

**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, 2023

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from to  
Commission File Number: 001-39926

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

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

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

94404  
(Zip Code)

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

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

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

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

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

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

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

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

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

As of May 5, 2023, the registrant had 56,680,148 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 timing of commencement of future nonclinical studies and clinical trials and research and development programs;
- our clinical and regulatory development plans;
- our expectations regarding the product profile, relative benefits and clinical utility of our product candidates;
- our expectations regarding the potential market size and size of the potential patient populations for our product candidates and any future product candidates if approved for commercial use;
- our ability to acquire, discover, develop and advance our product candidates into, and successfully complete, clinical trials;
- our intentions and our ability to establish collaborations and/or partnerships;
- the timing or likelihood of regulatory filings and approvals for our product candidates;
- our commercialization, marketing and manufacturing capabilities and expectations;
- our intentions with respect to the commercialization of our product candidates;
- the pricing and reimbursement of our product candidates, if approved;
- the implementation of our business model and strategic plans for our business and product candidates, including additional indications which we may pursue;
- the scope of protection we are able to establish, maintain, protect and enforce for intellectual property rights covering our product candidates including the projected terms of patent protection;
- estimates of our expenses, future revenue, capital requirements, our needs for additional financing and our ability to obtain additional capital and the timing of the sufficiency of our capital resources;
- our future financial performance; and
- developments and projections relating to our competitors and our industry, including competing products.

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

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

	March 31, 2023	December 31, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 184,354	\$ 143,235
Marketable securities	113,172	139,879
Prepaid expenses and other current assets	2,138	2,071
Total current assets	299,664	285,185
Property and equipment, net	683	757
Operating lease assets	901	1,047
Other assets	37	37
Total assets	<u>\$ 301,285</u>	<u>\$ 287,026</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,690	\$ 1,645
Accrued expenses and other current liabilities	8,763	6,162
Current portion of operating lease liabilities	656	661
Total current liabilities	12,109	8,468
Taxes payable, non-current	1,107	1,071
Operating lease liabilities, non-current	386	544
Total liabilities	<u>13,602</u>	<u>10,083</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value, 150,000,000 shares authorized at March 31, 2023 and December 31, 2022; 56,669,596 and 53,723,171 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	5	5
Additional paid-in capital	552,040	520,178
Accumulated other comprehensive loss	(416)	(822)
Accumulated deficit	(263,946)	(242,418)
Total stockholders' equity	287,683	276,943
Total liabilities and stockholders' equity	<u>\$ 301,285</u>	<u>\$ 287,026</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**  
(Unaudited; in thousands, except share and per share data)

	Three Months Ended March 31,	
	2023	2022
Operating expenses:		
Research and development	\$ 17,056	\$ 8,136
General and administrative	7,101	5,689
Total operating expenses	<u>24,157</u>	<u>13,825</u>
Loss from operations	(24,157)	(13,825)
Other income:		
Interest income	2,693	69
Other (expense) income, net	(4)	4
Total other income, net	<u>2,689</u>	<u>73</u>
Loss before income taxes	(21,468)	(13,752)
Income tax expense	(60)	(21)
Net loss	<u>\$ (21,528)</u>	<u>\$ (13,773)</u>
Net loss per share, basic and diluted	<u>\$ (0.31)</u>	<u>\$ (0.55)</u>
Weighted average common stock outstanding, basic and diluted	<u>69,778,420</u>	<u>25,269,271</u>
Other comprehensive loss:		
Net loss	\$ (21,528)	\$ (13,773)
Unrealized gain (loss) on available-for-sale securities, net of tax	418	(551)
Foreign exchange translation adjustment, net of tax	(12)	(7)
Comprehensive loss	<u>\$ (21,122)</u>	<u>\$ (14,331)</u>

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

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

**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	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>

**Three Months Ended March 31, 2022**

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2021	25,269,271	\$ 3	\$ 342,711	\$ (338)	\$ (182,073)	\$ 160,303
Stock-based compensation expense	—	—	2,744	—	—	2,744
Unrealized loss on available-for-sale securities	—	—	—	(551)	—	(551)
Foreign exchange translation adjustment	—	—	—	(7)	—	(7)
Net loss	—	—	—	—	(13,773)	(13,773)
Balances at March 31, 2022	<u>25,269,271</u>	<u>\$ 3</u>	<u>\$ 345,455</u>	<u>\$ (896)</u>	<u>\$ (195,846)</u>	<u>\$ 148,716</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,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (21,528)	\$ (13,773)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	3,938	2,744
Depreciation and amortization expense	76	141
(Accretion) amortization on marketable securities	(806)	613
Change in deferred taxes and uncertain tax positions	32	21
Amortization of operating lease assets	146	137
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(67)	(1,893)
Accounts payable	1,324	(410)
Accrued expenses and other current liabilities	2,666	(731)
Operating lease liabilities	(163)	(149)
Net cash used in operating activities	<u>(14,382)</u>	<u>(13,300)</u>
Cash flows from investing activities:		
Purchase of property and equipment	—	(242)
Purchase of investments	(23,862)	(24,434)
Proceeds from sales and maturities of investments	51,793	34,164
Net cash provided by investing activities	<u>27,931</u>	<u>9,488</u>
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	<u>27,580</u>	<u>—</u>
Effect of exchange rate changes on cash and cash equivalents	(10)	(8)
Net increase (decrease) in cash and cash equivalents	<u>41,119</u>	<u>(3,820)</u>
Cash and cash equivalents at beginning of period	143,235	47,699
Cash and cash equivalents at end of period	<u>\$ 184,354</u>	<u>\$ 43,879</u>
Supplemental disclosure of cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities	\$ 180	\$ 166
Supplemental disclosure of non-cash activities:		
Right-of-use assets obtained in exchange for lease liabilities	\$ —	\$ 1,513

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

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

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

Terns Pharmaceuticals, Inc. (Terns) is a clinical-stage biopharmaceutical company developing a portfolio of small-molecule product candidates to address serious diseases including oncology, non-alcoholic steatohepatitis (NASH) 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 (the "Domestication"), pursuant to which it became a Delaware corporation. Terns owns all of the share capital of Terns Pharmaceutical HongKong Limited (Terns Hong Kong) and Terns, Inc., a Delaware corporation (Terns U.S. Opco). Terns Hong Kong holds all of the share capital of Terns China Biotechnology Co., Ltd. (organized in Shanghai, People's Republic of China (PRC)) (Terns China) and Terns (Suzhou) Biotechnology Co., Ltd. (organized in Suzhou, PRC) (Terns Suzhou).

*Basis of Presentation*

The accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of Terns and its wholly owned subsidiaries Terns U.S. Opco and Terns Hong Kong and its wholly owned subsidiaries Terns China and Terns Suzhou. The Company's condensed consolidated financial statements have been prepared in conformity with U.S. GAAP. All intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated balance sheet as of December 31, 2022 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.

Operating results for the three months ended March 31, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or for any future period.

*At-the-Market Offering*

In March 2022, the Company entered into a Sales Agreement with Cowen and Company, LLC (Cowen) as sales agent, pursuant to which the Company has the ability to offer and sell, from time to time, through Cowen, shares of its common stock having an aggregate offering price of up to \$75.0 million in an at-the-market offering. The shares are offered pursuant to the Company's shelf registration statement on Form S-3 filed with the Securities and Exchange Commission, or SEC. As of March 31, 2023, there were 7,052,550 shares of our common stock sold for aggregate net proceeds of \$52.8 million after deducting commissions and offering expenses pursuant to this agreement. The Company sold 2,929,922 shares for aggregate net proceeds of \$27.9 million pursuant to this agreement during the three months ended March 31, 2023.

*August 2022 Financing*

In August 2022, the Company issued 12,250,000 shares of its common stock at a price of \$2.42 per share and, to certain investors in lieu of common stock, pre-funded warrants to purchase 14,630,000 shares of common stock at a price of \$2.4199 per pre-funded warrant. The purchase price per share of each pre-funded warrant represents the per share offering price for the common stock, minus the \$0.0001 per share exercise price of such pre-funded warrant. Aggregate net proceeds were \$60.7 million after deducting underwriting discounts and commissions and offering expenses.

The pre-funded warrants were classified as a component of permanent stockholders' equity within additional paid-in capital and were recorded at the issuance date using a relative fair value allocation method. The pre-funded warrants are equity classified because they (i) are freestanding financial instruments that are legally detachable and separately exercisable from the equity instruments, (ii) are immediately exercisable, (iii) do not embody an obligation for the Company to repurchase its shares, (iv) permit the holders to receive a fixed number of shares of common stock upon exercise, (v) are indexed to the Company's common stock and (vi) meet the equity classification criteria. In addition, such pre-funded warrants do not provide any guarantee of value or return. The Company valued the pre-funded warrants at issuance, concluding that their sales price approximated their fair value, and allocated net proceeds from the sale proportionately to the common stock and pre-funded warrants, of which \$33.0 million was allocated to the pre-funded warrants and recorded as a component of additional paid-in capital.



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

## **Summary of Significant Accounting Policies**

### *Use of Estimates*

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

### *Unaudited Interim Financial Information*

These unaudited condensed consolidated financial statements include all adjustments necessary, consisting of only normal recurring adjustments, to fairly state the financial position and the results of the Company's operations and cash flows for interim periods in accordance with U.S. GAAP. Interim period results are not necessarily indicative of results of operations or cash flows for a full year or any subsequent interim period. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K ("Annual Report") for the fiscal year ended December 31, 2022, as filed with the SEC on March 27, 2023. There have been no significant changes to the Company's significant accounting policies described in Note 1, Organization, Basis of Presentation and Summary of Significant Accounting Policies, in Notes to Consolidated Financial Statements in Item 8 of Part II of the Form 10-K for the fiscal year ended December 31, 2022.

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

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

The Company classifies as available-for-sale marketable securities with a remaining maturity when purchased of greater than three months. The Company's marketable securities are maintained by investment managers and consist of U.S. government and non-U.S. government securities, corporate debt securities and commercial paper. Debt securities are carried at fair value with the unrealized gains and losses included in other comprehensive loss as a component of stockholders' equity until realized. Any premium arising at purchase is amortized to the earliest call date and any discount arising at purchase is accreted to maturity. Amortization and accretion of premiums and discounts are recorded in interest income and/or expense.

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

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

### Operating Leases and Rent Expense

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

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

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

### Research and Development Expenses

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

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

### Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities included the following:

<i>(in thousands)</i>	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Research and development costs	\$ 5,924	\$ 1,209
Compensation and benefit costs	832	3,843
Accrued professional fees	1,644	925
Other	363	185
Total accrued expenses and other current liabilities	<u>\$ 8,763</u>	<u>\$ 6,162</u>

## *Income Taxes*

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

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

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

The Company recorded income tax expense for the three months ended March 31, 2023 and 2022 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, including grants of stock options and restricted stock awards issued under the Company's equity incentive plan and rights to acquire stock granted under the Company's employee stock purchase plan (ESPP), is measured at the grant date based on the fair value of the awards and is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. The Company's determination of the fair value of stock options with time-based vesting and rights to acquire stock under the ESPP utilizes the Black-Scholes option-pricing model. The Company lacks sufficient company-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of a publicly traded set of peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The Company estimates risk-free rates using the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term and dividend yield using the Company's expectations and historical data. The Company uses the simplified method to calculate the expected term of stock option grants as the Company has limited historical information from which to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior for its stock option grants. Under the simplified method, the expected term is estimated to be the mid-point between the vesting date and the contractual term of the option. The fair value of each stock option grant and right to acquire stock under the ESPP is calculated based upon the Company's common stock valuation on the date of the grant. The Company accounts for forfeitures of stock option grants as they occur.

### Net Loss Per Share of Common Stock

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

Basic net income (loss) per share of common stock is computed by dividing the net income (loss) per share of common stock by the weighted average number of shares of common stock outstanding for the period. The weighted-average shares of common stock outstanding as of March 31, 2023 included pre-funded warrants to purchase up to an aggregate of 14,630,000 shares of common stock that were issued in connection with the August 2022 Financing.

Diluted net income (loss) per share of common stock is computed by adjusting net income (loss) to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted net loss per share of common stock is computed by dividing the diluted net loss by the weighted average number of shares of common stock outstanding for the period, including potential dilutive shares. For purposes of this calculation, outstanding stock options and convertible preferred stock are considered potential dilutive shares. The Company's convertible preferred stock outstanding prior to the IPO contractually entitled the holders of such shares to participate in dividends but did not contractually require the holders of such shares to participate in losses of the Company. Accordingly, in periods in which the Company reported a net loss, such losses were not allocated to such securities.

The Company reported a net loss for the three months ended March 31, 2023 and 2022. In periods in which the Company reported a net loss, diluted net loss per share of common stock was the same as basic net loss per share of common stock, since dilutive shares were not assumed to have been issued if their effect is anti-dilutive. The Company excluded the following potential shares of common stock, presented based on amounts outstanding at each period end, from the computation of diluted net loss attributable to common stockholders per share of common stock for the periods indicated because including them would have had an anti-dilutive effect:

	<b>March 31,</b>	
	<b>2023</b>	<b>2022</b>
Options to purchase common stock	7,729,844	4,308,952
Unvested restricted stock units	388,103	74,830
Shares issuable under employee stock purchase plan	106,308	59,247
Total	<u>8,224,255</u>	<u>4,443,029</u>

### Deferred Offering Costs

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

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

### Commitments and Contingencies

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

## Recent Accounting Pronouncements

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

## Recently Adopted Accounting Pronouncements

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

## Recently Issued Accounting Pronouncements Not Yet Adopted

There are no recently issued accounting pronouncements that are expected to have a material effect on our financial condition, results of operations or cash flows.

## 2. Cash Equivalents and Marketable Securities

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

(in thousands)	March 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 169,405	\$ —	\$ —	\$ 169,405
U.S. government securities	39,282	5	(85)	39,202
Corporate debt securities	14,236	—	(19)	14,217
Commercial paper	59,750	3	—	59,753
Total	<u>\$ 282,673</u>	<u>\$ 8</u>	<u>\$ (104)</u>	<u>\$ 282,577</u>

### Classified as:

Cash equivalents	\$ 169,405
Marketable securities	113,172
Total	<u>\$ 282,577</u>

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

### Classified as:

Cash equivalents	\$ 23,029
Marketable securities	139,879
Total	<u>\$ 162,908</u>

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, 2023					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(in thousands)</i>						
U.S. government securities	\$ 21,399	\$ (7)	\$ 14,926	\$ (78)	\$ 36,325	\$ (85)
Corporate debt securities	14,217	(19)	—	—	14,217	(19)
Total	<u>\$ 35,616</u>	<u>\$ (26)</u>	<u>\$ 14,926</u>	<u>\$ (78)</u>	<u>\$ 50,542</u>	<u>\$ (104)</u>

	December 31, 2022					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(in thousands)</i>						
U.S. government securities	\$ —	\$ —	\$ 29,704	\$ (384)	\$ 29,704	\$ (384)
Non-U.S. government securities	—	—	3,008	(15)	3,008	(15)
Corporate debt securities	22,717	(108)	10,530	(38)	33,247	(146)
Total	<u>\$ 22,717</u>	<u>\$ (108)</u>	<u>\$ 43,242</u>	<u>\$ (437)</u>	<u>\$ 65,959</u>	<u>\$ (545)</u>

At March 31, 2023, the Company had 10 available-for-sale marketable securities in an unrealized loss position without an allowance for credit losses. The Company does not intend to sell these securities and the Company believes it is more likely than not that marketable securities in an unrealized loss position will be held until maturity and that the Company will not be required to sell these securities before recovery of their amortized cost basis. The Company believes that an allowance for credit losses is unnecessary as the securities are of high credit quality and the decline in fair value is due to market conditions and/or changes in interest rates.

### 3. Fair Value

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

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

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

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

<i>(in thousands)</i>	Fair Value at March 31, 2023			
	Level 1	Level 2	Level 3	Total
<b>Cash and cash equivalents</b>				
Cash in bank balances	\$ 14,949	\$ —	\$ —	\$ 14,949
Money market funds	169,405	—	—	169,405
<b>Total cash and cash equivalents</b>	<b>\$ 184,354</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 184,354</b>
<b>Marketable securities</b>				
U.S. government securities	\$ —	\$ 39,202	\$ —	\$ 39,202
Corporate debt securities	—	14,217	—	14,217
Commercial paper	—	59,753	—	59,753
<b>Total marketable securities</b>	<b>\$ —</b>	<b>\$ 113,172</b>	<b>\$ —</b>	<b>\$ 113,172</b>

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

The aggregate amortized cost and fair value of marketable securities as of March 31, 2023, by contractual maturity, are as follows:

<i>(in thousands)</i>	Amortized Cost	Fair Value
Due in one year or less	\$ 113,268	\$ 113,172
Due after one year through two years	—	—
<b>Total marketable securities</b>	<b>\$ 113,268</b>	<b>\$ 113,172</b>

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:

<i>(in thousands)</i>	Three Months Ended March 31,	
	2023	2022
Operating lease cost	\$ 159	\$ 154
Short-term cost	3	15
Total lease cost	<u>\$ 162</u>	<u>\$ 169</u>
Weighted-average remaining lease term		1.54
Weighted-average discount rate		6.00 %

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

<i>(in thousands)</i>	Operating Leases
2023	\$ 535
2024	559
2025 and thereafter	—
Total lease payments	<u>1,094</u>
Less: Imputed interest	<u>(52)</u>
Present value of lease liabilities	1,042
Less: Current portion of lease liabilities	<u>(656)</u>
Total lease liabilities, non-current	<u>\$ 386</u>



## 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, 2023 and December 31, 2022.

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

	March 31, 2023	December 31, 2022
Options outstanding under incentive award plans	7,729,844	4,823,928
Unvested restricted stock units	388,103	128,280
Shares available for future grant under incentive award plans	611,278	1,107,362
Shares available for future grant under employee stock purchase plans	861,151	323,920
Shares available for future grant under employment inducement award plans	1,310,000	1,310,000
Pre-funded warrants	14,630,000	14,630,000
Total shares reserved	25,530,376	22,323,490

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, if any, as may be declared by the Company's board of directors, subject to the preferential dividend rights of the convertible preferred stock. Through March 31, 2023, no cash dividends have been declared or paid by the Company.

### *Stock-Based Compensation Plans*

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

#### *2021 Incentive Award Plan*

In January 2021, the Company's board of directors approved the 2021 Plan which permits the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance bonus awards, performance stock unit awards and other stock awards to employees, directors, officers and consultants. In February 2021, 2,400,007 shares were authorized for issuance under the 2021 Plan, which shall be cumulatively increased on the first day of each year beginning in 2022 and ending in 2031 equal to the lesser of (i) the amount equal to 5% of the number of shares issued and outstanding on the last day of the immediately preceding fiscal year or (ii) such lower number of shares as may be determined by the Company's board of directors. The 2021 Plan is the successor to the 2017 Incentive Award Plan and no additional awards may be issued from the 2017 Plan. However, the 2017 Plan will continue to govern the terms and conditions of the outstanding awards granted under this plan. Shares of common stock subject to awards granted under the 2017 Plan that are forfeited or lapse unexercised and which following the effective date of the 2021 Plan are not issued under the 2017 Plan will be available for issuance under the 2021 Plan. The number of authorized shares reserved for issuance under the 2021 Plan was increased by 2,686,158 shares effective as of January 1, 2023. As of March 31, 2023, 611,278 shares of the Company's common stock were available for future grants under the 2021 Plan.

### *2021 Employee Stock Purchase Plan*

The 2021 Employee Stock Purchase Plan (the "2021 ESPP") was approved by the Company's board of directors in January 2021. In February 2021, a total of 240,000 shares were initially reserved for issuance under this plan, which shall be cumulatively increased on the first day of each year beginning in 2022 and ending in 2031 equal to the lesser of (i) 1% of the shares outstanding (on an as converted basis) on the last day of the immediately preceding fiscal year and (ii) such number of shares as may be determined by the Company's board of directors. The number of authorized shares reserved for issuance under the 2021 ESPP was increased by 537,231 shares effective as of January 1, 2023. As of March 31, 2023, 861,151 shares of the Company's common stock were available for future grants under the 2021 ESPP.

Under the 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 12 months and is divided into two 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 one-year look-back feature in the 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. ESPP purchases by employees are settled with newly-issued common stock from the ESPP's previously authorized and available pool of shares.

As of March 31, 2023, there was \$0.2 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 1.46 years as of March 31, 2023. There were no shares purchased by employees under the ESPP during the three months ended March 31, 2023 and 2022.

### *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 permits the granting of nonqualified stock options, stock appreciation rights, restricted stock awards and restricted stock unit awards to newly hired employees and officers. As of March 31, 2023, 1,310,000 shares of the Company's common stock were available for future grants under the 2022 Inducement Plan.

### *Pre-Funded Warrants*

In connection with the August 2022 Financing, the Company sold pre-funded warrants to purchase 14,630,000 shares of common stock at a price of \$2.4199 per pre-funded warrant. The purchase price per share of each pre-funded warrant represents the per share offering price for the common stock, minus the \$0.0001 per share exercise price of such pre-funded warrant. No pre-funded warrants have been exercised as of March 31, 2023.

## Stock Options

Stock options granted to employees and nonemployees 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, 2023:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term <i>(in years)</i>	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding as of December 31, 2022	4,823,928	\$ 8.22	8.46	\$ 11,721
Granted	2,912,500	9.07		
Forfeited	(6,584)	9.74		
Outstanding as of March 31, 2023	<u>7,729,844</u>	\$ 8.54	8.83	\$ 26,761
Exercisable, March 31, 2023	2,812,216	\$ 8.98	7.82	\$ 8,761
Vested and expected to vest, March 31, 2023	7,729,844	\$ 8.54	8.83	\$ 26,761

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, 2023, there was \$35.3 million of unrecognized stock-based compensation expense related to unvested stock options which is estimated to be recognized over a period of 2.78 years.

## Restricted Stock Units

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

The following table summarizes the RSU activity for all stock plans during the three months ended March 31, 2023:

	Number of Shares	Weighted Average Grant- Date Fair Value
Unvested restricted stock units as of December 31, 2022	128,280	\$ 4.09
Granted	276,326	10.27
Vested	(16,503)	3.67
Unvested restricted stock units as of March 31, 2023	<u>388,103</u>	\$ 8.51

As of March 31, 2023, there was \$3.1 million of unrecognized stock-based compensation expense related to restricted stock units which is estimated to be recognized over a period of 3.68 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,	
	2023	2022
<b>Stock Option Plans</b>		
Expected term (years)	6.08	6.08
Expected volatility	73.44%	73.51%
Risk-free interest rate	3.49%	1.63%
Fair value of underlying common stock	\$ 9.07	\$ 5.78
Weighted average grant-date fair value per share	\$ 6.10	\$ 3.78

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,	
	2023	2022
Research and development expense	\$ 1,348	\$ 770
General and administrative expense	2,590	1,974
<b>Total stock-based compensation expense</b>	<b>\$ 3,938</b>	<b>\$ 2,744</b>

## 6. Assignment, License and Collaboration Agreements

### *TERN-101 License Agreement with Eli Lilly*

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

The Company agreed to pay Lilly up to an aggregate of \$6.0 million in pre-specified development milestones for the first covered product in mainland China, and up to an aggregate of \$50.0 million in pre-specified development milestones for the first covered product in ex-mainland China. The Company also agreed to pay Lilly tiered royalties calculated on a calendar year basis, in the mid-single digits to low teens on net sales ranging from the low hundreds of millions of dollars to the low billions of dollars. The Lilly FXR 2018 License Agreement expires upon expiry of the last remaining royalty obligation for a licensed product. As of March 31, 2023, the Company has not paid any amounts under the agreement and no milestones have been achieved. The Company has not recorded any research and development expense during the three months ended March 31, 2023 and 2022 related to this agreement.

### *Assignment Agreement*

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

The Company paid Vintagene a non-refundable, non-creditable upfront payment of \$0.7 million, which was recorded as research and development expense in the Company's statements of operations and comprehensive loss for the year ended December 31, 2019. In addition, pursuant to the terms of the Vintagene 2019 Assignment Agreement, the Company agreed to pay Vintagene up to CNY 205.0 million in development milestones for the first covered product. The term of the Vintagene 2019 Assignment Agreement will continue in effect on a country-by-country basis until all milestone payments are made. The Company has the right to terminate the agreement in its entirety or on a covered product-by-covered product and country-by-country basis, in its sole discretion by giving 60 days advance written notice to Vintagene. As of March 31, 2023, the Company has paid \$4.4 million to Vintagene which includes a milestone payment of \$1.5 million in connection with the Company's IND filing for TERN-501 in December 2020 and a milestone payment of \$2.2 million in connection with the initiation of dosing in the Phase 2a DUET trial in July 2022. The Company has not recognized any research and development expense during the three months ended March 31, 2023 and 2022 related to this agreement.

### *Hansoh Option and License Agreement*

In July 2020, the Company entered into an exclusive option and license agreement with Hansoh (Shanghai) Healthtech Co., Ltd. (Hansoh Healthtech) and Jiangsu Hansoh Pharmaceutical Group Company Ltd. (Jiangsu Hansoh) (collectively, Hansoh) (Hansoh 2020 Option and License Agreement). Under the terms of the Hansoh 2020 Option and License Agreement, the Company granted Hansoh an exclusive, non-transferable, non-sublicensable, fully-paid, royalty-free license to conduct preliminary studies on the licensed compound (TERN-701, formerly known as TRN-000632) with an option to exclusively license the same for development and commercialization of licensed products in all prophylactic, palliative, therapeutic and/or diagnostic uses in connection with all human diseases and disorders (including development and research activities on animal models thereof) in the field of oncology, including all types of cancers (Field) in mainland China, Taiwan, Hong Kong and Macau (collectively, the Territory). In November 2021, Hansoh exercised its option and was granted an exclusive, royalty-bearing license, with the right to sublicense to exploit licensed compound and licensed products in the Field and in the Territory.

Under the Hansoh 2020 Option and License Agreement, Hansoh was required to pay the Company a refundable, non-creditable upfront payment. The Company received an upfront payment of \$0.8 million during the year ended December 31, 2020, which was recognized as a refund liability and presented within accrued expenses and other current liabilities on the consolidated balance sheets as of December 31, 2020. In connection with Hansoh's exercise of its option in November 2021, the Company recognized \$1.0 million in license fee revenue within the consolidated statements of operations and comprehensive loss during the year ended December 31, 2021.

In addition, pursuant to the Hansoh 2020 Option and License Agreement, Hansoh has agreed to pay the Company up to \$67.0 million in pre-specified clinical, regulatory and sales milestones. Hansoh must also pay the Company royalties in the mid-single digits based on net sales of all licensed products. The term of the Hansoh 2020 Option and License Agreement will continue until the end of the last-to-expire royalty term. As of March 31, 2023, no milestones have been met and future payments are all constrained.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 27, 2023. In addition to historical financial information, this discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Special Note Regarding Forward-Looking Statements” and “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Our fiscal year ends on December 31 each year.*

### Overview

We are a clinical-stage biopharmaceutical company developing a portfolio of small-molecule product candidates to address serious diseases, including oncology, non-alcoholic steatohepatitis (NASH) and obesity. Our programs are based on mechanisms of action that have achieved proof-of-concept in clinical trials in indications with large unmet needs.

The most advanced product candidates in our pipeline – TERN-701, TERN-501 and TERN-601 – were internally discovered. TERN-701 is our allosteric BCR-ABL tyrosine kinase inhibitor (TKI) that is in clinical development in China for chronic myeloid leukemia (CML), a form of cancer that starts in bone marrow. An enrollment progress update for the ongoing China Phase 1 trial for TERN-701 is anticipated as part of a trial-in-progress poster presentation at the American Society of Clinical Oncology 2023 Annual Meeting. We expect our Phase 1 trial for TERN-701 to start in the second half of 2023, and intend to include sites from the United States, Europe and other countries. TERN-501 is our highly selective thyroid hormone receptor beta (THR-β) agonist for NASH in Phase 2a clinical development with top-line data expected in the third quarter of 2023. TERN-601 is our small-molecule glucagon-like peptide-1 receptor (GLP-1R) agonist for metabolic diseases such as obesity. Our goal is to initiate a first-in-human clinical trial for TERN-601 in the second half of 2023 with initial proof of concept data anticipated in 2024. 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 GLP-1R agonists.

Since the commencement of our operations, we have devoted substantially all of our resources to research and development activities, organizing and staffing our company, business planning, raising capital, establishing and maintaining our intellectual property portfolio, conducting preclinical studies and clinical trials and providing general and administrative support for these operations. We believe that our existing cash and cash equivalents will be sufficient to fund our planned operating expenses and capital expenditure requirements into 2026, including at least three key clinical data readouts from our lead programs in CML, NASH and obesity.

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

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

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

## Results of operations

The following table summarizes our results of operations for the three months ended March 31, 2023 and 2022:

(in thousands)	Three Months Ended March 31,		Change
	2023	2022	
<b>Results of Operations</b>			
Operating expenses:			
Research and development	\$ 17,056	\$ 8,136	\$ 8,920
General and administrative	7,101	5,689	1,412
Total operating expenses	24,157	13,825	10,332
Loss from operations	(24,157)	(13,825)	(10,332)
Other income:			
Interest income	2,693	69	2,624
Other (expense) income, net	(4)	4	(8)
Total other income, net	2,689	73	2,616
Loss before income taxes	(21,468)	(13,752)	(7,716)
Income tax expense	(60)	(21)	(39)
Net loss	\$ (21,528)	\$ (13,773)	\$ (7,755)

### 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 Healthtech Co., Ltd. and Jiangsu Hansoh Pharmaceutical Group Company Ltd. (collectively, Hansoh).

### Research and development expenses

Research and development expenses include personnel-related costs and expenses, including salaries, benefits and stock-based compensation expense, for personnel engaged in research and development functions. Research and development expenses also include clinical and nonclinical development of our product candidates.

The increase in research and development expenses for the three months ended March 31, 2023, compared to the same period in 2022, was primarily due to a \$8.1 million increase in clinical and pre-clinical program expenses and a \$0.9 million increase in personnel-related expenses due to higher headcount.

### General and administrative expenses

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

The increase in general and administrative expenses for the three months ended March 31, 2023, compared to the same period in 2022, was primarily due to a \$0.9 million increase in personnel-related expenses due to higher headcount and a \$0.4 million increase in expenses related to professional services consulting.

### Interest income

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

Interest income for the three months ended March 31, 2023 was \$2.7 million, compared to \$0.1 million for the same period in 2022. The increase in interest income was primarily due to an increase in interest rates.

### Other (expense) income, net

Other (expense) income, net for the three months ended March 31, 2023 was less than \$0.1 million of expense, compared to less than \$0.1 million of income for the same period in 2022.

### *Income tax expense*

Income tax expense for the three months ended March 31, 2023 and 2022 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 three clinical data readouts from our three lead programs. However, we continue to anticipate that our research and development expenses, general and administrative expenses and capital expenditures will remain significant to support our ongoing and planned activities. We expect to continue to incur net operating losses for at least the next several years.

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

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

Since our inception, we have not generated any revenue from product sales and we have incurred significant operating losses and negative cash flows from our operations. As of March 31, 2023, we had an accumulated deficit of \$263.9 million, a net loss of \$21.5 million, negative cash flows from operations of \$14.4 million, and cash, cash equivalents and marketable securities of \$297.5 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). As of March 31, 2023, there were 7,052,550 shares of our common stock sold for aggregate net proceeds of \$52.8 million after deducting commissions and offering expenses pursuant to this agreement.

In August 2022, we issued 12,250,000 shares of our common stock at a price of \$2.42 per share and, to certain investors in lieu of common stock, pre-funded warrants to purchase 14,630,000 shares of common stock at a price of \$2.4199 per pre-funded warrant. The purchase price per share of each pre-funded warrant represents the per share offering price for the common stock, minus the \$0.0001 per share exercise price of such pre-funded warrant. Aggregate net proceeds were \$60.7 million after deducting underwriting discounts and commissions and offering expenses.

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

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



## ***Future funding requirements***

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

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

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

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

## ***Cash flows***

### ***Operating activities***

Net cash used in operating activities during 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 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.

Net cash used in operating activities during the three months ended March 31, 2022 was \$13.3 million and consisted primarily of our net loss of \$13.8 million as well as a \$3.2 million decrease from changes in operating assets and liabilities. This was partially offset by non-cash adjustments of \$2.7 million of stock-based compensation, \$0.6 million of net amortization on marketable securities, \$0.1 million of depreciation and \$0.1 million in amortization of operating lease assets.

### ***Investing activities***

Net cash provided in 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.

Net cash provided by investing activities during the three months ended March 31, 2022 was \$9.5 million and consisted primarily of proceeds from the sale and maturity of investments of \$34.2 million partially offset by \$24.4 million in purchases of investments and \$0.2 million in purchases of property and equipment.

### ***Financing activities***

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.

There were no financing activities during the three months ended March 31, 2022.

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

There have been no material changes to our critical accounting policies and use of estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. For a discussion of our critical accounting policies and use of estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Significant Estimates in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022.

### **Recent Accounting Pronouncements**

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

### **Off-balance sheet arrangements**

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

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

There have been no material changes to the information provided under Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" which is included and described in our Annual Report on Form 10-K for the year ended December 31, 2022.

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

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

As of March 31, 2023, management, with the supervision and participation of our Chief Executive Officer and 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 Chief Financial Officer concluded that, as of March 31, 2023, the design and operation of our disclosure controls and procedures were effective at a reasonable assurance level.

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

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes. There were no changes during the quarter ended March 31, 2023 to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**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, 2023, we were not a party to any litigation or legal proceedings that, in the opinion of our management, are probable to have a material adverse effect on our business. Regardless of the outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2022 may not be the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

***Unregistered Sales of Equity Securities***

None.

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

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	<a href="#">Amended and Restated Certificate of Incorporation.</a>	8-K	2/9/2021	3.1	
3.2	<a href="#">Amended and Restated Bylaws.</a>	8-K	2/9/2021	3.2	
4.1	<a href="#">Form of Common Stock Certificate.</a>	S-1/A	2/1/2021	4.2	
4.2	<a href="#">Form of Pre-Funded Warrant.</a>	8-K	8/16/2022	4.1	
4.3	<a href="#">Amended and Restated Investors' Rights Agreement, dated December 29, 2020, by and among the Registrant and the investors listed therein.</a>	S-1	1/15/2021	10.1	
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>				X
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>				X
32.1 <sup>^</sup>	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>				X
32.2 <sup>^</sup>	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>				X
101.INS	Inline XBRL Instance Document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				X

# Indicates management contract or compensatory plan.

<sup>^</sup> 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 15, 2023

By: \_\_\_\_\_  
/s/ Senthil Sundaram  
Senthil Sundaram  
Chief Executive Officer and Director  
*(Principal Executive Officer)*

Date: May 15, 2023

By: \_\_\_\_\_  
/s/ Mark Vignola  
Mark Vignola, Ph.D.  
Chief Financial Officer  
*(Principal Financial and Accounting 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, Senthil Sundaram, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023

By: \_\_\_\_\_ /s/ Senthil Sundaram

**Senthil Sundaram**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

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

I, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023

By: \_\_\_\_\_ /s/ Mark Vignola

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



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

In connection with the Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 15, 2023

By: \_\_\_\_\_ /s/ Senthil Sundaram  
**Senthil Sundaram**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

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

In connection with the Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 15, 2023

By: \_\_\_\_\_ /s/ Mark Vignola  
**Mark Vignola**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

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