

**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 September 30, 2023
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
Common Stock, \$0.0001 par value per share

Trading Symbol(s)
TERN

Name of each exchange on which registered
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 November 3, 2023, the registrant had 61,794,522 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;
- 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)**

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 37,893	\$ 143,235
Marketable securities	228,707	139,879
Prepaid expenses and other current assets	3,855	2,071
Total current assets	270,455	285,185
Property and equipment, net	526	757
Operating lease assets	671	1,047
Other assets	35	37
Total assets	\$ 271,687	\$ 287,026
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,325	\$ 1,645
Accrued expenses and other current liabilities	8,055	6,162
Current portion of operating lease liabilities	707	661
Total current liabilities	12,087	8,468
Taxes payable, non-current	1,112	1,071
Operating lease liabilities, non-current	63	544
Total liabilities	13,262	10,083
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value, 150,000,000 shares authorized at September 30, 2023 and December 31, 2022; 61,785,216 and 53,723,171 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	6	5
Additional paid-in capital	570,864	520,178
Accumulated other comprehensive loss	(836)	(822)
Accumulated deficit	(311,609)	(242,418)
Total stockholders' equity	258,425	276,943
Total liabilities and stockholders' equity	\$ 271,687	\$ 287,026

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating expenses:				
Research and development	\$ 14,831	\$ 12,161	\$ 46,038	\$ 28,959
General and administrative	18,353	5,131	32,462	16,242
Total operating expenses	33,184	17,292	78,500	45,201
Loss from operations	(33,184)	(17,292)	(78,500)	(45,201)
Other income:				
Interest income	3,480	499	9,568	782
Other expense, net	(5)	(14)	(69)	(64)
Total other income, net	3,475	485	9,499	718
Loss before income taxes	(29,709)	(16,807)	(69,001)	(44,483)
Income tax expense	(58)	(13)	(190)	(40)
Net loss	<u>\$ (29,767)</u>	<u>\$ (16,820)</u>	<u>\$ (69,191)</u>	<u>\$ (44,523)</u>
Net loss per share, basic and diluted	<u>\$ (0.42)</u>	<u>\$ (0.44)</u>	<u>\$ (0.98)</u>	<u>\$ (1.50)</u>
Weighted average common stock outstanding, basic and diluted	<u>71,530,180</u>	<u>38,511,655</u>	<u>70,897,320</u>	<u>29,743,579</u>
Other comprehensive loss:				
Net loss	\$ (29,767)	\$ (16,820)	\$ (69,191)	\$ (44,523)
Unrealized (loss) gain on available-for-sale securities, net of tax	(33)	31	87	(812)
Foreign exchange translation adjustment, net of tax	(28)	(138)	(101)	(198)
Comprehensive loss	<u>\$ (29,828)</u>	<u>\$ (16,927)</u>	<u>\$ (69,205)</u>	<u>\$ (45,533)</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)

Nine Months Ended September 30, 2023

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Other	Deficit	Stockholders'
			Capital	Comprehensive		Equity
				Loss		
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	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	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	61,065,023	\$ 6	\$ 556,761	\$ (775)	\$ (281,842)	\$ 274,150
Exercise of stock options	9,000	—	20	—	—	20
Issuance of common stock in connection with exercise of pre-funded warrants	703,486	—	—	—	—	—
Vesting of restricted stock units	7,707	—	—	—	—	—
Stock-based compensation expense	—	—	14,083	—	—	14,083
Unrealized loss on available-for-sale securities	—	—	—	(33)	—	(33)
Foreign exchange translation adjustment	—	—	—	(28)	—	(28)
Net loss	—	—	—	—	(29,767)	(29,767)
Balances at September 30, 2023	61,785,216	\$ 6	\$ 570,864	\$ (836)	\$ (311,609)	\$ 258,425

Nine Months Ended September 30, 2022

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Other	Deficit	Stockholders'
			Capital	Comprehensive		Equity
				Loss		
Balances at December 31, 2021	25,269,271	\$ 3	\$ 342,711	\$ (338)	\$ (182,073)	\$ 160,303
Stock-based compensation expense	—	—	2,744	—	—	2,744
Unrealized loss on available-for-sale securities	—	—	—	(551)	—	(551)
Foreign exchange translation adjustment	—	—	—	(7)	—	(7)
Net loss	—	—	—	—	(13,773)	(13,773)
Balances at March 31, 2022	25,269,271	\$ 3	\$ 345,455	\$ (896)	\$ (195,846)	\$ 148,716
Exercise of stock options	10,000	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	84,558	—	124	—	—	124
Stock-based compensation expense	—	—	2,651	—	—	2,651
Unrealized loss on available-for-sale securities	—	—	—	(292)	—	(292)
Foreign exchange translation adjustment	—	—	—	(53)	—	(53)
Net loss	—	—	—	—	(13,930)	(13,930)
Balances at June 30, 2022	25,363,829	\$ 3	\$ 348,230	\$ (1,241)	\$ (209,776)	\$ 137,216
Issuance of common stock and pre-funded warrants, net of issuance costs of \$426	12,250,000	1	60,718	—	—	60,719
Stock-based compensation expense	—	—	2,686	—	—	2,686
Unrealized gain on available-for-sale securities	—	—	—	31	—	31
Foreign exchange translation adjustment	—	—	—	(138)	—	(138)
Net loss	—	—	—	—	(16,820)	(16,820)
Balances at September 30, 2022	37,613,829	\$ 4	\$ 411,634	\$ (1,348)	\$ (226,596)	\$ 183,694

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)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (69,191)	\$ (44,523)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	22,254	8,081
Depreciation and amortization expense	220	391
(Accretion) amortization on marketable securities	(3,530)	647
Change in deferred taxes and uncertain tax positions	96	39
Amortization of operating lease assets	441	408
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,784)	(2,301)
Accounts payable	1,959	(251)
Accrued expenses and other current liabilities	1,957	66
Operating lease liabilities	(496)	(455)
Net cash used in operating activities	(48,074)	(37,898)
Cash flows from investing activities:		
Purchase of property and equipment	(8)	(241)
Purchase of investments	(270,763)	(91,720)
Proceeds from sales and maturities of investments	185,552	84,235
Net cash used in investing activities	(85,219)	(7,726)
Cash flows from financing activities:		
Net proceeds from issuance of common stock in at-the-market offering	27,924	—
Proceeds from stock option exercises	268	—
Net proceeds from the issuance of common stock and pre-funded warrants	—	61,145
Payment of deferred offering costs	(344)	(144)
Proceeds from issuance of common stock under employee stock purchase plan	241	124
Net cash provided by financing activities	28,089	61,125
Effect of exchange rate changes on cash and cash equivalents	(138)	(223)
Net (decrease) increase in cash and cash equivalents	(105,342)	15,278
Cash and cash equivalents at beginning of period	143,235	47,699
Cash and cash equivalents at end of period	<u>\$ 37,893</u>	<u>\$ 62,977</u>
Supplemental disclosure of cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities	\$ 540	\$ 508
Supplemental disclosure of non-cash activities:		
Right-of-use assets obtained in exchange for lease liabilities	\$ 65	\$ 1,601
Deferred offering costs included in accounts payable and accrued expense	\$ —	\$ 282

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. Organization, Basis of Presentation and Summary of Significant Accounting Policies

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

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).

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. The Company's 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, 2022 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 nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or for any future period.

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 on March 14, 2022. As of September 30, 2023, there were 7,052,550 shares of our common stock sold for aggregate net proceeds of \$52.8 million after deducting commissions and offering expenses pursuant to this agreement. The Company sold 2,929,922 shares for aggregate net proceeds of \$27.9 million pursuant to this agreement during the nine months ended September 30, 2023.

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 on February 10, 2023. There were no sales of the Company's common stock pursuant to this agreement through September 30, 2023.

August 2022 Financing

In August 2022, the Company issued 12,250,000 shares of its common stock at a price of \$2.42 per share and, to certain investors in lieu of common stock, 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. Aggregate net proceeds were \$60.7 million after deducting underwriting discounts and commissions and offering expenses.

The pre-funded warrants were classified as a component of permanent stockholders' equity within additional paid-in capital and were 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 Company valued the pre-funded warrants at issuance, concluding that their sales price approximated their fair value, and allocated net proceeds from the sale proportionately to the common stock and pre-funded warrants, of which \$33.0 million was allocated to the pre-funded warrants and recorded as a component of additional paid-in capital.

In December 2022, the Company entered into an Underwriting Agreement with Jefferies LLC and Cowen and Company, LLC, as representatives of the several underwriters, relating to the underwritten public offering of 10,350,000 shares of the Company's common stock at a public offering price per share of \$7.25. Under the terms of the Underwriting Agreement, the Company granted the underwriters an option, exercisable within 30 days from the date of the Underwriting Agreement, to purchase up to 1,552,500 additional shares of common stock, which the Underwriters exercised in full. Aggregate net proceeds were \$80.8 million after deducting underwriting discounts and commissions and offering expenses.

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Significant estimates and assumptions made in the accompanying 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.

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 period. 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, 2022, as filed with the SEC on March 27, 2023. There have been no significant changes to the Company's significant accounting policies described in Note 1, Organization, 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, 2022.

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 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 other comprehensive loss 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.

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 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 right-of-use 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, or 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. Significant judgments and 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>	September 30, 2023	December 31, 2022
Research and development costs	\$ 1,991	\$ 1,209
Compensation and benefit costs	3,697	3,843
Accrued professional fees	1,975	925
Other	392	185
Total accrued expenses and other current liabilities	<u>\$ 8,055</u>	<u>\$ 6,162</u>

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 is 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 three and nine months ended September 30, 2023, the Company recorded an accrued liability and recognized expense of \$0.9 million related to the departure of the former Chief Executive Officer. 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. The vesting of each equity award held by Mr. Sundaram will be 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 three and nine months ended September 30, 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 will be 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 three and nine months ended September 30, 2023, the Company recorded an accrued liability and recognized expense of \$0.2 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.

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. As of each balance sheet date, unresolved uncertain tax positions are reassessed. 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 September 30, 2023 and 2022 of less than \$0.1 million. The Company recorded income tax expense for the nine months ended September 30, 2023 and 2022 of \$0.2 million and less than \$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, including grants of stock options and restricted stock unit awards issued under the Company's equity incentive plan and rights to acquire stock granted under the Company's employee stock purchase plan (ESPP), is 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. The Company's determination of the fair value of stock options with time-based vesting and rights to acquire stock under the ESPP utilizes the Black-Scholes option-pricing model. 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 of each stock option grant and right to acquire stock under the ESPP is calculated based upon the Company's common stock valuation on the date of the grant. The Company accounts for forfeitures of stock option grants as they occur.

Net Loss Per Share of Common Stock

The Company follows the two-class method when computing net income (loss) per share of common stock as the Company has issued shares that meet the definition of participating securities. The two-class method determines net income (loss) per share of common stock for each class of common and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires income available to common stockholders for the period to be allocated between common and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

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 September 30, 2023 included pre-funded warrants that were issued in connection with the August 2022 Financing, 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 potential dilutive shares. For purposes of this calculation, outstanding stock options and convertible preferred stock are considered potential dilutive shares. The Company's convertible preferred stock outstanding prior to the IPO contractually entitled the holders of such shares to participate in dividends but did not contractually require the holders of such shares to participate in losses of the Company. Accordingly, in periods in which the Company reported a net loss, such losses were not allocated to such securities.

The Company reported a net loss for the three and nine months ended September 30, 2023 and 2022. 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:

	September 30,	
	2023	2022
Options to purchase common stock	8,295,869	4,760,085
Unvested restricted stock units	364,594	100,880
Shares issuable under employee stock purchase plan	54,900	112,757
Total	<u>8,715,363</u>	<u>4,973,722</u>

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 Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. For non-public entities, ASU 2016-13 is effective for annual reporting periods, and interim periods within those fiscal years, beginning after December 15, 2022. Under the JOBS Act, emerging growth companies have extended transition periods available for complying with new or revised accounting standards. The Company adopted the new standard on January 1, 2023 on a prospective basis and the adoption did not have a material impact on the Company's consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

There are no recently issued accounting pronouncements not yet adopted in the period.

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)	September 30, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 23,879	\$ —	\$ —	\$ 23,879
U.S. government securities	230,225	20	(447)	229,798
Total	\$ 254,104	\$ 20	\$ (447)	\$ 253,677

Classified as:

Cash equivalents	\$ 24,970
Marketable securities	228,707
Total	\$ 253,677

(in thousands)	December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 23,029	\$ —	\$ —	\$ 23,029
U.S. government securities	44,555	31	(383)	44,203
Non-U.S. government securities	3,024	—	(16)	3,008
Corporate debt securities	36,411	—	(146)	36,265
Commercial paper	56,403	—	—	56,403
Total	\$ 163,422	\$ 31	\$ (545)	\$ 162,908

Classified as:

Cash equivalents	\$ 23,029
Marketable securities	139,879
Total	\$ 162,908

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)	September 30, 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	\$ 173,469	\$ (447)	\$ —	\$ —	\$ 173,469	\$ (447)
Total	\$ 173,469	\$ (447)	\$ —	\$ —	\$ 173,469	\$ (447)

(in thousands)	December 31, 2022					
	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	\$ —	\$ —	\$ 29,704	\$ (384)	\$ 29,704	\$ (384)
Non-U.S. government securities	—	—	3,008	(15)	3,008	(15)
Corporate debt securities	22,717	(108)	10,530	(38)	33,247	(146)
Total	\$ 22,717	\$ (108)	\$ 43,242	\$ (437)	\$ 65,959	\$ (545)

At September 30, 2023, the Company had 52 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

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 September 30, 2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash in bank balances	\$ 12,923	\$ —	\$ —	\$ 12,923
Money market funds	23,879	—	—	23,879
U.S. government securities	—	1,091	—	1,091
Total cash and cash equivalents	\$ 36,802	\$ 1,091	\$ —	\$ 37,893
Marketable securities				
U.S. government securities	\$ —	\$ 228,707	\$ —	\$ 228,707
Total marketable securities	\$ —	\$ 228,707	\$ —	\$ 228,707

(in thousands)	Fair Value at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash in bank balances	\$ 120,206	\$ —	\$ —	\$ 120,206
Money market funds	23,029	—	—	23,029
Total cash and equivalents	\$ 143,235	\$ —	\$ —	\$ 143,235
Marketable securities				
U.S. government securities	\$ —	\$ 44,203	\$ —	\$ 44,203
Non-U.S. government securities	—	3,008	—	3,008
Corporate debt securities	—	36,265	—	36,265
Commercial paper	—	56,403	—	56,403
Total marketable securities	\$ —	\$ 139,879	\$ —	\$ 139,879

The aggregate amortized cost and fair value of marketable securities as of September 30, 2023, by contractual maturity, are as follows:

(in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 173,674	\$ 173,478
Due after one year through two years	55,459	55,229
Total marketable securities	\$ 229,133	\$ 228,707

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. The Company has the option to extend the lease agreement for a period of five years. Additionally, the Company leases office space in Shanghai and Suzhou China.

Components of lease cost are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2023	2022	2023	2022
Operating lease cost	\$ 160	\$ 145	\$ 482	\$ 450
Short-term cost	4	13	12	40
Total lease cost	<u>\$ 164</u>	<u>\$ 158</u>	<u>\$ 494</u>	<u>\$ 490</u>
Weighted-average remaining lease term				1.09
Weighted-average discount rate				6.00%

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

(in thousands)	Operating Leases
2023	\$ 180
2024	618
2025 and thereafter	—
Total lease payments	798
Less: Imputed interest	(28)
Present value of lease liabilities	770
Less: Current portion of lease liabilities	(707)
Total lease liabilities, non-current	\$ 63

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 September 30, 2023 and December 31, 2022.

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

	September 30, 2023	December 31, 2022
Options outstanding under incentive award plans	8,295,869	4,823,928
Unvested restricted stock units	364,594	128,280
Shares available for future grant under incentive award plans	918,577	1,107,362
Shares available for future grant under employee stock purchase plans	746,412	323,920
Shares available for future grant under employment inducement award plans	3,451,000	1,310,000
Pre-funded warrants	9,751,500	14,630,000
Total shares reserved	23,527,952	22,323,490

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, subject to the preferential dividend rights of the convertible preferred stock. Through September 30, 2023, 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 our 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 2,686,158 shares effective as of January 1, 2023. As of September 30, 2023, 918,577 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 537,231 shares effective as of January 1, 2023. As of September 30, 2023, 746,412 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 September 30, 2023, there was \$0.6 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 1.57 years as of September 30, 2023. There were 114,739 and 84,558 shares purchased by employees under the 2021 ESPP during the nine months ended September 30, 2023 and 2022, respectively.

2022 Employment Inducement Award Plan

In September 2022, the Company's compensation committee approved the 2022 Employment Inducement Award Plan (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 September 30, 2023, 3,451,000 shares of the Company's common stock were available for future grants under the 2022 Inducement Plan.

Pre-Funded Warrants

In connection with the August 2022 Financing, 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 September 30, 2023, 4,878,500 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 nine months ended September 30, 2023:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2022	4,823,928	\$ 8.22	8.46	\$ 11,721
Granted	4,104,000	9.68		
Exercised	(104,176)	2.57		917
Forfeited	(527,883)	6.63		
Outstanding as of September 30, 2023	8,295,869	\$ 9.11	8.50	\$ 919
Exercisable, September 30, 2023	3,292,030	\$ 8.61	7.50	\$ 733
Vested and expected to vest, September 30, 2023	8,295,869	\$ 9.11	8.50	\$ 919

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 September 30, 2023, there was \$24.1 million of unrecognized stock-based compensation expense related to unvested stock options which is estimated to be recognized over a period of 2.68 years.

Restricted Stock Units

Restricted stock units (RSUs) 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 RSU activity for all stock plans during the nine months ended September 30, 2023:

	Number of Shares	Weighted Average Grant- Date Fair Value
Unvested restricted stock units as of December 31, 2022	128,280	\$ 4.09
Granted	291,076	10.21
Vested	(34,762)	3.42
Forfeited	(20,000)	7.04
Unvested restricted stock units as of September 30, 2023	<u>364,594</u>	<u>\$ 8.87</u>

As of September 30, 2023, there was \$2.7 million of unrecognized stock-based compensation expense related to RSUs which is estimated to be recognized over a period of 3.13 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:

	Nine Months Ended September 30,	
	2023	2022
Stock Option Plans		
Expected term (years)	6.05	5.99
Expected volatility	73.79%	72.69%
Risk-free interest rate	3.58%	2.21%
Fair value of underlying common stock	\$ 9.68	\$ 4.32
Weighted average grant-date fair value per share	\$ 6.53	\$ 2.82
Employee Stock Purchase Plans		
Expected term (years)	1.26	0.75
Expected volatility	86.49%	70.86%
Risk-free interest rate	4.85%	1.89%
Fair value of underlying common stock	\$ 11.30	\$ 1.66
Weighted average grant-date fair value per share	\$ 5.82	\$ 0.65

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2023	2022	2023	2022
Research and development expense	\$ 1,400	\$ 795	\$ 4,324	\$ 2,252
General and administrative expense	12,683	1,891	17,930	5,829
Total stock-based compensation expense	<u>\$ 14,083</u>	<u>\$ 2,686</u>	<u>\$ 22,254</u>	<u>\$ 8,081</u>

6. Assignment, License and Collaboration Agreements

TERN-101 License Agreement with Eli Lilly

In February 2018, the Company entered into a worldwide exclusive license agreement with Eli Lilly and Company (Lilly) (Lilly FXR 2018 License Agreement). Under the terms of the Lilly FXR 2018 License Agreement, Lilly granted the Company an exclusive, royalty-bearing license to make, have made, use, offer for sale, sell, import, and have imported, including all rights to develop, manufacture, and commercialize covered products in the field in the territory and a sublicensing right that allows the Company to grant sublicenses to affiliates and third parties to perform any portion of the development, manufacture, and commercialization of covered products. The Company is required to use commercially reasonable efforts to meet development event milestones, develop the covered product in the field in mainland China and commercialize the covered product in the field in mainland China.

The Company agreed to pay Lilly up to an aggregate of \$6.0 million in pre-specified development milestones for the first covered product in mainland China, and up to an aggregate of \$50.0 million in pre-specified development milestones for the first covered product in ex-mainland China. The Company also agreed to pay Lilly tiered royalties calculated on a calendar year basis, in the mid-single digits to low teens on net sales ranging from the low hundreds of millions of dollars to the low billions of dollars. The Lilly FXR 2018 License Agreement expires upon expiry of the last remaining royalty obligation for a licensed product. As of September 30, 2023, the Company has not paid any amounts under the agreement and no milestones have been achieved. The Company has not recorded any research and development expense during the three and nine months ended September 30, 2023 and 2022 related to this agreement.

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.

The Company paid Vintagene a non-refundable, non-creditable upfront payment of \$0.7 million, which was recorded as research and development expense in the Company's statements of operations and comprehensive loss for the year ended December 31, 2019. 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 September 30, 2023, 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 nine months ended September 30, 2023 related to this agreement. The Company has recognized research and development expense of \$2.2 million during the three and nine months ended September 30, 2022 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.

Under the Hansoh 2020 Option and License Agreement, Hansoh was required to pay the Company a refundable, non-creditable upfront payment. The Company received an upfront payment of \$0.8 million during the year ended December 31, 2020, which was recognized as a refund liability and presented within accrued expenses and other current liabilities on the consolidated balance sheets as of December 31, 2020. In connection with Hansoh's exercise of its option in November 2021, 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, pursuant to the Hansoh 2020 Option and License Agreement, 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 September 30, 2023, 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, 2022, which was filed with the SEC on March 27, 2023. 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, obesity and non-alcoholic steatohepatitis (NASH). Our programs are based on mechanisms of action that have achieved proof-of-concept in clinical trials in indications with large unmet needs.

The most advanced product candidates in our pipeline – TERN-701, TERN-601 and TERN-501 – were internally discovered. TERN-701 is our allosteric BCR-ABL tyrosine kinase inhibitor (TKI) that is in clinical development in China for chronic myeloid leukemia (CML), a form of cancer that starts in bone marrow. In October 2023, we announced the clearance by the U.S. Food and Drug Administration (FDA) of our Investigational New Drug application and the design of the CARDINAL trial, Terns' global Phase 1 clinical trial of TERN-701 in participants with CML. Patient screening for the CARDINAL trial is anticipated in December 2023, with interim top-line readouts from initial cohorts expected in the second half of 2024. TERN-601 is our small-molecule glucagon-like peptide-1 receptor (GLP-1R) agonist for metabolic diseases such as obesity. In November 2023, we initiated our first-in-human clinical trial for TERN-601 for the treatment of obesity. Top-line, proof of concept data including 28-day body weight loss are expected in the second half of 2024. See "Recent Developments" for additional information on the Phase 1 clinical trials for TERN-701 and TERN-601. TERN-501 is our highly selective thyroid hormone receptor β (THR- β) agonist for NASH for which we announced positive top-line data from the Phase 2a DUET trial in August 2023. DUET Phase 2a data was featured in an oral late-breaking presentation at The Liver Meeting 2023. Additionally, we have ongoing discovery efforts for the TERN-600 series of additional small molecule GLP-1R agonists and the TERN-800 series of small-molecule glucose-dependent insulinotropic polypeptide receptor (GIPR) modulators for obesity, which have the potential to be combined with GLP-1R agonists.

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. 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 expected in CML and obesity.

We do not have any product candidates approved for commercial sale, and we have not generated any revenue from product sales. Our ability to generate product revenue sufficient to achieve profitability, if ever, will depend on the successful development and eventual commercialization of one or more of our product candidates which we expect, if it ever occurs, will take a number of years.

We will not generate any revenue from product sales unless and until we successfully complete clinical development and obtain regulatory approval for one or more of our product candidates. If we obtain regulatory approval for any of our product candidates, we expect to incur significant expenses related to developing our internal commercialization capability to support product sales, marketing and distribution.

We do not own or operate, and currently have no plans to establish any manufacturing facilities. We rely, and expect to continue to rely, on third parties for the manufacture of our product candidates for preclinical and clinical testing, as well as for commercial manufacturing if any of our product candidates obtain marketing approval. We believe that this strategy allows us to maintain a more efficient infrastructure by eliminating the need for us to invest in our own manufacturing facilities, equipment and personnel while also enabling us to focus our expertise and resources on the development of our product candidates.

Recent Developments

TERN-701: Phase 1 CARDINAL Trial Design

In October 2023, we announced the global Phase 1 clinical trial design of TERN-701 for the treatment of CML.

The CARDINAL trial is a global, multicenter, open-label, two-part Phase 1 clinical trial to evaluate the safety, pharmacokinetics (PK), and efficacy of TERN-701 in participants with previously treated CML. Part 1 is the dose escalation portion of the trial that will evaluate once-daily TERN-701 monotherapy in approximately 24-36 adults living with CML to be enrolled in up to five dose cohorts. Participants will have chronic phase CML with confirmed BCR-ABL and a history of treatment failure or suboptimal response to at least one second generation TKI (nilotinib, dasatinib or bosutinib). Participants who are intolerant to prior TKI treatment (including asciminib) are also allowed. The primary endpoints for Part 1 are the incidence of dose limiting toxicities (DLTs) during the first treatment cycle, and additional measures of safety and tolerability. Secondary endpoints include TERN-701 PK and efficacy assessments, such as hematologic and molecular responses as measured by the change from baseline in BCR-ABL transcript levels. The starting dose is 160 mg QD (once-daily) with dose escalations as high as 500 mg QD and the option to explore a lower dose of 80 mg QD.

Part 2 is the dose expansion portion of the trial that will enroll approximately 40 patients, randomized to once-daily treatment with one of two doses of TERN-701 to be selected based on data from Part 1. The primary endpoint of the dose expansion portion of the trial is efficacy, measured by hematologic and molecular responses. Secondary endpoints include safety, tolerability and PK. The overall objective of the CARDINAL Trial is to select the optimal dose(s) of TERN-701 to move forward to a potential pivotal trial in chronic phase CML.

The CARDINAL Trial plans to enroll at sites in the United States, Europe and other Terns global territories. Global site identification and trial start-up activities are ongoing, with the first patient screening expected in December 2023. Interim top-line readouts from initial cohorts are expected in the second half of 2024.

TERN-601: TERN-601 Phase 1 Clinical Trial Design

In November 2023, we announced that the first participant was dosed in the Phase 1 clinical trial of TERN-601 for the treatment of obesity.

The Phase 1 trial is a randomized, double-blind, placebo-controlled single and multiple-ascending dose (SAD and MAD) trial to assess the safety, tolerability, PK and pharmacodynamics (PD) of TERN-601 in healthy adults with obesity or who are overweight. The trial will consist of two parts.

Part 1 (SAD) is a single ascending dose study that will evaluate up to six once-daily TERN-601 dose levels in approximately 40 healthy participants with a Body Mass Index (BMI) of ≥ 25 kg/m² and < 40 kg/m². The starting TERN-601 dose is 30 mg, with subsequent dose levels based on review of emerging safety and PK data from prior cohorts.

In Part 2 (MAD) of the trial, obese and overweight healthy adults will be enrolled in cohorts that will include titration of TERN-601 administered for 28-days at doses to be selected based on data from Part 1 (SAD). Part 2 will include approximately 72 healthy participants with a BMI of ≥ 27 kg/m² to < 40 kg/m².

The primary endpoint of the trial is safety and tolerability. Secondary endpoints include PK, efficacy as measured by body weight loss following 28-days of treatment with TERN-601, and other exploratory markers. Top-line, proof of concept 28-day weight loss data from Part 2 (MAD) are expected in the second half of 2024.

Results of operations

The following table summarizes our results of operations for the three and nine months ended September 30, 2023 and 2022:

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change	2023	2022	Change
Results of operations						
Operating expenses:						
Research and development	\$ 14,831	\$ 12,161	\$ 2,670	\$ 46,038	\$ 28,959	\$ 17,079
General and administrative	18,353	5,131	13,222	32,462	16,242	16,220
Total operating expenses	33,184	17,292	15,892	78,500	45,201	33,299
Loss from operations	(33,184)	(17,292)	(15,892)	(78,500)	(45,201)	(33,299)
Other income:						
Interest income	3,480	499	2,981	9,568	782	8,786
Other expense, net	(5)	(14)	9	(69)	(64)	(5)
Total other income, net	3,475	485	2,990	9,499	718	8,781
Loss before income taxes	(29,709)	(16,807)	(12,902)	(69,001)	(44,483)	(24,518)
Income tax expense	(58)	(13)	(45)	(190)	(40)	(150)
Net loss	<u>\$ (29,767)</u>	<u>\$ (16,820)</u>	<u>\$ (12,947)</u>	<u>\$ (69,191)</u>	<u>\$ (44,523)</u>	<u>\$ (24,668)</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 contract research organizations, or CROs;
- the cost of manufacturing products for use in our preclinical studies and clinical trials, including payments to contract manufacturing organizations, or 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; and
- expenses related to regulatory activities, including filing fees paid to regulatory agencies.

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. Other expenses include rent, depreciation, maintenance and allocated overhead.

The following table summarizes our research and development expenses for the three and nine months ended September 30, 2023 and 2022:

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change	2023	2022	Change
Research and development expenses						
External expenses by program:						
TERN-701	\$ 1,615	\$ 7	\$ 1,608	\$ 3,257	\$ 7	\$ 3,250
TERN-601	1,585	2,069	(484)	4,000	4,655	(655)
TERN-501	3,202	4,567	(1,365)	16,980	8,179	8,801
Other programs	2,819	1,992	827	6,264	5,456	808
Total external expenses	9,221	8,635	586	30,501	18,297	12,204
Unallocated internal expenses:						
Personnel-related expenses	5,246	3,272	1,974	14,657	9,767	4,890
Other expenses	364	254	110	880	895	(15)
Total research and development expenses	<u>\$ 14,831</u>	<u>\$ 12,161</u>	<u>\$ 2,670</u>	<u>\$ 46,038</u>	<u>\$ 28,959</u>	<u>\$ 17,079</u>

The increase in research and development expenses for the three months ended September 30, 2023, compared to the same period in 2022, was primarily due to a \$2.0 million increase in personnel-related expenses due to higher headcount and a \$0.6 million increase in clinical and preclinical program expenses.

The increase in research and development expenses for the nine months ended September 30, 2023, compared to the same period in 2022, was primarily due to a \$12.2 million increase in clinical and preclinical program expenses and a \$4.9 million increase in personnel-related expenses due to higher headcount.

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 September 30, 2023, compared to the same period in 2022, was primarily due to a \$12.2 million increase in personnel-related expenses due to the executive leadership transition and higher headcount and a \$1.0 million increase in expenses related to professional services consulting.

The increase in general and administrative expenses for the nine months ended September 30, 2023, compared to the same period in 2022, was primarily due to a \$14.3 million increase in personnel-related expenses due to the executive leadership transition and higher headcount and a \$1.8 million increase in expenses related to professional services consulting.

Interest income

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

Interest income for the three months ended September 30, 2023 was \$3.5 million, compared to \$0.5 million for the same period in 2022. The increase in interest income was primarily due to an increase in interest rates.

Interest income for the nine months ended September 30, 2023 was \$9.6 million, compared to \$0.8 million for the same period in 2022. The increase in interest income was primarily due to an increase in interest rates.

Other expense, net

Other expense, net for the three and nine months ended September 30, 2023 and 2022 was less than \$0.1 million of expense.

Income tax expense

Income tax expense for the three months ended September 30, 2023 and 2022 was less than \$0.1 million.

Income tax expense for the nine months ended September 30, 2023 was \$0.2 million, compared to less than \$0.1 million for the same period in 2022.

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, in addition to our Phase 2a DUET trial of TERN-501 in NASH. 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, convertible preferred stock and sale of our convertible promissory notes. 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 September 30, 2023, we had an accumulated deficit of \$311.6 million, a net loss of \$69.2 million, negative cash flows from operations of \$48.1 million, and cash, cash equivalents and marketable securities of \$266.6 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 on March 14, 2022. As of September 30, 2023, there were 7,052,550 shares of our common stock sold for aggregate net proceeds of \$52.8 million after deducting commissions and offering expenses pursuant to this agreement.

In August 2022, we issued 12,250,000 shares of our common stock at a price of \$2.42 per share and, to certain investors in lieu of common stock, 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. Aggregate net proceeds were \$60.7 million after deducting underwriting discounts and commissions and offering expenses.

In December 2022, we entered into an Underwriting Agreement with Jefferies LLC and Cowen, as representatives of the several underwriters, relating to the underwritten public offering of 10,350,000 shares of our common stock at a public offering price per share of \$7.25. Under the terms of the Underwriting Agreement, we granted the underwriters an option, exercisable within 30 days from the date of the Underwriting Agreement, to purchase up to 1,552,500 additional shares of common stock, which the Underwriters exercised in full. Aggregate net proceeds were \$80.8 million after deducting underwriting discounts and commissions and offering expenses.

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 on February 10, 2023. There were no sales of our common stock pursuant to this agreement through September 30, 2023.

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 contract manufacturing organizations (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. Furthermore, we expect to incur additional costs associated with operating as a public company. 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 nine months ended September 30, 2023 was \$48.1 million and consisted primarily of our net loss of \$69.2 million as well as a non-cash adjustment of \$3.5 million net accretion on marketable securities. This was partially offset by \$1.6 million increase from changes in operating assets and liabilities, non-cash adjustments of \$22.3 million of stock-based compensation, \$0.4 million in amortization of operating lease assets and \$0.2 million of depreciation.

Net cash used in operating activities during the nine months ended September 30, 2022 was \$37.9 million and consisted primarily of our net loss of \$44.5 million as well as a \$2.9 million decrease from changes in operating assets and liabilities. This was partially offset by non-cash adjustments of \$8.1 million of stock-based compensation, \$0.6 million of net amortization of marketable securities, \$0.4 million of depreciation and \$0.4 million in amortization of operating lease assets.

Investing activities

Net cash used in investing activities during the nine months ended September 30, 2023 was \$85.2 million and consisted primarily of \$270.8 million in purchases of investments, partially offset by proceeds from the sale and maturity of investments of \$185.6 million.

Net cash used in investing activities during the nine months ended September 30, 2022 was \$7.7 million and consisted primarily of \$91.7 million in purchases of investments and \$0.2 million in purchases of property and equipment. This was partially offset by proceeds from the sale and maturity of investments of \$84.2 million.

Financing activities

Net cash provided by financing activities during the nine months ended September 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 \$0.3 million in proceeds from stock option exercises. This was partially offset by \$0.3 million in payments of deferred offering costs.

Net cash provided by financing activities during the nine months ended September 30, 2022 was \$61.1 million and consisted of \$61.1 million in proceeds from the issuance of common stock and pre-funded warrants in connection with the August 2022 Financing and \$0.1 million of proceeds from the issuance of common stock under our employee stock purchase plan. This was partially offset by \$0.1 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, 2022. 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, 2022.

Recent Accounting Pronouncements

We are subject to several recently issued accounting pronouncements. Note 1 – Organization, 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, 2022.

Item 4. Controls and Procedures.

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

As of September 30, 2023, management, with the supervision and participation of our principal executive officer and principal 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 principal executive officer and principal 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 principal executive officer and principal financial officer concluded that, as of September 30, 2023, 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 September 30, 2023 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 September 30, 2023, 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 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, 2022, 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, 2022 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.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.**Executive Leadership Transition**

In August 2023, we announced the departure of Senthil Sundaram, our former chief executive officer, for health reasons. We are conducting an ongoing search for a permanent chief executive officer and, in the interim, Erin Quirk, our President and Head of Research & Development, continues to assume day-to-day leadership of the company and serve as our principal executive officer.

Appointment of Jill M. Quigley, J.D as Interim Senior Advisor and Strategy Officer

On November 14, 2023, we entered into an employment agreement with Jill M. Quigley, effective on November 15, 2023 (Effective Date), pursuant to which Ms. Quigley, a member of our Board, will serve as our Senior Advisor and Strategy Officer on an interim basis in an executive officer capacity until a permanent chief executive officer is engaged (Quigley Agreement). During her service as an interim executive officer, Ms. Quigley will no longer be considered an independent director or be eligible to serve in her current positions on the Audit Committee and the Nominating and Corporate Governance Committee of the Board.

Pursuant to the Quigley Agreement, Ms. Quigley will receive an annual base salary of \$200,000 and a one-time starting bonus of \$33,333. The Quigley Agreement provides for the grant to Ms. Quigley, effective as of the Effective Date, of restricted stock units for 15,000 shares of our common stock pursuant to our 2021 Incentive Award Plan (Equity Award). The Equity Award will vest in full on August 1, 2024 (Vesting Date), subject to Ms. Quigley's continued service with us as an employee, officer, director or consultant through the Vesting Date. The Equity Award will fully vest upon a change in control of the company.

Ms. Quigley has also executed a standard confidentiality and invention assignment agreement in connection with her employment.

The foregoing summary of the Quigley Agreement is qualified in its entirety by reference to the complete text of the Quigley Agreement. A copy of the Quigley Agreement will be filed as an exhibit to our Annual Report on Form 10-K for the year ending December 31, 2023 and will be incorporated therein by reference.

Erin Quirk, M.D.

Erin Quirk, M.D. continues to serve as our President and Head of Research & Development and as our principal executive officer. On November 14, 2023, we entered into an amended and restated employment agreement with Dr. Quirk (Quirk Agreement). The Quirk Agreement amends Dr. Quirk's current employment agreement to, among other things, reflect an annual base salary of \$531,700 for 2023 and a target bonus of 45% of her base salary, as previously approved by the Compensation Committee of the Board. In addition, the Quirk Agreement (i) provides for a retention bonus payable in cash in the aggregate amount of \$575,000 (Quirk Retention Award), payable in two installments of 33% of the Quirk Retention Award in the next regular payroll following February 1, 2024 and 67% of the Quirk Retention Award in the next regular payroll following August 1, 2024, and a one-time special recognition bonus in the amount of \$100,000, payable in cash in the first regular payroll following January 1, 2024, in each case subject to Dr. Quirk's continued employment with us, and (ii) adjusts her severance benefits in the context of an involuntary termination of employment in connection with a change in control to provide for payment of a full target bonus rather than a pro rata bonus. In the event of an involuntary termination of employment in certain circumstances, the Quirk Retention Award also would become payable.

The foregoing summary of the Quirk Agreement is qualified in its entirety by reference to the complete text of the Quirk Agreement. A copy of the Quirk Agreement will be filed as an exhibit to our Annual Report on Form 10-K for the year ending December 31, 2023 and will be incorporated therein by reference.

Bryan Yoon and Mark Vignola, Ph.D.

As previously disclosed, on August 2, 2023, the Board approved bonus awards (Retention Awards) for Bryan Yoon, our Chief Operating Officer and General Counsel, and Mark Vignola, Ph.D., our Chief Financial Officer, in recognition of their ongoing service and their contributions to our strategic success. On November 14, 2023, we entered into amended and restated employment agreements with each of Mr. Yoon and Dr. Vignola (Employment Agreements) to, among other things, (i) reflect an annual base salary of \$471,800 and a target bonus of 40% of such annual base salary for Mr. Yoon and an annual base salary of \$445,000 and a target bonus of 40% of such annual base salary for Dr. Vignola, in each case as previously approved by the Compensation Committee of the Board, (ii) memorialize the Retention Awards, and (iii) adjust each of their severance benefits in the context of an involuntary termination of employment in connection with a change in control to provide for payment of a full target bonus rather than a pro rata bonus.

The foregoing summary of the Employment Agreements is qualified in its entirety by reference to the complete text of each Employment Agreement. A copy of each Employment Agreement will be filed as an exhibit to our Annual Report on Form 10-K for the year ending December 31, 2023 and will be incorporated therein by reference.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference			<u>Filed Herewith</u>
		<u>Form</u>	<u>Date</u>	<u>Number</u>	
3.1	Amended and Restated Certificate of Incorporation.	8-K	2/9/2021	3.1	
3.2	Amended and Restated Bylaws.	8-K	10/10/2023	3.1	
4.1	Form of Common Stock Certificate.	S-1/A	2/1/2021	4.2	
4.2	Form of Pre-Funded Warrant.	8-K	8/16/2022	4.1	
4.3	Amended and Restated Investors' Rights Agreement, dated December 29, 2020, by and among the Registrant and the investors listed therein.	S-1	1/15/2021	10.1	
10.1#	Separation Agreement between Terns, Inc. and Senthil Sundaram dated August 2, 2023.				X
10.2#	Amendment No. 1 to 2022 Employment Inducement Award Plan.				X
10.3#	Clawback Policy.				X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1^	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2^	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	Inline XBRL Instance Document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				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: November 14, 2023

By: /s/ Erin Quirk
Erin Quirk, M.D.
President and Head of Research & Development
(Principal Executive Officer)

Date: November 14, 2023

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

August 2, 2023

PERSONAL AND CONFIDENTIAL

BY EMAIL

Senthil Sundaram

Dear Sen:

The purpose of this separation agreement (the "Agreement") is to confirm the terms of your transition from CEO of Terns Pharmaceuticals, Inc. and any affiliates, including without limitation, Terns, Inc. (collectively, the "Company"), pursuant to your Employment Agreement, dated and amended as of November 8, 2022 (the "Employment Agreement"). This Agreement outlines the terms of certain benefits and payments to you in connection with your transition and termination.

1. Transition from CEO to Advisor Role. Effective on August 2, 2023 ("the Transition Date"), you will resign your position as Chief Executive Officer of the Company and all other Company offices and directorships pursuant to Exhibit A hereto, and you will remain employed by the Company in the position of Senior Advisor to the Board. You will continue as Senior Advisor to the Board, provided you continue to comply with the terms of this Agreement, until the date you voluntarily terminate your employment or December 31, 2023, whichever occurs first (the "Termination Date"). If you give earlier notice of your voluntary termination, you agree to do so in writing to the Company, attention to the Company's Board Chair (with confirmed receipt of same). The period from the Transition Date to the Termination Date is the "Transition Period".

2. Terms and Conditions of Advisor Role and Transition Period. During the Transition Period, the Company does not expect you to perform any services except as requested solely in writing (which may occur through electronic communications) through the Board Chair, which services you may reasonably and in good faith perform consistent with your medical condition and vacation time. You will perform no other services and communicate nothing related to the Company other than as expressly directed and reasonably requested by the Board Chair as indicated herein. You shall continue to comply with all Company policies during the Transition Period. For the duration of the Transition Period, you will receive a monthly salary of \$5,000, which shall be payable in accordance with the Company's payroll, and you will continue to be eligible for all Company benefits.

3. Termination of Employment. On and after the Termination Date, you will not be eligible to remain in the Company's benefit programs. The Company will not contest any application you may make for unemployment benefits after the Termination Date. In addition, and regardless of whether you sign this Agreement, on the Termination Date, you will receive payment for all wages that are due and accrued as of the Termination 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 Termination 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 Termination Date.

4. Severance Benefits. Pursuant to the Employment Agreement, if you or your estate in the event of your death, sign (and do not revoke) this Agreement and the Supplemental Release of Claims referred to in Section 8 below (the form of which is attached as Exhibit C), and provided you do not act in violation of the covenants set forth in this Agreement, the Company will pay and provide you (or your estate in the event of your death) the following:

(i) Severance: Severance in the amount of \$602,300, less applicable payroll withholdings (the "Severance"), which is equivalent to twelve (12) months of your Base Salary. The Severance will be paid with the Company's regular payroll in regular installments, beginning with the first payroll following the Effective Date of the Supplemental Release of Claims and continuing for twelve (12) months thereafter until fully paid.

(ii) Bonus: The Company will pay you 100% of your Target Bonus (which is 50% of your Base Salary) for the year 2023 in the amount of \$301,150, which payment shall be made to you (or your estate) (less applicable payroll withholdings) on the earlier of (x) March 15, 2024 or (y) the date bonuses are paid to other bonus participants. You will not be eligible for any other bonus payments from the Company.

(iii) Continued Health Insurance: In addition, if you sign (and do not revoke) the Supplemental Release, and if you elect COBRA, the Company will pay your COBRA premiums to continue your medical, vision and dental coverage for you and your dependents at the Company's cost for a period of up to thirty-six (36) months following the Termination Date, subject to Section 6.2.3 of the Employment Agreement.

(iv) Legal Fees. The Company will reimburse the attorneys' fees you incurred in connection with negotiating this Agreement up to an amount of \$10,000, upon the presentation to the Company of invoices reflecting such payments.

Other than as set forth in this Section and Agreement, you are not eligible for any other payment from the Company, including without limitation, wages, bonuses, benefits, or compensation. Pursuant to the Guardian Basic Life Insurance Policy, the Company agrees to continue the life insurance coverage for you due to the fact that your employment will end due to your Total Disability in accordance with the Continuation of Coverage provided for in the Policy.

5. Equity in the Company. Pursuant to Section 6.2.4 of the Employment Agreement, each Equity Award (as such term is defined in the Employment Agreement) held by you (as reflected on Exhibit B) shall fully accelerate as of the Termination Date and each option held by you (as reflected on Exhibit B) will remain outstanding and exercisable until the earliest of (a) three (3) years after the Termination Date, (b) the closing of any Change in Control or (c) the original expiration date of the option. Other than as set forth on Exhibit B, you have no equity interest in the Company or its affiliates, and you will make no claim to such equity in future.

6. 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 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, no later than five business days after the Termination Date, you will return to the Company all Company documents (whether in hard copy or electronic form and any copies thereof) and property (including, without limitation, all cell phones, laptops and other company equipment), and that you shall abide by the provisions of the Confidentiality Agreement you previously executed (the "Confidentiality 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.

(c) You agree that during the Transition Period and after the Termination 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 intended to disrupt or impair the Company's business operations, including, without limitation, disrupting or impairing the Company's employment relationship with its employees. In the event the Company believes such a statement is made, you shall be entitled to written notice of such alleged violation, which shall be transmitted to you and your counsel by electronic mail, confirmed receipt of same, and, if curable, you shall be provided with five days to cure such alleged violation. The Company is not presently aware of any violations of this provision as of the date this Agreement is executed.

(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 during the Transition Period and after the Termination 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 Severance 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's officers and members of its Board of Directors agree during the Transition Period and after the Termination Date not to make any statements that are (i) professionally or personally disparaging about, or adverse to, you, (ii) or reference your personal health information (other than reporting your separation due to Disability or Total Disability as required to regulators or insurers).

(i) You agree that the Company may publicly announce on (or immediately after) the Transition Date that you are transitioning into an Advisor Role for medical reasons.

7. Your Release of Claims. You hereby agree and acknowledge that by signing this Agreement and accepting the Severance benefits in Section 4 and the equity acceleration in Section 5 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 date you execute this Agreement (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 and director. You acknowledge and agree that, but for providing this waiver and release, you would not be receiving the economic benefits described herein unless you sign and do not revoke this Agreement (and the Supplemental Release of Claims).

****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.

8. Supplemental Release of Claims. Prior to the Termination Date, the Company will provide you with a Supplemental Release of Claims in the form annexed hereto as Exhibit C as a condition to your receipt of the Severance benefits provided for in Section 4 and the equity acceleration provided for in Section 5, which Supplemental Release of Claims will cover the period

through the Termination Date. You or your estate representatives must execute and not revoke the release in order to receive the Severance benefits.

9. 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 (except as expressly set forth herein) and sets forth the entire agreement between you and 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.

[SIGNATURE PAGE FOLLOWS]

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.

Terns, Inc.

By: /s/ Bryan Yoon
Name: Bryan Yoon
Its: Member of the Board

Confirmed, Agreed and Acknowledged:

/s/ Senthil Sundaram
Senthil Sundaram

Dated: August 2, 2023

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Exhibit A – Resignation Form

August 2, 2023

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

Please be advised that I hereby resign as Chief Executive Officer of Terns Pharmaceuticals, Inc., as Chief Executive Officer of Terns, Inc. and as a member of the Terns Pharmaceuticals, Inc. Board of Directors, as well as from any other officer and director positions for Terns Pharmaceuticals, Inc. and Terns, Inc. and any of their affiliates or subsidiaries thereof effective as of August 2, 2023.

Senthil Sundaram

Exhibit B

Equity Statement – Shareworks Statement Attached

Supplemental Release of Claims

I (or my estate representatives) hereby agree and acknowledge that by signing this Supplemental Release of Claims and accepting the Severance benefits set forth in the Agreement between me and Terns, Inc. dated August 2, 2023 (the "Agreement"), and for other good and valuable consideration, hereby waive my right to assert any and all forms of legal claims against the Company (as defined in the Agreement) of any kind whatsoever, whether known or unknown, arising from the beginning of time through the date I execute this Supplemental Release of Claims (the "Supplemental Release of Claims Execution Date"). Except as set forth below, my waiver and release herein is intended to bar any form of legal claim, complaint or any other form of action by me, including but not limited to a class or collective action, whether I 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 Supplemental Release of Claims Execution Date.

Without limiting the foregoing general waiver and release, I specifically waive and release the Company from any Claim arising from or related to my 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 the Agreement, including but not limited to the obligation to pay the Severance. Moreover, this section does not release any claims or entitlements I 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 I served as a Company officer and director. I acknowledge and agree that the Company will not pay me (or my estate) the Severance unless I sign and do not revoke this Supplemental Release of Claims.

****Unknown Claims, Waiver of California Civil Code Section 1542.** I understand and expressly agree that this Supplemental Release of Claims 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 me 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, I acknowledge I may later discover facts in addition to or different from those I now believe to be true with respect to the matters released in this Agreement. I, however, agree I have taken that possibility into account in reaching this Agreement, and that the release in this Supplemental Release of Claims 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 I fully understand the provisions and effects of this Supplemental Release of Claims. To that end, I have been encouraged and given the opportunity to consult with legal counsel for the purpose of reviewing the terms of this Supplemental Release of Claims. Also, because I am 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 me with twenty-one (21) days in which to consider and accept the terms of this Supplemental Release of Claims by signing below and returning it to Bryan Yoon (or other designee) at the Company (byoon@ternspharma.com). In addition, I may rescind my assent to this Supplemental Release of Claims if, within seven (7) days after I sign this Supplemental Release of Claims, I 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 (or his designee). The eighth day following my signing of this Supplemental Release of Claims without rescission is the "Effective Date" of this Supplemental Release of Claims.

Also, consistent with the provisions of local, state and federal discrimination laws, nothing in this release shall be deemed to prohibit me 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 my signing of this Supplemental Release of Claims 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 me under the Agreement and this Supplemental Release of Claims in the event that I successfully challenge the validity of this release and prevail in any claim under the Discrimination Laws.

Confirmed, Agreed and Acknowledged:

Senthil Sundaram

Dated: _____

AMENDMENT NO. 1 TO
2022 EMPLOYMENT INDUCEMENT AWARD PLAN
OF
TERNS PHARMACEUTICALS, INC.

The 2022 Employment Inducement Award Plan (the “Plan”) of Terns Pharmaceuticals, Inc. (the “Company”) is hereby amended as follows (all capitalized terms used and not defined herein shall have the respective meanings ascribed to such terms in the Plan):

1. Section 5.1 of the Plan be and hereby is deleted in its entirety and the following is inserted in lieu thereof:

5.1 Number of Shares. Subject to adjustment under Article IX and the terms of this Article V, Awards may be made under the Plan covering up to 4,513,250 Shares. Shares issued or delivered under the Plan may consist of authorized but unissued Shares, Shares purchased on the open market or treasury Shares.

2. Except as set forth herein, the Plan shall remain in full force and effect.

* * *

Approved by the Compensation Committee of the Board of Directors on September 28, 2023.

TERNS PHARMACEUTICALS, INC.

Compensation Recovery Policy

(Effective as of October 2023)

This Compensation Recovery Policy (this “Policy”) is adopted by Terns Pharmaceuticals, Inc. (the “Company”) in accordance with Section 10D of the Securities Exchange Act of 1934, as amended, and Nasdaq Listing Rule 5608 (the “Applicable Securities Rules”).

1. Definitions

(a) “**Accounting Restatement**” means a requirement that the Company prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the U.S. federal securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. Changes to the Company’s financial statements that do not represent error corrections are not an Accounting Restatement, including: (A) retrospective application of a change in accounting principle; (B) retrospective revision to reportable segment information due to a change in the structure of the Company’s internal organization; (C) retrospective reclassification due to a discontinued operation; (D) retrospective application of a change in reporting entity, such as from a reorganization of entities under common control; and (E) retrospective revision for stock splits, reverse stock splits, stock dividends or other changes in capital structure.

(b) “**Committee**” means the Compensation Committee of the Company’s Board of Directors (the “Board”).

(c) “**Covered Person**” means a person who served as an Executive Officer at any time during the performance period for the applicable Incentive-Based Compensation.

(d) “**Erroneously Awarded Compensation**” means the amount of Incentive-Based Compensation that was Received that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received had the amount of Incentive-Based Compensation been determined based on the restated amounts, computed without regard to any taxes paid by the Covered Person or by the Company on the Covered Person’s behalf. For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an accounting restatement, the amount of Erroneously Awarded Compensation will be based on a reasonable estimate by the Committee of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received. The Company will maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq.

(e) “**Executive Officer**” means an officer of the Company as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended.

(f) **“Financial Reporting Measures”** means (A) measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures (whether or not such measures are presented within the Company’s financial statements or included in a filing made with the U.S. Securities and Exchange Commission), (B) stock price and (C) total shareholder return.

(g) **“Incentive-Based Compensation”** means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

(h) Incentive-Based Compensation is deemed to be **“Received”** in the Company’s fiscal period during which the Financial Reporting Measure specified in the applicable Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period or is subject to additional time-based vesting requirements.

(i) **“Recovery Period”** means the three completed fiscal years immediately preceding the earlier of: (A) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; or (B) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement. In addition, if there is a change in the Company’s fiscal year end, the Recovery Period will also include any transition period to the extent required by the Applicable Securities Rules.

2.Recovery of Erroneously Awarded Compensation

Subject to the terms of this Policy and the requirements of the Applicable Securities Rules, if the Company is required to prepare an Accounting Restatement, the Company will attempt to recover, reasonably promptly from each Covered Person any Erroneously Awarded Compensation Received during the Recovery Period pursuant to Incentive-Based Compensation that is subject to this Policy.

3.Interpretation and Administration

(a) Role of the Committee. This Policy will be interpreted by the Committee in a manner that is consistent with the Applicable Securities Rules and any other applicable law and will otherwise be interpreted in the business judgment of the Committee. All decisions and interpretations of the Committee will be final and binding.

(b) Compensation Not Subject to this Policy. This Policy does not apply to Incentive-Based Compensation that was Received before October 2, 2023. With respect to any Covered Person, this Policy does not apply to Incentive-Based Compensation that was Received by such Covered Person before beginning service as an Executive Officer.

(c) Determination of Means of Recovery. Subject to the requirement that recovery be made reasonably promptly, the Committee will determine the appropriate means of recovery,

which may vary between Covered Persons or based on the nature of the applicable Incentive-Based Compensation, and which may involve, without limitation, establishing a deferred repayment plan or setting off against current or future compensation otherwise payable to the Covered Person. Recovery of Erroneously Awarded Compensation will be made without regard to income taxes paid by the Covered Person or by the Company on the Covered Person's behalf in connection with such Erroneously Awarded Compensation.

(d)Determination That Recovery is Impracticable. The Company is not required to recover Erroneously Awarded Compensation if a determination is made by the Committee that either (A) after the Company has made and documented a reasonable attempt to recover such Erroneously Awarded Compensation, the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered or (B) recovery of such Erroneously Awarded Compensation would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of Section 401(a)(13) or 411(a) of the Internal Revenue Code and regulations thereunder.

(e)No Indemnification or Company-Paid Insurance. The Company will not indemnify any Covered Person against the loss of Erroneously Awarded Compensation and will not pay or reimburse any Covered Person for the purchase of a third-party insurance policy to fund potential recovery obligations.

(f)Interaction with Other Clawback Provisions. The Company will be deemed to have recovered Erroneously Awarded Compensation in accordance with this Policy to the extent the Company actually receives such amounts pursuant to any other Company policy, program or agreement, pursuant to Section 304 of the Sarbanes-Oxley Act or otherwise.

(g)No Limitation on Other Remedies. Nothing in this Policy will be deemed to limit the Company's right to terminate employment of any Covered Person, to seek recovery of other compensation paid to a Covered Person, or to pursue other rights or remedies available to the Company under applicable law.

(h)Successors. This Policy shall be binding and enforceable against any Covered Person's successors, beneficiaries, heirs, executors, administrators, or other legal representatives.

**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, Erin Quirk, 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: November 14, 2023

By:

/s/ Erin Quirk
Erin Quirk
President and Head of Research & Development
(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: November 14, 2023

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 September 30, 2023 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: November 14, 2023

By:

/s/ Erin Quirk
Erin Quirk
President and Head of Research & Development
(Principal Executive 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 September 30, 2023 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: November 14, 2023

By:

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