
**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 March 31, 2024

OR

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

For the transition period from to

Commission File Number: 001-39926

Terns Pharmaceuticals, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

1065 East Hillsdale Blvd., Suite 100

Foster City, California

(Address of principal executive offices)

98-1448275

(I.R.S. Employer
Identification No.)

94404

(Zip Code)

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input 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 May 3, 2024, the registrant had 64,677,145 shares of common stock, \$0.0001 par value per share, outstanding.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

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

	March 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 65,099	\$ 79,926
Marketable securities	175,555	183,514
Prepaid expenses and other current assets	5,241	3,992
Total current assets	245,895	267,432
Property and equipment, net	447	506
Operating lease assets	369	523
Other assets	55	56
Total assets	<u>\$ 246,766</u>	<u>\$ 268,517</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,701	\$ 2,515
Accrued expenses and other current liabilities	6,700	8,826
Current portion of operating lease liabilities	427	603
Total current liabilities	8,828	11,944
Taxes payable, non-current	1,218	1,206
Total liabilities	10,046	13,150
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value, 150,000,000 shares authorized at March 31, 2024 and December 31, 2023; 64,651,693 and 64,576,719 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	6	6
Additional paid-in capital	592,036	588,008
Accumulated other comprehensive loss	(321)	(19)
Accumulated deficit	(355,001)	(332,628)
Total stockholders' equity	236,720	255,367
Total liabilities and stockholders' equity	<u>\$ 246,766</u>	<u>\$ 268,517</u>

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
(Uaudited; in thousands, except share and per share data)

	Three Months Ended March 31,	
	2024	2023
Operating expenses:		
Research and development	\$ 18,587	\$ 17,056
General and administrative	6,859	7,101
Total operating expenses	25,446	24,157
Loss from operations	(25,446)	(24,157)
Other income:		
Interest income	3,182	2,693
Other expense, net	(12)	(4)
Total other income, net	3,170	2,689
Loss before income taxes	(22,276)	(21,468)
Income tax expense	(97)	(60)
Net loss	<u>\$ (22,373)</u>	<u>\$ (21,528)</u>
Net loss per share, basic and diluted	<u>\$ (0.30)</u>	<u>\$ (0.31)</u>
Weighted average common stock outstanding, basic and diluted	<u>74,399,378</u>	<u>69,778,420</u>
Other comprehensive loss:		
Net loss	\$ (22,373)	\$ (21,528)
Unrealized (loss) gain on available-for-sale securities, net of tax	(293)	418
Foreign exchange translation adjustment, net of tax	(9)	(12)
Comprehensive loss	<u>\$ (22,675)</u>	<u>\$ (21,122)</u>

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

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

	Three Months Ended March 31, 2024						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity	
	Shares	Amount					
Balances at December 31, 2023	64,576,719	\$ 6	\$ 588,008	\$ (19)	\$ (332,628)	\$ 255,367	
Vesting of restricted stock units with service conditions	74,974	—	—	—	—	—	—
Stock-based compensation expense	—	—	4,028	—	—	—	4,028
Unrealized loss on available-for-sale securities	—	—	—	(293)	—	—	(293)
Foreign exchange translation adjustment	—	—	—	(9)	—	—	(9)
Net loss	—	—	—	—	(22,373)	—	(22,373)
Balances at March 31, 2024	<u>64,651,693</u>	<u>\$ 6</u>	<u>\$ 592,036</u>	<u>\$ (321)</u>	<u>\$ (355,001)</u>	<u>\$ 236,720</u>	

	Three Months Ended March 31, 2023						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity	
	Shares	Amount					
Balances at December 31, 2022	53,723,171	\$ 5	\$ 520,178	\$ (822)	\$ (242,418)	\$ 276,943	
Issuance of common stock in at-the-market offering	2,929,922	—	27,924	—	—	—	27,924
Vesting of restricted stock units with service conditions	16,503	—	—	—	—	—	—
Stock-based compensation expense	—	—	3,938	—	—	—	3,938
Unrealized gain on available-for-sale securities	—	—	—	418	—	—	418
Foreign exchange translation adjustment	—	—	—	(12)	—	—	(12)
Net loss	—	—	—	—	(21,528)	—	(21,528)
Balances at March 31, 2023	<u>56,669,596</u>	<u>\$ 5</u>	<u>\$ 552,040</u>	<u>\$ (416)</u>	<u>\$ (263,946)</u>	<u>\$ 287,683</u>	

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

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

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (22,373)	\$ (21,528)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	4,028	3,938
Depreciation expense	82	76
Accretion on marketable securities	(360)	(806)
Change in deferred taxes and uncertain tax positions	34	32
Amortization of operating lease assets	154	146
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,249)	(67)
Accounts payable	(814)	1,324
Accrued expenses and other current liabilities	(2,125)	2,666
Operating lease liabilities	(175)	(163)
Net cash used in operating activities	(22,798)	(14,382)
Cash flows from investing activities:		
Purchase of property and equipment	(29)	—
Purchase of investments	(50,594)	(23,862)
Proceeds from sales and maturities of investments	58,620	51,793
Net cash provided by investing activities	7,997	27,931
Cash flows from financing activities:		
Net proceeds from issuance of common stock in at-the-market offering	—	27,924
Payment of deferred offering costs	—	(344)
Net cash provided by financing activities	—	27,580
Effect of exchange rate changes on cash and cash equivalents	(26)	(10)
Net (decrease) increase in cash and cash equivalents	(14,827)	41,119
Cash and cash equivalents at beginning of period	79,926	143,235
Cash and cash equivalents at end of period	<u>\$ 65,099</u>	<u>\$ 184,354</u>
Supplemental disclosure of cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities	\$ 183	\$ 180

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

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

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

Nature of the Business

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

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

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

Basis of Presentation

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

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

Unaudited Interim Financial Information

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

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

At-the-Market Offering

In March 2022, the Company entered into a Sales Agreement with Cowen and Company, LLC (Cowen) as sales agent, pursuant to which the Company has the ability to offer and sell, from time to time, through Cowen, shares of its common stock having an aggregate offering price of up to \$75.0 million in an at-the-market offering. The shares are offered pursuant to the Company's shelf registration statement on Form S-3 filed with the Securities and Exchange Commission (SEC), which became effective in March 2022. As of March 31, 2024, there were 9,781,673 shares of our common stock sold for aggregate net proceeds of \$66.6 million after deducting commissions and offering expenses pursuant to this agreement. There were no sales of the Company's common stock pursuant to this agreement during the three months ended March 31, 2024.

In May 2023, the Company entered into a Sales Agreement with Cowen as sales agent, pursuant to which the Company has the ability to offer and sell, from time to time, through Cowen, shares of its common stock having an aggregate offering price of up to \$150.0 million in an at-the-market offering. The shares are offered pursuant to the Company's shelf registration statement on Form S-3 filed with the SEC, which became effective in February 2023. There were no sales of the Company's common stock pursuant to this agreement through March 31, 2024.

Summary of Significant Accounting Policies

Use of Estimates

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

Cash, Cash Equivalents and Marketable Securities

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

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

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

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

Operating Leases and Rent Expense

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

Operating lease 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 noncancelable 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. 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:

(in thousands)	March 31, 2024	December 31, 2023
Research and development costs	\$ 2,155	\$ 2,010
Compensation and benefit costs	2,100	5,683
Accrued professional fees	1,913	855
Other	532	278
Total accrued expenses and other current liabilities	\$ 6,700	\$ 8,826

Executive Leadership Transition

In August 2023, the Company and Senthil Sundaram, former chief executive officer, entered into a separation agreement. Pursuant to the separation agreement, Mr. Sundaram was entitled to receive severance in the amount of \$0.6 million and 100% of his annual target discretionary bonus for 2023 in the amount of \$0.3 million. During the year ended December 31, 2023, the Company recorded an accrued liability and recognized expense of \$0.9 million related to the departure of the former chief executive officer. As of March 31, 2024, the ending accrued liability was \$0.4 million and is presented within the Condensed Consolidated Balance Sheets under Accrued expenses and other current liabilities. The vesting of each equity award held by Mr. Sundaram was fully accelerated as of December 31, 2023. As a result of the change in service period for all outstanding unvested option grants to the Company's former chief executive officer in August 2023, the Company recognized \$10.5 million in stock-based compensation expense during the year ended December 31, 2023. The expense was recognized as operating expenses within the Condensed Consolidated Statements of Operations and Comprehensive Loss under General and administrative.

In August 2023, Bryan Yoon, chief operating officer and general counsel, and Mark Vignola, Ph.D., chief financial officer, received retention awards payable in cash in the aggregate amount of \$0.5 million for Mr. Yoon and \$0.7 million for Dr. Vignola. Each retention award is payable in two installments of 33% of the award on February 1, 2024 and 67% of the award on August 1, 2024, subject to the applicable officer's continued employment with the Company through such date. Expense is recognized on a straight-line basis over the requisite service period. During the three months ended March 31, 2024, the Company recorded an accrued liability and recognized expense of \$0.3 million related to the retention awards. These accruals are presented within the Condensed Consolidated Balance Sheets under Accrued expenses and other current liabilities. The expenses were recognized as operating expenses within the Condensed Consolidated Statements of Operations and Comprehensive Loss under General and administrative.

In November 2023, Erin Quirk, M.D., president and head of research & development, received a retention award payable in cash in the aggregate amount of \$0.6 million and a recognition bonus in the aggregate amount of \$0.1 million. The retention award is payable in two installments of 33% of the award on February 1, 2024 and 67% of the award on August 1, 2024, and the recognition bonus was payable on January 1, 2024, subject to Dr. Quirk's continued employment with the Company through such date. Expense is recognized on a straight-line basis over the requisite service period. During the three months ended March 31, 2024, the Company recorded an accrued liability and recognized expense of \$0.2 million related to the retention award. 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 Research and development.

Income Taxes

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

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

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

The Company recorded income tax expense for the three months ended March 31, 2024 and 2023 of less than \$0.1 million. The expenses are primarily related to foreign income tax expenses from China.

Comprehensive Loss

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

Stock-Based Compensation

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

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

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

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

Pre-funded Warrants

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

Net Loss Per Share of Common Stock

Basic net income (loss) per share of common stock is computed by dividing the net income (loss) per share of common stock by the weighted average number of shares of common stock outstanding for the period. The weighted-average shares of common stock outstanding as of March 31, 2024 included pre-funded warrants, as the warrants were issued for minimal consideration and were immediately exercisable.

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

The Company reported a net loss for the three months ended March 31, 2024 and 2023. In periods in which the Company reported a net loss, diluted net loss per share of common stock was the same as basic net loss per share of common stock, since dilutive shares were not assumed to have been issued if their effect is anti-dilutive. The Company excluded the following potential shares of common stock, presented based on amounts outstanding at each period end, from the computation of diluted net loss attributable to common stockholders per share of common stock for the periods indicated because including them would have had an anti-dilutive effect:

	March 31,	
	2024	2023
Options to purchase common stock	10,964,422	7,729,844
Unvested restricted stock units with service conditions	923,693	388,103
Unvested restricted stock units with market conditions	150,000	—
Shares issuable under employee stock purchase plan	66,202	106,308
Total	12,104,317	8,224,255

Deferred Offering Costs

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

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

Commitments and Contingencies

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

Recent Accounting Pronouncements

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

Recently Issued Accounting Pronouncements Not Yet Adopted

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

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:

	March 31, 2024			
(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 44,181	\$ —	\$ —	\$ 44,181
U.S. government securities	175,691	28	(164)	175,555
Total	\$ 219,872	\$ 28	\$ (164)	\$ 219,736

Classified as:

Cash equivalents	\$ 44,181
Marketable securities	175,555
Total	\$ 219,736

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

Classified as:

Cash equivalents	\$ 33,788
Marketable securities	183,514
Total	\$ 217,302

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:

	March 31, 2024			
(in thousands)	Less than 12 months	12 months or longer	Total	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government securities	\$ 144,569	\$ (164)	\$ 144,569	\$ (164)
Total	\$ 144,569	\$ (164)	\$ 144,569	\$ (164)

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

At March 31, 2024, the Company had 32 available-for-sale marketable securities in an unrealized loss position without an allowance for credit losses. The Company does not intend to sell these securities and the Company believes it is more likely than not that marketable securities in an unrealized loss position will be held until maturity and that the Company will not be required to sell these securities before recovery of their amortized cost basis. The Company believes that an allowance for credit losses is unnecessary as the securities are of high credit quality and the decline in fair value is due to market conditions and/or changes in interest rates.

3. Fair Value Measurements

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

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

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

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

(in thousands)	Fair Value at March 31, 2024				Total
	Level 1	Level 2	Level 3		
Cash and cash equivalents					
Cash in bank balances	\$ 20,918	\$ —	\$ —	\$ —	\$ 20,918
Money market funds	44,181	—	—	—	44,181
Total cash and cash equivalents	<u>\$ 65,099</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 65,099</u>
Marketable securities					
U.S. government securities	\$ —	\$ 175,555	\$ —	\$ —	\$ 175,555
Total marketable securities	<u>\$ —</u>	<u>\$ 175,555</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 175,555</u>

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

The aggregate amortized cost and fair value of marketable securities as of March 31, 2024, by contractual maturity, are as follows:

(in thousands)	Amortized Cost		Fair Value
Due in one year or less	\$ 126,159	\$ 126,077	
Due after one year through two years	49,532	49,478	
Total marketable securities	<u>\$ 175,691</u>	<u>\$ 175,555</u>	

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 March 31,	
	2024	2023
(in thousands)		
Operating lease cost	\$ 161	\$ 159
Short-term cost	4	3
Total lease cost	<u>\$ 165</u>	<u>\$ 162</u>
Weighted-average remaining lease term	0.59	
Weighted-average discount rate	6.00%	

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

	Operating Leases
2024	\$ 435
2025 and thereafter	—
Total lease payments	435
Less: Imputed interest	(8)
Present value of lease liabilities	427
Less: Current portion of lease liabilities	(427)
Total lease liabilities, non-current	\$ —

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 March 31, 2024 and December 31, 2023.

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

	March 31, 2024	December 31, 2023
Options outstanding under incentive award plans	10,964,422	8,349,922
Unvested restricted stock units with service conditions	923,693	365,892
Unvested restricted stock units with market conditions	150,000	—
Shares available for future grant under incentive award plans	2,320,147	1,005,587
Shares available for future grant under employee stock purchase plans	701,671	701,671
Shares available for future grant under employment inducement award plans	1,808,000	3,291,000
Pre-funded warrants	9,751,500	9,751,500
Total shares reserved	<u>26,619,433</u>	<u>23,465,572</u>

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, if any, as may be declared by the Company's board of directors. Through March 31, 2024, no cash dividends have been declared or paid by the Company.

Stock-Based Compensation Plans

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

2021 Incentive Award Plan

In January 2021, the Company's board of directors approved the 2021 Plan which permits the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance bonus awards, performance stock unit awards and other stock awards to employees, directors, officers and consultants. In February 2021, 2,400,007 shares were authorized for issuance under the 2021 Plan, which shall be cumulatively increased on the first day of each year beginning in 2022 and ending in 2031 equal to the lesser of (i) the amount equal to 5% of the number of shares issued and outstanding on the last day of the immediately preceding fiscal year or (ii) such lower number of shares as may be determined by the Company's board of directors. The 2021 Plan is the successor to the 2017 Incentive Award Plan and no additional awards may be issued from the 2017 Plan. However, the 2017 Plan will continue to govern the terms and conditions of the outstanding awards granted under this plan. Shares of common stock subject to awards granted under the 2017 Plan that are forfeited or lapse unexercised and which following the effective date of the 2021 Plan are not issued under the 2017 Plan will be available for issuance under the 2021 Plan. The number of authorized shares reserved for issuance under the 2021 Plan was increased by 3,228,835 shares effective as of January 1, 2024. As of March 31, 2024, 2,320,147 shares of the Company's common stock were available for future grants under the 2021 Plan.

2021 Employee Stock Purchase Plan

The 2021 Employee Stock Purchase Plan (the "2021 ESPP") was approved by the Company's board of directors in January 2021. In February 2021, a total of 240,000 shares were initially reserved for issuance under this plan, which shall be cumulatively increased on the first day of each year beginning in 2022 and ending in 2031 equal to the lesser of (i) 1% of the shares outstanding (on an as converted basis) on the last day of the immediately preceding fiscal year and (ii) such number of shares as may be determined by the Company's board of directors. The number of authorized shares reserved for issuance under the 2021 ESPP was increased by 645,767 shares effective as of January 1, 2024. As of March 31, 2024, 701,671 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 March 31, 2024, there was \$0.9 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 1.38 years as of March 31, 2024. There were no shares purchased by employees under the 2021 ESPP during the three months ended March 31, 2024 and 2023.

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 March 31, 2024, 1,808,000 shares of the Company's common stock were available for future grants under the 2022 Inducement Plan.

Pre-Funded Warrants

In August 2022, the Company sold pre-funded warrants to purchase 14,630,000 shares of common stock at a price of \$2.4199 per pre-funded warrant. The purchase price per share of each pre-funded warrant represents the per share offering price for the common stock, minus the \$0.0001 per share exercise price of such pre-funded warrant. As of March 31, 2024, 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 three months ended March 31, 2024:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2023	8,349,922	\$ 9.04	6.82	\$ 2,225
Granted	2,614,500	6.75		
<u>Outstanding as of March 31, 2024</u>	<u>10,964,422</u>	<u>\$ 8.49</u>	<u>7.36</u>	<u>\$ 3,133</u>
Exercisable, March 31, 2024	5,149,787	\$ 8.72	5.19	\$ 1,673
Vested and expected to vest, March 31, 2024	10,964,422	\$ 8.49	7.36	\$ 3,133

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 March 31, 2024, there was \$30.9 million of unrecognized stock-based compensation expense related to unvested stock options which is estimated to be recognized over a period of 2.94 years.

Restricted Stock Units with Service Conditions

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

The following table summarizes the RSUs with service conditions activity for all stock plans during the three months ended March 31, 2024:

	Number of Shares	Weighted Average Grant- Date Fair Value
Unvested restricted stock units as of December 31, 2023	365,892	\$ 8.79
Granted	632,775	6.16
Vested	(74,974)	9.66
Unvested restricted stock units as of March 31, 2024	<u>923,693</u>	<u>\$ 6.91</u>

As of March 31, 2024, there was \$5.9 million of unrecognized stock-based compensation expense related to RSUs with service conditions which is estimated to be recognized over a period of 3.30 years.

Restricted Stock Units with Market Conditions

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

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

	Three Months Ended March 31, 2024
Expected volatility	78.45%
Risk-free interest rate	4.27%
Fair value of underlying common stock	\$ 7.31
Weighted average grant-date fair value per share	\$ 5.39

As of March 31, 2024, none of the escalating stock price thresholds had been met for any of the RSUs with market conditions, resulting in no shares vested.

As of March 31, 2024, there was \$0.8 million of unrecognized stock-based compensation expense related to RSUs with market conditions which is estimated to be recognized over a period of 1.55 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:

	Three Months Ended March 31, 2024	2023
Stock Option Plans		
Expected term (years)	6.08	6.08
Expected volatility	78.46%	73.44%
Risk-free interest rate	4.14%	3.49%
Fair value of underlying common stock	\$ 6.75	\$ 9.07
Weighted average grant-date fair value per share	\$ 4.78	\$ 6.10

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

(in thousands)	Three Months Ended March 31,	
	2024	2023
Research and development expense	\$ 2,088	\$ 1,348
General and administrative expense	1,940	2,590
Total stock-based compensation expense	\$ 4,028	\$ 3,938

6. Assignment, License and Collaboration Agreements

Assignment Agreement

In June 2019, the Company entered into an assignment agreement with Vintagence Biotechnology Ltd. (Vintagence) (Vintagence 2019 Assignment Agreement). Under the terms of the Vintagence 2019 Assignment Agreement, Vintagence assigned and agreed to assign to the Company any and all worldwide rights, title, and interest in and to the Vintagence 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 Vintagence under this agreement, regardless of sublicenses. The Company is required to use commercially reasonable efforts to commercialize the covered product in the field in the major markets.

In June 2019, the Company paid Vintagence an upfront payment of \$0.7 million. In addition, pursuant to the terms of the Vintagence 2019 Assignment Agreement, the Company agreed to pay Vintagence up to CNY 205.0 million in development milestones for the first covered product. The term of the Vintagence 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 Vintagence. As of March 31, 2024, the Company has paid \$4.4 million to Vintagence 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 months ended March 31, 2024 and 2023 related to this agreement.

Hansoh Option and License Agreement

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

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

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

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

Overview

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

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

TERN-601 is our small-molecule GLP-1 receptor agonist program that is intended to be orally administered for obesity and other metabolic diseases. We initiated a first-in-human, Phase 1 trial of TERN-601 for obesity in the fourth quarter of 2023. The multiple ascending dose (MAD) portion of the Phase 1 study is underway, testing once-daily administration of TERN-601. Preliminary safety findings from the ongoing, blinded Phase 1 SAD/MAD study have been unremarkable to date with no observations of liver enzyme elevations, drug induced liver injury or discontinuations due to treatment-related adverse events. We expect to report top-line 28-day weight loss data in the second half of 2024.

TERN-501 is our thyroid hormone receptor beta (THR-β) agonist for metabolic dysfunction-associated steatohepatitis (MASH) for which we announced positive top-line data from the Phase 2a DUET trial in August 2023. We have decided to limit spend in MASH given the current regulatory and clinical development requirements for the indication. We continue to evaluate opportunities for TERN-501 in metabolic diseases. Based on non-clinical studies, THR-β is an orthogonal mechanism to GLP-1, potentially providing broader metabolic and liver benefits in addition to increased weight loss. Non-clinical data suggests that TERN-501 may augment the weight loss effects of a GLP-1 receptor agonist, as demonstrated in a diet-induced obese mouse model.

The TERN-800 series is our ongoing discovery efforts to discover small molecule GIPR modulators for obesity, which we believe has the potential for combination with a GLP-1 receptor agonist, such as TERN-601. We are prioritizing our discovery efforts towards nominating a GIPR antagonist development candidate based on in-house discoveries and growing scientific rationale supporting the potential of GLP-1 receptor agonist and GIPR antagonist combinations for obesity.

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

Results of operations

The following table summarizes our results of operations for the three months ended March 31, 2024 and 2023:

(in thousands)	Three Months Ended March 31,		2024		2023		Change
Results of operations							
Operating expenses:							
Research and development	\$	18,587	\$	17,056	\$	1,531	
General and administrative		6,859		7,101		(242)	
Total operating expenses		25,446		24,157		1,289	
Loss from operations		(25,446)		(24,157)		(1,289)	
Other income:							
Interest income		3,182		2,693		489	
Other expense, net		(12)		(4)		(8)	
Total other income, net		3,170		2,689		481	
Loss before income taxes		(22,276)		(21,468)		(808)	
Income tax expense		(97)		(60)		(37)	
Net loss	<u>\$</u>	<u>(22,373)</u>	<u>\$</u>	<u>(21,528)</u>	<u>\$</u>	<u>(845)</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;
- expenses related to regulatory activities, including filing fees paid to regulatory agencies; and
- expenses incurred in connection with the acquisition or in-licensing of assets from other parties.

Internal expenses include:

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

•other expenses include rent, depreciation, maintenance and allocated overhead.

The following table summarizes our research and development expenses for the three months ended March 31, 2024 and 2023:

(in thousands)	Three Months Ended March 31,		Change
	2024	2023	
Research and development expenses			
External expenses by program:			
TERN-701	\$ 3,454	\$ 649	\$ 2,805
TERN-601	4,137	1,699	2,438
TERN-501	273	8,943	(8,670)
Other programs	3,489	1,252	2,237
Total external expenses	11,353	12,543	(1,190)
Unallocated internal expenses:			
Personnel-related expenses	6,886	4,258	2,628
Other expenses	348	255	93
Total research and development expenses	\$ 18,587	\$ 17,056	\$ 1,531

The increase in research and development expenses for the three months ended March 31, 2024, compared to the same period in 2023, was primarily due to a \$2.6 million increase in personnel-related expenses due to higher headcount partially offset by a \$1.2 million decrease in clinical and preclinical program expenses.

General and administrative expenses

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

The decrease in general and administrative expenses for the three months ended March 31, 2024, compared to the same period in 2023, was primarily due to a \$0.2 million decrease in expenses related to insurance costs.

Interest income

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

Interest income for the three months ended March 31, 2024 was \$3.2 million, compared to \$2.7 million for the same period in 2023. The increase in interest income was primarily due to an increase in interest rates.

Other expense, net

Other expense, net for the three months ended March 31, 2024 and 2023 was less than \$0.1 million.

Income tax expense

Income tax expense for the three months ended March 31, 2024 and 2023 was less than \$0.1 million.

Liquidity and capital resources

Uses of cash

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

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

Sources of liquidity

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

Since our inception, we have not generated any revenue from product sales and we have incurred significant operating losses and negative cash flows from our operations. As of March 31, 2024, we had an accumulated deficit of approximately \$355.0 million and cash, cash equivalents and marketable securities of \$240.7 million. For the three months ended March 31, 2024, we had a net loss of approximately \$22.4 million and negative cash flows from operations of approximately \$22.8 million.

In March 2022, we entered into a Sales Agreement with Cowen and Company, LLC (Cowen), as sales agent, pursuant to which we have the ability to offer and sell, from time to time, through Cowen, shares of our common stock having an aggregate offering price of up to \$75.0 million in an at-the-market offering. The shares are offered pursuant to our shelf registration statement on Form S-3 filed with the Securities and Exchange Commission (SEC), which became effective in March 2022. As of March 31, 2024, there were 9,781,673 shares of our common stock sold for aggregate net proceeds of \$66.6 million after deducting commissions and offering expenses pursuant to this agreement.

In May 2023, we entered into a Sales Agreement with Cowen, as sales agent, pursuant to which we have the ability to offer and sell, from time to time, through Cowen, shares of our common stock having an aggregate offering price of up to \$150.0 million in an at-the-market offering. The shares are offered pursuant to our shelf registration statement on Form S-3 filed with the SEC, which became effective in February 2023. There were no sales of our common stock pursuant to this agreement through March 31, 2024.

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

Future funding requirements

We expect to incur significant expenses and operating losses for the foreseeable future as we advance the preclinical and clinical development of our product candidates. We expect that our research and development and general and administrative costs will remain significant for the foreseeable future in connection with conducting additional preclinical studies and clinical trials for our current and future research programs and product candidates, contracting with CROs and 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. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce, or eliminate our research and development programs or future commercialization efforts.

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

Cash flows

Operating activities

Net cash used in operating activities during the three months ended March 31, 2024 was \$22.8 million and consisted primarily of our net loss of \$22.4 million, a \$4.4 million decrease from changes in operating assets and liabilities primarily attributable to the timing of expenses incurred and payments issued as well as a non-cash adjustment of \$0.4 million due to net accretion on marketable securities. This was partially offset by non-cash adjustments of \$4.0 million of stock-based compensation, \$0.2 million in amortization of operating lease assets and \$0.1 million of depreciation.

Net cash used in operating activities during the three months ended March 31, 2023 was \$14.4 million and consisted primarily of our net loss of \$21.5 million as well as a non-cash adjustment of \$0.8 million due to net accretion on marketable securities. This was partially offset by non-cash adjustments of \$3.9 million of stock-based compensation, a \$3.8 million increase from changes in operating assets and liabilities, \$0.1 million of depreciation and \$0.1 million in amortization of operating lease assets.

Investing activities

Net cash provided by investing activities during the three months ended March 31, 2024 was \$8.0 million and consisted primarily of proceeds from the sale and maturity of investments of \$58.6 million partially offset by \$50.6 million in purchases of investments.

Net cash provided by investing activities during the three months ended March 31, 2023 was \$27.9 million and consisted primarily of proceeds from the sale and maturity of investments of \$51.8 million partially offset by \$23.9 million in purchases of investments.

Financing activities

There were no financing activities during the three months ended March 31, 2024.

Net cash provided by financing activities during the three months ended March 31, 2023 was \$27.6 million and consisted primarily of \$27.9 million in proceeds from the issuance of common stock in an at-the-market offering partially offset by \$0.3 million in payments of deferred offering costs.

Critical Accounting Policies and Estimates

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

Recent Accounting Pronouncements

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

Off-balance sheet arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.**Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures**

As of March 31, 2024, management, with the supervision and participation of our chief executive officer and the chief financial officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our chief executive officer and the chief financial officer concluded that, as of March 31, 2024, the design and operation of our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes. There were no changes during the quarter ended March 31, 2024 to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. While the outcome of any such proceedings cannot be predicted with certainty, as of March 31, 2024, we were not a party to any litigation or legal proceedings that, in the opinion of our management, are probable to have a material adverse effect on our business. Regardless of the outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources, reputational harm, and other factors, and there can be no assurances that favorable outcomes will be obtained.

Item 1A. Risk Factors.

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

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

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

Executive Leadership Transition

On May 7, 2024 (the "Transition Date"), we, Terns, Inc., our wholly-owned subsidiary (the "Subsidiary"), and Erin Quirk entered into a letter agreement related to executive transition, separation and release of claims providing for Dr. Quirk's resignation as our President and Head of Research & Development and from any other officer positions for us or the Subsidiary (the "Separation Agreement"). Dr. Quirk's resignation is effective as of the Transition Date. The Separation Agreement provides for Dr. Quirk's continued employment as a non-officer employee, effective as of the Transition Date and until June 3, 2024 (the "Separation Date"). During the period between the Transition Date and the Separation Date, Dr. Quirk will attend to the transition of her job duties in cooperation with us.

Pursuant to the Separation Agreement, Dr. Quirk is entitled to receive severance in the amount of \$184,333, less applicable payroll withholdings, payable in a lump sum following the effective date of the Separation Agreement. Dr. Quirk will also be entitled to receive the balance of her retention bonus as provided in her Amended and Restated Employment Agreement dated as of November 14, 2023 in the amount of \$385,250, less applicable payroll withholdings, following the effective date of the Separation Agreement. In addition, we have agreed to make a lump sum payment to Dr. Quirk following the effective date of the Separation Agreement in the amount of \$45,126.29, less applicable payroll taxes, to reimburse her for the cost to continue her health insurance (and that of her dependents, based on her enrollment on the Transition Date) for 11 months. Under the Separation Agreement, the vesting of each equity award held by Dr. Quirk will be accelerated as of the Separation Date with respect to the number of shares of our common stock that would have become vested had Dr. Quirk remained employed by us through August 31, 2024. The portion of any unvested equity award that is not subject to accelerated vesting will be cancelled and terminated as of the Separation Date. In addition, the Separation Agreement provides that the time for Dr. Quirk to exercise any equity award in the form of a stock option that is vested as of the Separation Date shall continue to and include November 30, 2024 (but in no event later than the original expiration date of the option). The Separation Agreement contains customary non-disclosure and mutual non-disparagement obligations. The foregoing payments and benefits are made subject to Dr. Quirk's compliance with the Separation Agreement and the release of claims and applicable restrictive covenants therein. The foregoing description of the Separation Agreement does not purport to be complete and is qualified in its entirety by reference to the complete text of the Separation Agreement.

Rule 10b5-1 Trading Plans

During the three months ended March 31, 2024, the directors or officers identified in the below table entered into a Rule 10b5-1 trading arrangement that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c), in each case as defined in Item 408 of Regulation S-K:

Name	Title	Date of Adoption	Nature of Trading Arrangement	Aggregate Number of Securities to Be Purchased or Sold	Duration
Jill Quigley	Director	March 18, 2024	Sale	Up to 56,520 shares issuable upon exercise of vested stock options ⁽¹⁾ <i>plus</i> an indeterminable number of shares issuable upon conversion of vested RSUs ⁽²⁾	Until December 31, 2025, or such earlier date upon which all transactions are completed or expire without execution
Erin Quirk	President, Head of Research & Development	March 19, 2024	Sale	Up to 137,965 shares issuable upon exercise of vested stock options ⁽³⁾	Until December 31, 2025, or such earlier date upon which all transactions are completed or expire without execution
Mark Vignola	Chief Financial Officer and Treasurer	March 18, 2024	Sale	Up to 100,000 shares issuable upon exercise of vested stock options ⁽³⁾ <i>plus</i> an indeterminable number of shares issuable upon conversion of vested RSUs ⁽²⁾	Until December 31, 2025, or such earlier date upon which all transactions are completed or expire without execution
Bryan Yoon	Chief Operating Officer, General Counsel and Secretary	March 18, 2024	Sale	Up to 120,000 shares issuable upon exercise of vested stock options ⁽³⁾ <i>plus</i> an indeterminable number of shares issuable upon conversion of vested RSUs ⁽²⁾	Until December 31, 2025, or such earlier date upon which all transactions are completed or expire without execution

⁽¹⁾ The number of shares subject to stock options covered by this trading arrangement that will be sold will vary based on the number of shares sold pursuant to Ms. Quigley's prior trading arrangement, subject to the extent to which vesting conditions are satisfied and the market price of the Company's common stock at the time of any potential exercise.

⁽²⁾ The number of shares subject to an RSU grant covered by this trading arrangement that will be sold to satisfy applicable tax withholding obligations upon vesting is unknown as the number will vary based on the extent to which vesting conditions are satisfied and the market price of the Company's common stock at the time of settlement. This trading arrangement includes the automatic sale of shares that would otherwise be issuable on each settlement date of the RSU in an amount sufficient to satisfy the applicable withholding obligation, with the proceeds of the sale delivered to the Company in satisfaction of the applicable withholding obligation.

⁽³⁾ The number of shares subject to stock options covered by this trading arrangement that will be sold will vary based on the extent to which vesting conditions are satisfied and the market price of the Company's common stock at the time of any potential exercise.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
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#	Second Amended and Restated Non-Employee Director Compensation Program.				X
10.2#	Employment Agreement by and between the Registrant and Amy Burroughs dated February 7, 2024.				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 with Embedded Linkbase Documents				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				X

Indicates management contract or compensatory plan.

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

SIGNATURES

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

TERNS PHARMACEUTICALS, INC.

Date: May 13, 2024

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

Date: May 13, 2024

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

TERNS PHARMACEUTICALS, INC.
SECOND AMENDED AND RESTATED

NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM

This Terns Pharmaceuticals, Inc. (the "Company") Second Amended and Restated Non-Employee Director Compensation Program (this "Program") has been adopted under the Company's 2021 Incentive Award Plan (the "Plan") and shall be effective as of April 17, 2024 (the "Effective Date"). This Program amends and restates in its entirety the Amended and Restated Non-Employee Director Compensation Program previously adopted by the Company's Board of Directors (the "Board") and which became effective as of January 26, 2022. Capitalized terms not otherwise defined herein shall have the meaning ascribed in the Plan.

Cash Compensation

Effective upon the Effective Date, annual retainers will be paid in the following amounts to Non-Employee Directors:

Non-Employee Director (non-Chair) Base Fee:	\$40,000
Non-Employee Board Chair Base Fee:	\$70,000
Audit Committee Chair:	\$15,000
Compensation Committee Chair:	\$10,000
Nominating and Corporate Governance Committee Chair:	\$8,000
Research and Development Committee Chair:	\$10,000
Audit Committee Member (non-Chair):	\$7,500
Compensation Committee Member (non-Chair):	\$5,000
Nominating and Corporate Governance Committee Member (non-Chair):	\$4,000
Research and Development Committee Member (non-Chair):	\$5,000

For the avoidance of doubt, the additional annual retainers for committee service in the table above are additive to the applicable annual base fee ("Base Fee") such that a Non-Employee Director shall be eligible to earn the Base Fee plus one or more additional annual retainers based on the Non-Employee Director's position within each committee on which the Non-Employee Director serves. All annual retainers, including the Base Fees and additional annual retainers for committee service, will be paid in cash quarterly in arrears promptly following the end of the applicable calendar quarter, but in no event more than 30 days after the end of such quarter; provided, however, that (i) with respect to the Base Fees payable for the third and fourth quarters of 2024, each Non-Employee Director may elect during such period as is determined by the Company to receive an Option to purchase shares of Common Stock in lieu of Base Fees otherwise payable to the Non-Employee Director for such quarters (the "2024 Base Fee Option"), and (ii) with respect to Base Fees payable for each calendar year beginning with calendar year 2025, each Non-Employee Director may elect during such period as determined by the Company to receive an Option to purchase shares of Common Stock in lieu of Base Fees otherwise payable to the Non-Employee Director for such year (the "Annual Base Fee Option" and, together with the 2024 Base Fee Option, the "Base Fee Options").

In the event a Non-Employee Director does not serve as a Non-Employee Director, or in the applicable positions described above, for an entire calendar quarter, the Annual Retainer paid to such Non-Employee Director in cash shall be prorated for the portion of such calendar quarter actually served as a Non-Employee Director, or in such position, as applicable.

Equity Compensation

Initial Stock Option Grant: Each Non-Employee Director who is initially elected or appointed to serve on the Board on or after the Effective Date shall be granted an Option (the "*Initial Option*") under the Plan or any other applicable Company equity incentive plan then-maintained by the Company to purchase 64,000 shares of Common Stock.

The Initial Option will be automatically granted on the date on which such Non-Employee Director commences service on the Board, and will vest as to 1/3rd of the total shares subject thereto on the first anniversary of the applicable date of grant and as to 1/36th of the total shares subject thereto on each monthly anniversary of the applicable date of grant over the next 24 months thereafter such that the shares subject to the Initial Option are fully vested on the third anniversary of the date of grant, in each case, subject to the Non-Employee Director continuing to constitute a Service Provider through the applicable vesting date.

Annual Stock Option Grant: Each Non-Employee Director who is serving, and who has served for at least six months, on the Board as of the date of each annual stockholder meeting of the Company (each, an "*Annual Meeting*") shall be granted an Option (the "*Annual Option*") under the Plan or any other applicable Company equity incentive plan then-maintained by the Company to purchase 32,000 shares of Common Stock.

The Annual Option will be automatically granted on the date of the applicable Annual Meeting, and will vest in full on the earlier of (i) the first anniversary of the date of grant and (ii) immediately prior to the next Annual Meeting following the date of grant, in each case, subject to the Non-Employee Director continuing to constitute a Service Provider through such vesting date.

Base Fee Options: Each Non-Employee Director who has elected to receive a Base Fee Option under the Plan or any other applicable Company equity incentive plan then-maintained by the Company and who is serving in such capacity as of the applicable grant date will receive an Option having a Black-Scholes value, as of the applicable grant date for the Base Fee Option, equal to the amount of the Base Fee to which the Option relates, with the Black-Scholes value to be calculated based on the average closing price of the Company's Common Stock on the Nasdaq Global Select Market over a 30-day period prior to the date of grant, as determined by the Company (the "*Average Stock Price*"). Notwithstanding anything herein to the contrary, if the applicable Average

Stock Price is not equal to or greater than \$3.00 per share of Common Stock, no Base Fee Option shall be granted and such Non-Employee Director shall receive the applicable Base Fee in cash.

The 2024 Base Fee Option, if any, will be automatically granted, and will vest monthly as to 1/6th of the total shares subject thereto, subject to the Non-Employee Director continuing to be a Service Provider through each applicable vesting date. The Annual Base Fee Option, if any, will be automatically granted, and will vest monthly as to 1/12th of the total shares subject thereto, subject to the Non-Employee Director continuing to constitute a Service Provider through each applicable vesting date.

The per share exercise price of each Option granted to a Non-Employee Director shall equal the Fair Market Value of a share of common stock on the date the Option is granted.

The term of each Option granted to a Non-Employee Director shall be ten years from the date the Option is granted.

No portion of an Initial Option, Annual Option or Base Fee Option which is unvested or unexercisable at the time of a Non-Employee Director's Termination of Service shall become vested and exercisable thereafter, except as may otherwise be determined by the Board.

Members of the Board who are employees of the Company or any parent or subsidiary of the Company who subsequently terminate their service with the Company and any parent or subsidiary of the Company and remain on the Board will not receive an Initial Option, but to the extent that they are otherwise eligible, will be eligible to receive, after termination from service with the Company and any parent or subsidiary of the Company, Annual Options as described above.

Change in Control

Upon a Change in Control of the Company, all outstanding equity awards granted under the Plan and any other equity incentive plan maintained by the Company that are held by a Non-Employee Director shall become fully vested and/or exercisable, irrespective of any other provisions of the Non-Employee Director's Award Agreement.

Reimbursements

The Company shall reimburse each Non-Employee Director for all reasonable, documented, out-of-pocket travel and other business expenses incurred by such Non-Employee Director in the performance of his or her duties to the Company in accordance with the Company's applicable expense reimbursement policies and procedures as in effect from time to time.

Miscellaneous

All applicable terms of the Plan apply to this Program as if fully set forth herein, and all grants of Options hereby are subject in all respects to the terms of the Plan, including, without limitation, the limits on annual compensation for Non-Employee Directors in Section 5.5 of the Plan. The grant of any Option under this Program shall be made solely by and subject to the terms set forth in a written agreement in a form to be approved by the Board and duly executed by an executive officer of the Company.

* * * * *

Execution version

TERNS, INC.

February 6, 2024

Amy Burroughs
Sent via email

Dear Amy:

Terns, Inc., a Delaware corporation (the “**Company**”), is pleased to offer you employment with the Company on the terms and conditions set forth in this agreement (the “**Employment Agreement**”), which shall have an effective date (the “**Effective Date**”) as of the date set forth above:

1. Position. You will be employed as the Chief Executive Officer (“**CEO**”) of the Company and will also serve as the CEO of the Company’s parent entity Terns Pharmaceuticals, Inc., a Delaware corporation (“**Parent**”). You will have the duties, responsibilities and authorities customary for a CEO, you will report to the Parent’s Board of Directors (“**Board**”) and you will be nominated to be a member of the Board. For as long as you are employed as CEO hereunder, at the end of each term of Board service, the Board shall recommend you for re-election as a member of the Board. Your primary work location will be your home office located in the State of Oregon, and you will be expected to travel regularly as part of your duties, including to the Company’s headquarters in Foster City, California. While you render services to the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company or be competitive with the Company. By signing this Employment Agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company. Notwithstanding the foregoing, you may serve on one (1) other board of directors, in each case, with the approval of the Board, or engage in charitable or other community activities, as long as, in each case, such services and activities are disclosed to the Board and do not interfere with your performance of your duties to the Company and Parent.

2. Base Salary. The Company will pay you a salary at the rate of \$625,000 per year (as adjusted from time to time, the “**Base Salary**”), payable in accordance with the Company’s standard payroll schedule commencing on the effective date of this Employment Agreement. This salary may be increased, as determined from time to time by the Board or its Compensation Committee in its sole discretion at the same general times as salary reviews are conducted for other C-level officers of the Company.

3. Annual Bonus and Equity Grant. You will be eligible to receive from the Company an annual target cash bonus of 50% of your Base Salary (your “**Target Bonus**”). The actual annual bonus amount awarded to you (your “**Annual Bonus**”) may be higher or lower than the Target Bonus based upon the achievement of performance objectives established by the Board. For calendar year 2024, your Annual Bonus will be determined based on achievement of performance goals to be determined by the Compensation Committee, after consultation with you, within the first three months after your start date and will not be prorated for the partial year of service. The Annual Bonus will be paid no later than two and one half months following the end

of the applicable performance year to which it relates, and otherwise in accordance with the Company's standard payroll schedule.

(a) Option Grant. In addition, as an inducement for you to enter into employment with the Company, the Company will recommend that you be granted a non-statutory stock option to purchase 1.25 million shares of Common Stock in the Parent (the "**Option**"), pursuant to the Parent's 2022 Employment Inducement Award Plan (the "**Plan**") and Nasdaq Rule 5635(c)(4), which will have an exercise price per share equal to the fair market value of the Company's Common Stock as of the date of grant. The grant date of the Option shall be the first day of the month following the Effective Date, and the Option shall vest over a four-year period as follows: 25% of the shares underlying the Option shall vest on the first day of the month following the one-year anniversary of the Effective Date; thereafter the remaining 75% of the shares underlying the Option shall vest on the first day of each month, in monthly pro-rata increments, beginning thirty (30) days after the anniversary of the Effective Date, and continuing to vest monthly thereafter until the Option is fully vested, subject to your continued employment and this Employment Agreement. Additionally, the Option will be subject to a stock option agreement to be entered into between you and the Company, which shall be governed by the Plan. Notwithstanding the foregoing, on a termination of your service other than for Cause, the Option will remain exercisable until the earliest of: (i) one year after your termination date, (ii) the closing of a Change in Control, and (iii) the tenth anniversary of the date of grant. You may be eligible to receive future equity grants as the Board shall deem appropriate.

(b) Ladder RSU Grant. As an additional inducement for you to enter into employment with the Company, the Company will recommend that you be granted restricted stock units with respect to 150,000 shares of Common Stock in the Parent (the "**Ladder RSUs**") to be issued under and pursuant to the terms of the Plan and Nasdaq Rule 5635(c)(4). The grant date of the Ladder RSUs shall be the first day of the month following the Effective Date, and the Ladder RSUs shall vest on the dates of certification by the "Administrator," as defined in the Plan, to be determined within fourteen (14) days after written notice to the Administrator by you or the Company, of the Achievement (as defined herein) of the applicable milestone stock prices (each a "**Milestone Stock Price**"), and further subject to the terms of this Employment Agreement. The Ladder RSUs shall vest as follows: 50% of the Ladder RSUs shall vest upon Achievement of the stock price that equals or exceeds \$15.00 per share; and the remaining 50% of the Ladder RSUs shall vest upon Achievement of the stock price that equals or exceeds \$20.00 per share; provided that neither of such Milestone Stock Prices shall be deemed to occur until after the first anniversary of the Effective Date, except in the case of an Involuntary Termination or a Change in Control, and provided further that such Milestone Stock Prices must be achieved on or before the fourth anniversary of the Effective Date. "**Achievement**" of each applicable Milestone Stock Price shall mean the average of the closing prices of the Parent Common Stock on the NASDAQ stock market for a period of thirty (30) consecutive trading days equaling or exceeding the applicable Milestone Stock Price, with Achievement occurring as of the last day of such thirty (30) consecutive trading day period. The shares resulting from the vesting will be distributed as soon as practicable after the vesting date and, in any event, within the short-term deferral period after vesting. For the avoidance of doubt, the Milestone Stock Prices shall not be achieved more than once. In the event of an Equity Restructuring (as defined in the Plan), the Board will adjust the Milestone Stock Prices in the same manner as the Board adjusts the exercise price of then-outstanding awards to account for the Equity Restructuring. You must remain employed by the Company through the

date that the Milestone Stock Price Achievement occurs to vest in that installment. The Ladder RSU grant will be subject to an award agreement to be entered into between you and the Company, which shall be governed by the Plan. Notwithstanding the foregoing, in the event of an Involuntary Termination prior to the first anniversary of the Effective Date, and if there has been Achievement of either or both of the Milestone Stock Prices by the date of Involuntary Termination, the Ladder RSUs will vest based on that Achievement effective as of the termination date and further, if at any time the Company is subject to a Change in Control in which the price per share payable in respect of the Company's common stock in that transaction is equal to or greater than a Milestone Stock Price, the Ladder RSUs that can be earned based on that Milestone Stock Price will vest immediately prior to the closing of the Change in Control.

4. Employee Benefits and Expenses.

(a) Benefits. In connection with your service, you will be eligible to receive from the Company employee benefits, bonus plan participation and perquisites commensurate with those provided to the Company's senior executives, as may be in effect from time to time.

(b) General Business Expenses. The Company shall pay or reimburse you for all business expenses reasonably and necessarily incurred by you in the performance of your duties under this Employment Agreement, consistent with the Company's business expense reimbursement policy, as in effect from time to time. In addition, the Company shall pay directly to your personal legal counsel the sum of up to \$15,000 in legal fees incurred by you in the negotiation of this Employment Agreement within thirty (30) days after the Effective Date, and upon presentation of an invoice documenting same.

5. Termination.

(a) Upon the termination of your employment with the Company at any time for any reason, you will be paid your salary through your termination date and any other benefits or payments, including any expense reimbursements and accrued and unused vacation, which must be provided to you under applicable law.

(b) If you are subject to an Involuntary Termination, and subject to Section 5(d), you will be entitled to receive the following benefits (collectively, the "**Severance**"):

(i) The Company will pay to you the value of all accrued and vested payments under any benefit plans not otherwise described in this Section 5 that have not been paid or otherwise used through your termination date, which benefits will be paid to you on the first regular payroll date following the end of the Release Period;

(ii) The Company will pay to you a pro-rated portion of your Target Bonus, pro-rated based on the number of days of such performance year you were employed, which payment will be made to you at the time annual bonuses for such performance year are paid to other C-level officers, or, if earlier, by March 15 of the year following the year of the Involuntary Termination;

(iii) The Company will continue to pay your then-current Base Salary on the Company's regular payroll dates as if your employment continued for a period of twelve (12)

months following the Involuntary Termination (which payments, for the avoidance of doubt, will continue even if you find subsequent employment with another employer);

(iv)Subject to your timely and proper election of coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“**COBRA**”), for both you and your eligible dependents, the Company will provide continuation of your then-effective group medical, vision and dental coverage, at Company cost, for twelve (12) months following the Involuntary Termination, *provided that* to the extent the payments would result in adverse penalties under applicable laws or COBRA coverage is not otherwise available, the Company will provide to you, in lieu of any portion of this continued coverage, taxable installment payments equal to the amount of the applicable premiums in effect at the Involuntary Termination for the remainder of this twelve (12) month period, on the first day of each such month. The Company’s obligations under this subsection shall not apply once you become eligible for medical and dental, coverage from another employer where the cost to you is consistent with similarly situated participants under such plans and you agree to provide prompt notice to the Company if you become so eligible.

(c)If you are subject to an Involuntary Termination within three (3) months prior to or twelve (12) months following a **Change in Control**, (the “**Change in Control Period**”) and subject to Section 5(d) and Section 8, you will be entitled to receive the following Change in Control benefits in lieu of the Severance benefits pursuant to Section 5(b) (the “**Change in Control Benefits**”):

(i)The Company will pay to you the value of all accrued and vested payments under any benefit plans not otherwise described in this Section 5 that have not been paid or otherwise used through your termination date, which benefits will be paid to you on the first regular payroll date following the end of the Release Period;

(ii)The Company will pay to you a lump sum payment equal to one and one half times your Target Bonus, which payment will be made in a lump sum on the first regular payroll date following the end of the Release Period;

(iii)The Company will pay your then-current Base Salary equivalent to eighteen (18) months in a lump sum on the first regular payroll date following the end of the Release Period; and

(iv)100% of your then outstanding **Equity Awards**, including awards that would otherwise vest only upon satisfaction of performance criteria, shall accelerate and become vested and exercisable. Equity Awards that vest upon satisfaction of performance criteria for which those criteria have not yet been satisfied or cannot be determined as of the date of your Involuntary Termination shall be measured as if all applicable performance criteria were achieved at target levels, except to the extent otherwise provided in the award agreement evidencing such award. For the avoidance of doubt, if you experience an Involuntary Termination following a Potential Change in Control, and the applicable Change in Control is consummated within the Change in Control Period, then your vesting acceleration under this Employment Agreement shall occur on the date of such Change in Control rather than upon the date of your Involuntary Termination. Upon your Separation within the Change in Control Period, all of your

then-outstanding Equity Awards shall remain outstanding and eligible to vest as necessary to give effect to this provision; and

(v) Subject to your timely and proper election of coverage under COBRA, for both you and your eligible dependents, the Company will provide continuation of your then-effective group medical, vision and dental coverage, at Company cost, for eighteen (18) months following the Involuntary Termination, *provided that* to the extent the payments would result in adverse penalties under applicable laws or COBRA coverage is not otherwise available the Company will provide to you, in lieu of any portion of this continued coverage, taxable installment payments equal to the amount of the applicable premiums in effect at the Involuntary Termination for the remainder of this eighteen (18) month period, on the first day of each such month. The Company's obligations under this subsection shall not apply once you become eligible for medical and dental, coverage from another employer where the cost to you is consistent with similarly situated participants under such plans and you agree to provide prompt notice to the Company if you become so eligible.

Notwithstanding the foregoing, you shall be entitled to the greater benefits, if any, as may be provided under the Parent's Change In Control Policy, as it may be amended from time to time (the "**CIC Policy**"), subject to its terms and conditions; *provided, however*, that nothing in this Agreement or the CIC Policy shall require the Parent to provide any duplicate payments or benefits.

If the basis for the Involuntary Termination is a resignation for Good Reason due to a reduction in your base salary, the Severance or Change in Control Benefits (as applicable) will be calculated by reference to your base salary in effect prior to the reduction.

For purposes of this Employment Agreement, "**Potential Change in Control**" means the date of execution of a legally binding and definitive agreement for a corporate transaction which, if consummated, would constitute the applicable Change in Control (which for the avoidance of doubt, would include a merger agreement, but not a term sheet for a merger agreement).

(d) Receipt of the Severance or Change in Control Benefits (as applicable) will be conditioned upon your execution and timely delivery to the Company of a release of claims in substantially the form attached hereto as Exhibit A (the "**Release**") and your continued compliance with the terms thereof, which Release must be executed, delivered to the Company and become irrevocable, within 60 days following your Involuntary Termination (this 60-day period, the "**Release Period**"). Any installment payments under Section 5(b)(iv) will begin to be paid on the first regular payroll date beginning after the expiration of the Release Period, and will include any amounts that would have been payable during the Release Period but for this sentence.

(e) Notwithstanding anything to the contrary herein or in any equity plan or any applicable award agreement pursuant to Equity Awards granted thereunder, to the extent that the successor or acquiring corporation (if any) of the Parent, or the definitive agreement governing a Change in Control, provides that your Equity Awards should be cancelled without consideration upon a Change in Control, each of your unvested Equity Awards that would otherwise be so cancelled shall instead accelerate and become fully vested and if applicable, exercisable, effective immediately prior to the Change in Control. With respect to Performance-Based Awards (if any

are provided to you), the grant agreement may provide for alternative treatment in lieu of the foregoing and, absent any such treatment in the grant agreement, the vesting acceleration provided for herein shall be deemed to have been met based on the achievement of the Performance-Based Award based on “at target” performance.

(f) If your position as the CEO of the Company is terminated by you or the Company for any reason, you shall promptly resign from the Board and the board of directors of any of Parent’s subsidiaries, including, without limitation, the Company.

6. Proprietary Information and Inventions Agreement. You affirm that you will execute the Employee Invention Assignment and Confidentiality Agreement between you and the Company (the “***Invention Assignment Agreement***”) simultaneously with the execution of this Employment Agreement.

7. Employment Relationship. Employment with the Company is for no specific period of time. Your employment with the Company will be “at will,” meaning that either you or the Company may terminate your employment at any time and for any reason, with or without Cause or notice. Any contrary representations that may have been made to you are superseded by this Employment Agreement. This is the full and complete agreement between you and the Company on this term. Although your job duties, title, compensation and benefits, as well as the Company’s personnel policies and procedures, may change from time to time, the “at will” nature of your employment may only be changed in an express written agreement signed by you and a duly authorized member of the Parent’s Board of Directors or officer of the Company (other than you).

8. Tax Matters.

(a) Withholding. All forms of compensation referred to in this Employment Agreement are subject to reduction to reflect applicable withholding and payroll taxes and other deductions required by law.

(b) Section 409A. For purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “***Section 409A***”), the Company intends that all amounts in this Agreement are exempt and each installment payment under this Agreement, including the severance payments in Section 5, is hereby designated as a separate payment. If the Company determines that you are a “specified employee” under Section 409A(a)(2)(B)(i) at the time of your Separation, then (i) the benefits under Section 5, to the extent that they are subject to Section 409A, will commence on the first business day following (A) expiration of the six month period measured from your Separation or (B) the date of your death and (ii) the installments that otherwise would have been paid prior to such date will be paid in a lump sum when the salary continuation payments commence. Except as otherwise expressly provided herein, to the extent any expense reimbursement or the provision of any in-kind benefit under this Employment Agreement (or otherwise referenced herein) is determined to be subject to (and not exempt from) Section 409A, (x) the amount of any such expenses eligible for reimbursement, or the provision of any in-kind benefit, in one calendar year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other calendar year; (y) in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which you incurred such expenses; and (z) in no event shall any right to reimbursement or the provision of any in-kind

benefit be subject to liquidation or exchange for another benefit. Further, to the extent any nonqualified deferred compensation subject to Section 409A payable to you hereunder could be paid in one or more taxable years depending upon you completing certain employment-related actions (such as resigning after a failure to cure a Good Reason event and/or returning an effective release), then any such payments will commence or occur in the later taxable year to the extent required by Section 409A.

(c) Parachute Payments.

(i) If any payment or benefit you would receive from the Company or otherwise in connection with a Change in Control or other similar transaction (a "**280G Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then any such 280G Payment (a "**Payment**") shall be equal to the Reduced Amount. The "**Reduced Amount**" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (x) or by clause (y)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in your receipt, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the "**Reduction Method**") that results in the greatest economic benefit for you. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the "**Pro Rata Reduction Method**").

(ii) Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A of the Code that would not otherwise be subject to taxes pursuant to Section 409A of the Code, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A of the Code as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for you as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are "deferred compensation" within the meaning of Section 409A of the Code shall be reduced (or eliminated) pro rata with payments that are not deferred compensation within the meaning of Section 409A of the Code.

(iii) Unless you and the Company agree on an alternative accounting firm, the accounting firm engaged by the Company for general tax compliance purposes as of the day prior to the effective date of the Change in Control transaction triggering the Payment shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control transaction, the Company shall appoint a nationally recognized accounting firm to make the determinations required hereunder. The Company shall bear all expenses with respect to the

determinations by such accounting firm required to be made hereunder. The Company shall use commercially reasonable efforts to cause the accounting firm engaged to make the determinations hereunder to provide its calculations, together with detailed supporting documentation, to you and the Company at least (5) calendar days prior to the date of the change in control transaction (if requested at that time by you or the Company) or such other time as requested by you or the Company.

(iv) If you receive a Payment for which the Reduced Amount was determined to be the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax, and the Internal Revenue Service determines thereafter that some portion of the Payment is subject to the Excise Tax, then the accounting firm will redo the calculation of the Reduced Amount, and to the extent the better after tax position would be to reduce the Payment, you shall promptly return to the Company a sufficient amount of the Payment (gross of applicable tax withholdings previously made) after reduction pursuant to the first paragraph of this Section so that no portion of the remaining Payment is subject to the Excise Tax.

(d) Tax Advice. You are encouraged to obtain your own tax advice regarding your compensation from the Company. You agree that the Company has no duty to design its compensation policies in a manner that minimizes your tax liabilities, and provided the Company implements this Employment Agreement in accordance with its terms, you will not make any claim against the Company, its Parent, or the Company or Parent Board related to tax liabilities arising from your compensation.

9. Interpretation, Amendment and Miscellaneous. This Employment Agreement supersedes and replaces all prior offer letters and written and oral agreements between you and the Company, as well as any other prior or contemporaneous agreements, representations or understandings (whether written, oral, implied or otherwise) between you and the Company, and constitute the complete agreement between you and the Company regarding the subject matter set forth herein; *provided, however, that, for the avoidance of doubt, the Invention Assignment Agreement, the Indemnification Agreement and the Arbitration Agreement shall continue to be in force.* This Employment Agreement may not be amended or modified, except by an express written agreement signed by both you and a duly authorized member of the Parent's Board or officer of the Company (other than you). This Employment Agreement shall be governed by and construed in accordance with the laws of the State of California. If any term, covenant, condition or provision of this Employment Agreement or the application thereof to any person or circumstance shall, at any time, or to any extent, be determined invalid or unenforceable, the remaining provisions of this Employment Agreement shall not be affected thereby and shall be deemed valid and fully enforceable to the extent permitted by law. This Employment Agreement may be executed in any number of counterparts, and each such counterpart hereof will be deemed to be an original instrument, but all such counterparts together will constitute but one agreement. Signature pages delivered by facsimile or electronic mail will be treated as are originals. The rights and obligations of the Company under this Employment Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company. Your rights and obligations hereunder are non-assignable. The Company may assign its rights and obligations to any entity in which the Company or an entity affiliated with the Company, has a majority ownership interest. Any notice required by this Employment Agreement shall be sufficient if in writing and delivered

to the party or sent by certified mail, return receipt requested and addressed to the party's last business or residential address, or otherwise delivered in person or through a reliable electronic delivery system. Either party may change the specified address by giving written notice of such change.

10. Arbitration. You and the Company agree to submit to mandatory binding arbitration any and all claims arising out of or related to your employment with the Company in accordance with the separate Mutual Arbitration Agreement executed simultaneously herewith.

The Arbitration Agreement will not restrict your right to file administrative claims you may bring before any government agency where, as a matter of law, the parties may not restrict the employee's ability to file such claims (including, but not limited to, the National Labor Relations Board, the Equal Employment Opportunity Commission and the Department of Labor). However, the parties agree that, to the fullest extent permitted by law, arbitration shall be the exclusive remedy for the subject matter of such administrative claims.

11. Indemnification. You will receive defense and be indemnified by the Company and Parent to the full extent of the provisions of any indemnification agreement between you and Parent (any such agreement, your "**Indemnification Agreement**"), the charter and bylaws of the Company and Parent and applicable law.

12. Definitions. The following terms have the meaning set forth below wherever they are used in this Employment Agreement:

"Cause" means the occurrence of any one or more of the following: (i) your commission of any crime involving fraud, dishonesty or moral turpitude; (ii) your attempted commission of or participation in a fraud or act of dishonesty against the Company that results in (or might have reasonably resulted in) material harm to the business of the Company; (iii) your intentional, material violation of any contract or agreement between you and the Company or any statutory duty you owe to the Company; or (iv) your conduct that constitutes gross insubordination or habitual neglect of duties and that results in (or might have reasonably resulted in) material harm to the business of the Company; *provided, however, that the action or conduct described in clauses (iii) and (iv) above will constitute "Cause" only if such action or conduct continues after the Company has provided you with written notice thereof and thirty (30) days to cure, or otherwise remedy to the extent possible under direct control of you, the same.* An occurrence of "Cause" as set forth in the preceding sentence shall be based upon a good faith determination by the Parent's Board.

"Change in Control" shall mean an Acquisition (as defined in Parent's 2021 Incentive Award Plan, as it may be amended or restated from time to time). Notwithstanding the foregoing, to the extent that any amount constituting deferred compensation (as defined in Section 409A of the Code) would become payable under this Agreement by reason of a Change in Control, such amount shall become payable only if the event constituting a Change in Control would also qualify as a "change in control event" within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and IRS guidance that has been promulgated or may be promulgated thereunder from time to time.

"Equity Awards" means all options to purchase Parent common stock as well as any and all other stock-based awards granted to you by Parent, including but not limited to stock bonus awards, restricted stock awards, restricted stock unit awards or stock appreciation rights.

"Good Reason" means, without your consent, any of the following actions: (i) there occurs a material diminution in your duties, authority or responsibilities; *provided, however*, that Good Reason shall not be deemed to have occurred solely due to a change in your title; (ii) a reduction of greater than 10% in your annual base salary as in effect on the Effective Date, or immediately following the effective date of the Change in Control; *provided, however*, that Good Reason shall not be deemed to have occurred in the event of a reduction in your annual base salary that is pursuant to a salary reduction program affecting all of the C-level officers of the Company and that does not adversely affect you to a greater extent than the other C-level officers; or (iii) a relocation of your primary business office to a location more than 30 miles from the location of your then-primary business office, *provided* that, with respect to each of the reasons set forth above, (1) you provide the Company with written notice of your intention to terminate your employment for Good Reason within ninety (90) calendar days after the occurrence of the event that you believe would constitute Good Reason and (2) you provide the Company with a period of at least thirty (30) calendar days (the "**Company Cure Period**") following receipt of such notice from you in which to cure the event giving rise to such Good Reason termination, and (3) your resignation is effective within ten (10) calendar days of the earlier of expiration of the Company Cure Period or written notice from the Company that it will not undertake to cure the condition set forth in set forth in subclauses (i) through (iii).

"Involuntary Termination" means you experience a Separation resulting from (A) a Termination without Cause, or (B) you voluntarily resigning your employment for Good Reason. A termination or resignation due to your death or disability shall not constitute an Involuntary Termination.

"Separation" means a "separation from service," as defined in the regulations under Section 409A of the Code.

"Termination Without Cause" means a Separation as a result of a termination of your employment by the Company without Cause, provided you are willing and able to continue performing services within the meaning of Treasury Regulation 1.409A-1(n)(1).

You may indicate your agreement with this Employment Agreement and accept it by signing and dating the enclosed duplicate original of this Employment Agreement and returning it to me.

[SIGNATURE PAGE FOLLOWS]

TERNS, INC.

By: /s/ Bryan Yoon

Name: Bryan Yoon

Title: Member of the Board

TERNS PHARMACEUTICALS, INC.

(solely in respect of its explicit obligations
under this Employment Agreement)

By: /s/ Dave Fellows

Name: Dave Fellows

Title: Member of the Board

I have read and accept this Employment Agreement:

/s/ Amy Burroughs
Amy Burroughs

Exhibit A – Form of Release

In consideration of the benefits provided and to be provided to me by Terns, Inc., or any successor thereof (the "Company") pursuant to the Employment Agreement with Company dated _____, (the "Agreement") (the "Benefits") and in connection with the termination of my employment, I agree to the following general release (the "Release").

1. On behalf of myself, my heirs, executors, administrators, successors, and assigns, I hereby fully and forever generally release and discharge Company, its current, former and future parents, subsidiaries, affiliated companies, related entities, employee benefit plans, and, in such capacities, their fiduciaries, predecessors, successors, officers, directors, stockholders, agents, employees and assigns from any and all claims, causes of action, and liabilities up through the date of my execution of the Release. The claims subject to this release include, but are not limited to, those relating to my employment with Company and/or any predecessor to Company and the termination of such employment. All such claims (including related attorneys' fees and costs) are barred without regard to whether those claims are based on any alleged breach of a duty arising in statute, contract, or tort. This expressly includes waiver and release of any rights and claims arising under any and all laws, rules, regulations, and ordinances, including, but not limited to: Title VII of the Civil Rights Act of 1964; the Older Workers Benefit Protection Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; the Fair Labor Standards Act; the National Labor Relations Act; the Family and Medical Leave Act; the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); the Workers Adjustment and Retraining Notification Act; any and all applicable state laws; and any laws of any other state or governmental entity. This Release does not extend to, and has no effect upon, any benefits that have accrued or equity that has vested or is eligible for vesting post-employment, to, under any employee benefit or equity plan, program, policy or grant sponsored or maintained by the Company, or to my right to indemnification by the Company or its parent, and continued coverage by the Company's or its parent's director's and officer's insurance.

2. If this release is executed relating to employment in California, the following applies: **Unknown Claims, Waiver of California Civil Code Section 1542. I 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 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 Agreement will remain in effect as a full and complete release notwithstanding the discovery or existence of additional or different facts.

3. In understanding the terms of the Release and my rights, I have been advised to consult with an attorney of my choice prior to executing the Release. I understand that nothing in the Release shall prohibit me from exercising legal rights that are, as a matter of law, not subject to waiver such as: (a) my rights under applicable workers' compensation laws; (b) my right, if any, to seek unemployment benefits; (c) my rights to indemnification under applicable law, contract or the Company's organizational documents; (d) my right to file a charge or complaint with a government agency such as but not limited to the Equal Employment Opportunity Commission, the National Labor Relations Board, the Department of Labor, the state departments of labor or fair employment practices authority, and (e) my right to report any violation to the Securities and Exchange Commission or any other federal or state agency. I further understand that nothing in this Release precludes me from entitlement to any monetary recovery awarded by the Securities and Exchange Commission in connection with any action asserted by the Securities and Exchange Commission. Moreover, I will continue to be indemnified for my actions taken while employed by the Company to the same extent as other former directors and officers of the Company or its parent under the Company's Certificate of Incorporation and Bylaws, the Memorandum and Articles of Association of the Company's parent, and the Director Indemnification Agreement between me and the Company's parent, if any, and I will continue to be covered by the Company's and/or its parent's directors and officers liability insurance policy as in effect from time to time to the same extent as other former directors and officers of the Company and its parent, each subject to the requirements of the laws of the State of Delaware. To the fullest extent permitted by law, any dispute regarding the scope of this general release shall be resolved through binding arbitration as set forth in my Agreement.

4. I understand and agree that Company will not provide me with the Benefits unless I execute the Release. I also understand that I have received or will receive, regardless of the execution of the Release, all wages owed to me together with any accrued but unused vacation pay, less applicable withholdings and deductions, earned through my termination date.

5. As part of my existing and continuing obligations to Company, I have returned to Company all Company documents (and all copies thereof) and other Company property that I have had in my possession at any time, including but not limited to Company files, notes, drawings, records, business plans and forecasts, financial information, specification, computer-recorded information, tangible property (including, but not limited to, computers, laptops, pagers, etc.), credit cards, entry cards, identification badges and keys; and any materials of any kind which contain or embody any proprietary or confidential information of Company (and all reproductions thereof, except as otherwise I am entitled to retain under any agreement with the Company). I understand that, even if I did not sign the Release, I am still bound by any and all confidential/proprietary/trade secret information, non-disclosure and inventions assignment agreement(s) signed by me in connection with my employment with Company, or with a predecessor or successor of Company pursuant to the terms of such agreement(s).

6. I represent and warrant that I am the sole owner of all claims relating to my employment with Company and/or with any predecessor of Company, and that I have not assigned or transferred any claims relating to my employment to any other person or entity.

7. I agree to keep the Benefits and the provisions of the Release confidential and not to reveal its contents to anyone except my lawyer, my spouse or other immediate family member, and/or my financial consultant, or as required by legal process or applicable law or requested by taxing authorities unless and until they become publicly available. I will not, however, be bound from speaking about any harassment or discrimination that I believe occurred at the Company during my employment, consistent with applicable law.

8. I understand and agree that the Release shall not be construed at any time as an admission of liability or wrongdoing by either Company or myself.

9. I agree that for following my termination of employment, and subject to paragraph 7 above, I will not, directly or indirectly, make any disparaging statements or comments, either as fact or as opinion, about Company, its employees, officers, directors, stockholders, vendors, products or services, business, technologies, market position or performance. In addition, The Company shall use its best efforts to ensure that the Company's and Parent's executive officers and Board members (to the extent then in service) shall not make, directly or indirectly, any negative or disparaging statements or comments, either as fact or as opinion about you, with any written or oral statement. Nothing in this paragraph shall prohibit you or the Company or its executive officers or Company Board members from providing truthful information in response to a subpoena or other legal process.

10. I agree to reasonably cooperate with the Company in any internal investigation, any administrative, regulatory, or judicial proceeding or any dispute with a third party related to my employment period. I understand and agree that my cooperation may include, but not be limited to, making myself reasonably available to the Company upon reasonable notice for interviews and factual investigations; appearing at the Company's reasonable request to give testimony without requiring service of a subpoena or other legal process; volunteering to the Company pertinent information; and turning over to the Company all relevant documents which are or may come into my possession all at times and on schedules that are reasonably consistent with my other permitted activities and commitments. The Company shall to the extent reasonably feasible limit my travel and not interfere with my other obligations in seeking such cooperation. The Company shall reimburse my reasonable expenses incurred in connection with such cooperation.

11. I agree to submit any claims arising from this Release or my employment to mandatory binding arbitration consistent with my arbitration agreement. I HEREBY WAIVE ANY RIGHTS TO TRIAL BY JURY IN REGARD TO SUCH CLAIMS. This agreement to arbitrate does not restrict my right to file administrative claims I may bring before any government agency where, as a matter of law, the parties may not restrict my ability to file such claims (including, but not limited to, the National Labor Relations Board, the Equal Employment Opportunity Commission and the Department of Labor). However, I agree that, to the fullest extent permitted by law, arbitration shall be the exclusive remedy for the subject matter of such administrative claims.

12. I agree that if I am over the age of 40, I have had at least twenty-one (21) calendar days in which to consider whether to execute the Release, no one hurried me into executing the Release during that period, and no one coerced me into executing the Release. I understand that the offer of the Benefits and the Release shall expire on the twenty-second (22nd) calendar day after my employment termination date if I have not accepted it by that time. I further understand that Company's obligations under the Release shall not become effective or enforceable until the eighth (8th) calendar day after the date I sign the Release provided that I have timely delivered it to Company (the "Effective Date") and that in the seven (7) day period following the date I deliver a signed copy of the Release to Company. I understand that I may revoke my acceptance of the Release. I understand that the Benefits will become available to me at such time after the Effective Date. If I am under the age of 40, I have 10 days to consider the terms of the Release once the Release is presented to me for signature. The Effective Date for me if I am over the age of 40 is the date I sign and return the Release to the Company.

13. In executing the Release, I acknowledge that I have not relied upon any statement made by Company, or any of its representatives or employees, with regard to the Release unless the representation is specifically included herein. Furthermore, the Release contains our entire understanding regarding eligibility for Benefits and supersedes any or all prior representation and agreement regarding the subject matter of the Release. However, the Release does not modify, amend or supersede written Company agreements that are consistent with enforceable provisions of this Release such as my Agreement, proprietary information and invention assignment agreement, and any equity award, stock option and/or stock purchase agreements between Company or its Parent and me. Once effective and enforceable, this agreement can only be changed by another written agreement signed by me and an authorized representative of Company.

14. Should any provision of the Release be determined by an arbitrator, court of competent jurisdiction, or government agency to be wholly or partially invalid or unenforceable, the legality, validity and enforceability of the remaining parts, terms, or provisions are intended to remain in full force and effect. Specifically, should a court, arbitrator, or agency conclude that a particular claim may not be released as a matter of law, it is the intention of the parties that the general release and the waiver of unknown claims above shall otherwise remain effective to release any and all other claims. I acknowledge that I have obtained sufficient information to intelligently exercise my own judgment regarding the terms of the Release before executing the Release.

15. Section RESERVED in the event additional release provisions are required by modifications or amendment to existing Federal, state or local law applicable to release agreements delivered by employees.

I have read the release, I understand it and I know that I am giving up important rights. I have obtained sufficient information to intelligently exercise my own judgment. I have been advised that I should consult with an attorney before signing it, and I have signed the release knowingly and voluntarily. Effective upon execution by employee.

Date delivered to employee: _____

Employee Name _____

EXAMPLE/DO NOT SIGN _____ Date
executed: _____
Employee signature

513282738v.1

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

I, Amy Burroughs, certify that:

- 1.I have reviewed this Quarterly Report on Form 10-Q of Terns Pharmaceuticals, Inc.;
- 2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4.The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c)Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d)Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5.The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2024

By:

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

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

I, Mark Vignola, certify that:

- 1.I have reviewed this Quarterly Report on Form 10-Q of Terns Pharmaceuticals, Inc.;
- 2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4.The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c)Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d)Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5.The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2024

By:

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

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

In connection with the Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1)The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2)The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 13, 2024

By:

/s/ Amy Burroughs
Amy Burroughs
Chief Executive Officer and Director
(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 March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1)The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2)The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 13, 2024

By:

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