the design and operation of our disclosure controls and procedures were effective at a reasonable assurance level.

### **Changes in Internal Control Over Financial Reporting**

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes. There were no changes during the quarter ended June 30, 2024 to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. While the outcome of any such proceedings cannot be predicted with certainty, as of June 30, 2024, we were not a party to any litigation or legal proceedings that, in the opinion of our management, are probable to have a material adverse effect on our business. Regardless of the outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources, reputational harm, and other factors, and there can be no assurances that favorable outcomes will be obtained.

### **Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2023 may not be the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

***Unregistered Sales of Equity Securities***

None.

***Issuer Purchases of Equity Securities***

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

***Rule 10b5-1 Trading Plans***

During the three months ended June 30, 2024, none of our directors or officers, or the Company, has entered into any new "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c), or has modified or terminated any such existing arrangements, in each case as defined in Item 408 of Regulation S-K.

**Item 6. Exhibits.**

| Exhibit Number | Exhibit Description   | Incorporated by Reference |            |        | Filed Herewith |
|----------------|---|---------------------------|------------|--------|----------------|
|                |   | Form                      | Date       | Number |                |
| 3.1            | <a href="#">Amended and Restated Certificate of Incorporation.</a>  | 8-K                       | 2/9/2021   | 3.1    |                |
| 3.2            | <a href="#">Amended and Restated Bylaws.</a>  | 8-K                       | 10/10/2023 | 3.1    |                |
| 4.1            | <a href="#">Form of Common Stock Certificate.</a>   | S-1/A                     | 2/1/2021   | 4.2    |                |
| 4.2            | <a href="#">Form of Pre-Funded Warrant.</a>   | 8-K                       | 8/16/2022  | 4.1    |                |
| 4.3            | <a href="#">Amended and Restated Investors' Rights Agreement, dated December 29, 2020, by and among the Registrant and the investors listed therein.</a>  | S-1                       | 1/15/2021  | 10.1   |                |
| 10.1#          | <a href="#">Separation Agreement between Terns, Inc. and Erin Quirk dated May 7, 2024.</a>  |                           |            |        | X              |
| 10.2           | <a href="#">First Amendment to Office Lease dated July 1, 2024.</a>   | 8-K                       | 7/3/2024   | 10.1   |                |
| 31.1           | <a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> |                           |            |        | X              |
| 31.2           | <a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> |                           |            |        | X              |
| 32.1^          | <a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>  |                           |            |        | X              |
| 32.2^          | <a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>  |                           |            |        | X              |
| 101.INS        | Inline XBRL Instance Document   |                           |            |        | X              |
| 101.SCH        | Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Documents  |                           |            |        | X              |
| 104            | Cover Page Interactive Data File (embedded within the Inline XBRL document)   |                           |            |        | X              |

# Indicates management contract or compensatory plan.

^ The certification that accompanies this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is not deemed "filed" by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

## SIGNATURES

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

### TERNS PHARMACEUTICALS, INC.

Date: August 5, 2024

By: /s/Amy Burroughs  
Amy Burroughs  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: August 5, 2024

By: /s/ Mark Vignola  
Mark Vignola, Ph.D.  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

May 7, 2024

**PERSONAL AND CONFIDENTIAL**

**BY EMAIL**

Erin Quirk

Dear Erin:

The purpose of this separation agreement (the "Agreement") is to confirm the terms of your separation from Terns Pharmaceuticals, Inc. and any affiliates, including without limitation, Terns, Inc. (collectively, the "Company"). This Agreement outlines the terms of certain benefits and payments to you in connection with your separation, provided you execute and do not revoke this Agreement, or the Supplemental Release provided for in this Agreement, all as set forth herein.

1. Separation from Employment. Your employment with the Company will terminate on June 3, 2024 (the "Separation Date"). You will resign, as of May 7, 2024, your position as President and Head of R&D of the Company and from all other Company offices you may hold as of the Separation Date, pursuant to Exhibit A, and you will resign as an employee of the Company as of the Separation Date. The period after you execute and return this Agreement to the Company until June 3, 2024 is the "Transition Period". During the Transition Period, you will attend to the transition of your job duties in cooperation with the Company, but you will be relieved of the obligation to come to the Company office and you will not be required to travel on Company business.

2. Effect of Separation from Employment. On and after the Separation Date, you will not be eligible to remain in the Company's benefit programs, except as provided in this Agreement. In addition, and regardless of whether you sign this Agreement, on the Separation Date, you will receive payment for all wages that are due and accrued as of the Separation Date. Given that the Company has a policy of unlimited vacation, there will be no payment for accrued but untaken vacation. Your right to participate in the Company's health insurance program will terminate on the Separation Date; thereafter, your right to continued participation in such program is contingent upon your election of COBRA coverage; you will receive your election notice after the Separation Date. You will submit any reimbursable business expenses to the Company consistent with Company policy no later than June 30, 2023.

3. Separation Benefits. Subject to your continuing compliance with the covenants set forth in this Agreement, and subject to your execution (and non-revocation) of this Agreement and the Supplemental Release referred to in Section 6 below (the "Supplemental Release"), the Company will pay and provide you with the following (the "Separation Benefits"):

(i) Severance: Severance in the amount of \$184,333, less applicable payroll withholdings (the "Severance"), which is equivalent to four (4) months of your Base Salary. The Severance will be paid in a lump sum on or before the first Company payroll date that is at least ten (10) days after the Effective Date of the Supplemental Release (the "Payment Date").

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(ii)Retention Bonus: On the Payment Date, the Company will pay you the balance of your retention bonus as provided in Section 4 of your Amended and Restated Employment Agreement dated as of November 14, 2023 (the "Employment Agreement"), in the sum of \$385,250, less applicable payroll withholdings. You will not be eligible for any other bonus payments from the Company and you represent and confirm no other bonus or other compensation amounts are due and owing to you as of the date of this Agreement (other than your accrued Base Salary through the Separation Date and the amounts forth in this Section 3 of the Agreement).

(iii)COBRA Reimbursement: On the Payment Date, the Company will make a lump sum payment to you of \$45,126.29, less applicable payroll taxes, to reimburse you for the cost to continue your health insurance (and that of your dependents, based on your current enrollment) for eleven months.

(iv)Accelerated Vesting of Equity Awards/Extended Exercise. As of the Separation Date, but contingent on the Supplemental Release becoming effective, the vesting of each outstanding Company equity award (each, an "Equity Award") shall accelerate with respect to the number of shares of Company common stock that would have become vested had you remained employed with the Company through August 31, 2024 (the "Accelerated Vested Equity"). The portion of any unvested Equity Award that is not Accelerated Vested Equity shall be cancelled and terminated as of the Separation Date and shall be of no further force or effect. In addition, the time for you to exercise any Equity Award (including Accelerated Vested Equity) in the form of a stock option that is vested as of the Separation Date shall continue to and include November 30, 2024 (but in no event later than the original expiration date of such option), and shall be treated as a nonqualified stock option for tax purposes even if such option was intended to be an incentive stock option at the time of grant. Except as otherwise set forth in this Section 3(iv), all Equity Awards shall remain subject to the terms of the applicable equity award agreement and the plan under which each such Equity Award was granted. A statement of your vested and unvested equity as of the Separation Date is attached hereto as Exhibit B.

Other than as set forth in this Section, you are not eligible for any other payment from the Company, including without limitation, wages, bonuses, benefits, vacation, paid time off, compensation or equity.



#### 4.Covenants

(a) You acknowledge that as of the date you execute this Agreement (the "Execution Date"), you have not filed any complaints, claims, charges, actions, grievances or arbitrations against the Company<sup>1</sup> or otherwise contacted any U.S. federal, state or local governmental agency or commission that has applicable jurisdiction to regulate the Company (each a "Government Agency") regarding the Company.

(b) You agree that, on or before May 30, 2024, you will return to the Company all Company documents (whether in hard copy or electronic form and any copies thereof, with the exception of documents relating to your compensation) and property (including, without limitation, all cell phones, laptops and other company equipment), and that you shall abide by the provisions of the Invention Assignment Agreement you previously executed (the "Invention Agreement"), the terms of which shall survive the signing of this Agreement. Further, you agree that you will abide by any and all common law and/or statutory obligations relating to protection and non-disclosure of the Company's trade secrets and/or confidential and proprietary documents and information. You shall not be deemed to be in breach of this confidentiality provision (i) in the event such information is already in the public domain, (ii) in the event that you are required to disclose confidential information in connection with a judicial or special proceeding or pursuant to court order, (iii) if you share this information with any Government Agency or participate in a government investigation, or (iv) if you obtain the Company's prior written permission to disclose such information. Also, notwithstanding any provision of this Agreement prohibiting the disclosure of trade secrets or other confidential information, you may not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (1) in confidence to a Federal, State or local government official, either directly or indirectly, or to an attorney, and (2) solely for the purpose of reporting or investigating a suspected violation of law, or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In addition, if you file a lawsuit or other court proceeding against the Company for retaliating against you for reporting a suspected violation of law, you may disclose the trade secret to the attorney representing you and use the trade secret in the court proceeding, if you file any document containing the trade secret under seal and do not disclose the trade secret, except pursuant to court order.

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<sup>1</sup> For purposes of Sections 4 and 5, the term "Company" includes Terns Pharmaceuticals, Inc., Terns, Inc. and any of their parents, subsidiaries, divisions, affiliates (which means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company), professional employer organizations such as Sequoia, and all other related entities and the former and current directors, officers, employees, agents, successors and assigns of each applicable organization.

(c) You agree that after the Separation Date, you shall not make any statements that are professionally or personally disparaging about, or adverse to, the interests of the Company (and all other related entities and subsidiaries and their former or current officers, directors, employees and consultants) including, but not limited to, any statements that disparage any person, product, pipeline, pipeline candidate, service, finances, financial condition, capability or any other aspect of the business of the Company, and that you will not engage in any conduct which could reasonably be expected to harm professionally or personally the business or reputation of the Company (and all other related entities and subsidiaries and their former or current officers, directors, employees and consultants). Further, you agree that you shall take no action to disrupt or impair the Company's business operations, including, without limitation, disrupting or impairing the Company's employment relationship with its employees.

(d) You agree that nothing in this Agreement prevents you from: (i) discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that you have reason to believe is unlawful; (ii) if applicable, engaging in protected activities under Section 7 of the National Labor Relations Act ("NLRA"), including filing unfair labor practice charges, assisting Company employees in filing unfair labor practice charges, discussing the improvement of terms and conditions of employment (including regarding the terms of this Agreement) with former and current Company employees or union representatives or other third parties for the purpose of engaging in concerted activity under Section 7 of the NLRA; or (iii) making any necessary disclosures as otherwise required by law.

(e) You acknowledge that the Company's insider trading policy provides that: "If a person ceases to be a Director or employee of the Company at a time when he or she is aware of material nonpublic information concerning the Company, the prohibition on purchases, sales or donations of Company securities in [this Section] shall continue to apply to such person until that information has become public or is no longer material." You understand and agree that you will abide by this policy after the Separation Date.

(f) You agree that by entering into this Agreement, the Company is not admitting to and specifically denies any wrongdoing or violation of any law, and further, the Company by agreeing to provide you the Separation Benefits is not admitting any liability and specifically denies any liability or that you suffered any damages.

(g) You acknowledge that as of the Execution Date you have received all leave to which you are entitled under any applicable Federal or state law, and you have been paid in full for all wages and compensation and you are not aware of any injuries that would qualify as workplace injuries for purposes of workers compensation.

(h) The Company will instruct its officers and members of the Board of Directors not to make, after the Separation Date, any statements that are professionally or personally disparaging about or adverse to you. Nothing herein shall be construed as requiring the Company to issue an instruction limiting or restricting such individuals from disclosing events or circumstances in such manner as they or the Company deem necessary to comply with or satisfy their or the Company's disclosure, reporting or other obligations under applicable law.

5. Your Release of Claims. You hereby agree and acknowledge that by signing this Agreement and accepting the Separation Benefits in Section 3 and for other good and valuable consideration, you are waiving your right to assert any and all forms of legal claims against the Company of any kind whatsoever, whether known or unknown, arising from the beginning of time

through the Execution Date. Except as set forth below, your waiver and release herein is intended to bar any form of legal claim, complaint or any other form of action by you, including but not limited to a class or collective action, whether you seek to participate as a party plaintiff or as a class member (each a "Claim" and jointly referred to as "Claims") against the Company seeking any form of relief including, without limitation, equitable relief (whether declaratory, injunctive or otherwise), the recovery of any damages, or any other form of monetary recovery whatsoever (including, without limitation, back pay, front pay, compensatory damages, emotional distress damages, punitive damages, attorneys' fees and any other costs) against the Company, for any alleged action, inaction or circumstance existing or arising through the Execution Date.

Without limiting the foregoing general waiver and release, you specifically waive and release the Company from any Claim arising from or related to your prior employment relationship with the Company or the termination thereof, including, without limitation:

- \*\* Claims under any local, state or federal discrimination, fair employment practices or other employment-related statute, regulation or executive order (as they may have been amended through the Execution Date) prohibiting discrimination or harassment based upon any protected status including, without limitation, race, national origin, age, gender, marital status, disability, veteran status or sexual orientation. Without limitation, specifically included in this paragraph are any Claims arising under the federal Age Discrimination in Employment Act, the Civil Rights Acts of 1866 and 1871, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans With Disabilities Act, the Federal Worker Adjustment and Retraining Notification Act; and any similar California, or other state, federal, or local statute.
- \*\* Claims under any other local, state or federal employment related statute, regulation or executive order (as they may have been amended through the Execution Date) relating to any other terms and conditions of employment.
- \*\* Claims under any state or federal common law theory including, without limitation, wrongful discharge, breach of express or implied contract, promissory estoppel, unjust enrichment, breach of a covenant of good faith and fair dealing, violation of public policy, defamation, interference with contractual relations, intentional or negligent infliction of emotional distress, invasion of privacy, misrepresentation, deceit, fraud or negligence.
- \*\* Any other Claim arising under local, state or federal law.

Notwithstanding the foregoing, this section does not release the Company from any obligation expressly set forth in this Agreement. Moreover, this section does not release any claims or entitlements you may have to indemnification from the Company or the benefit of coverage under any D&O policies of insurance applicable to the period for which you served as a Company officer. You acknowledge and agree that, but for providing this waiver and release, you would not be receiving the economic benefits being provided to you under the terms of this Agreement.

**\*\*Unknown Claims, Waiver of California Civil Code Section 1542.** You understand and expressly agree that this Agreement extends to all claims of every nature and kind, known or unknown, suspected or unsuspected, past, present, or future, arising from or attributable to any conduct of the Company, whether set forth in any claim or demand referred to in this Agreement or not, and that any and all rights granted to you under Section 1542 of the California Civil Code or any analogous state law or federal law or regulation, are expressly WAIVED. Section 1542 of the California Civil Code reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR  
RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER  
FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT IF KNOWN BY HIM  
OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE  
DEBTOR OR RELEASING PARTY.

In waiving the provisions of Section 1542 of the California Civil Code, you acknowledge you may later discover facts in addition to or different from those you now believe to be true with respect to the matters released in this Agreement. You, however, agree you have taken that possibility into account in reaching this Agreement, and that the release in this Agreement will remain in effect as a full and complete release notwithstanding the discovery or existence of additional or different facts.

It is the Company's desire and intent to make certain that you fully understand the provisions and effects of this Agreement. To that end, you have been encouraged and given the opportunity to consult with legal counsel for the purpose of reviewing the terms of this Agreement. Also, because you are over the age of 40, and consistent with the provisions of the Age Discrimination in Employment Act, which prohibits discrimination on the basis of age, the Company is providing you with twenty-one (21) days in which to consider and accept the terms of this Agreement by signing below and returning it to Bryan Yoon at the Company (byoon@ternspharma.com). In addition, you may rescind your assent to this Agreement if, within seven (7) days after you sign this Agreement, you deliver by hand or send by mail or confirmed receipt email (if by mail, certified, return receipt and postmarked within such 7-day period) a notice of rescission to Bryan Yoon. The eighth day following your signing of this Agreement without rescission is the "Effective Date" of this Agreement.

Also, consistent with the provisions of local, state and federal discrimination laws, nothing in this release shall be deemed to prohibit you from challenging the validity of this release under such discrimination laws (the "Discrimination Laws") or from filing a charge or complaint of age or other employment related discrimination with the Equal Employment Opportunity Commission ("EEOC") or state or local equivalent, or from participating in any investigation or proceeding conducted by the EEOC or state or local equivalent (or seeking the recovery of any governmental bounty). Further, nothing in this release or Agreement shall be deemed to limit the Company's right to seek immediate dismissal of such charge or complaint on the basis that your signing of this Agreement constitutes a full release of any individual rights under the Discrimination Laws, or to seek restitution to the extent permitted by law of the economic benefits provided to you under this Agreement in the event that you successfully challenge the validity of this release and prevail in any claim under the Discrimination Laws.

**6. Supplemental Release.** On the Separation Date, you will be provided with a Supplemental Release of Claims that will reflect the agreements and releases in Sections 4 and 5 of this Agreement, and will confirm the payment terms set forth in Section 3. The payment of the Separation Benefits set forth in Section 3 will be made on the Payment Date (as defined above in Section 3(i) of this Agreement).

**7. Entire Agreement/Modification/Waiver/Choice of Law/Enforceability.** You acknowledge and agree that this Agreement supersedes any and all prior or contemporaneous oral and/or written agreements between you and the Company including without limitation the Employment Agreement (with the exception of the Invention Agreement and Mutual Arbitration Agreement with the Company dated as of November 10, 2023, which shall survive and continue by their terms). You agree that this Separation Agreement sets forth the entire agreement between you and the Company regarding your separation from the Company. No variations or modifications hereof shall be deemed valid unless reduced to writing and signed by the parties hereto. The failure of the Company to seek enforcement of any provision of this Agreement in any instance or for any period of time shall not be construed as a waiver of such provision or of the Company's right to seek enforcement of such provision in the future. This Agreement shall be deemed to have been made in the State of California and shall be construed in accordance with the laws of California without giving effect to conflict of law principles. The provisions of this Agreement are severable, and if for any reason any part hereof shall be found to be unenforceable, the remaining provisions shall be enforced in full, provided, however, that if any or all of the release is held unenforceable, this Agreement shall be deemed null and void.

**By executing this Agreement, you are acknowledging that: (1) you have carefully read and understand the terms and effects of this Agreement, including the Section entitled Your Release of Claims; (2) you understand that the Your Release of Claims is legally binding and by signing this Agreement, you give up certain rights; (3) you have been afforded sufficient time to understand the terms and effects of this Agreement; (4) your agreements and obligations hereunder are made voluntarily, knowingly and without duress; and (5) neither the Company nor its agents or representatives have made any representations inconsistent with the provisions of this Agreement.**

This Agreement may be signed on one or more copies, each of which when signed will be deemed to be an original, and all of which together will constitute one and the same Agreement. The Company will counter-sign this Agreement once it receives it from you. This Agreement will remain valid for 21 days after its delivery to you.

[SIGNATURE PAGE FOLLOWS AT PAGE 8]

Terns, Inc.

By: /s/ Amy Burroughs

Name: Amy Burroughs

Its: Chief Executive Officer

Terns Pharmaceuticals, Inc.

By: /s/ Amy Burroughs

Name: Amy Burroughs

Its: Chief Executive Officer

Confirmed, Agreed and Acknowledged:

/s/ Erin Quirk

Erin Quirk

Dated: May 7, 2024

Exhibit A – Resignation Form

May 7, 2024

To the Chair of the Terns Pharmaceuticals, Inc. Board of Directors

Please be advised that I hereby resign as President and Head of R&D of Terns, Inc., as well as from any other officer positions for Terns, Inc. and Terns Pharmaceuticals, Inc. effective as of May 7, 2024.

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Erin Quirk

Exhibit B  
Equity Statement  
Page **10** of **10**

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**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Amy Burroughs, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Terns Pharmaceuticals, 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: August 5, 2024

By:

/s/ Amy Burroughs  
**Amy Burroughs**  
**Chief Executive Officer and Director**  
**(Principal Executive Officer)**

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Vignola, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Terns Pharmaceuticals, 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: August 5, 2024

By:

/s/ Mark Vignola  
**Mark Vignola**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

**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 Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 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 result of operations of the Company.

Date: August 5, 2024

By:

/s/ Amy Burroughs  
**Amy Burroughs**  
**Chief Executive Officer and Director**  
**(Principal Executive Officer)**

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**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 Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 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 result of operations of the Company.

Date: August 5, 2024

By:

/s/ Mark Vignola  
**Mark Vignola**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

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