UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

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	**98-1448275**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1065 East Hillsdale Blvd., Suite 100 Foster City, California	**94404**
(Address of principal executive offices)	**(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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

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

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

As of November 5, 2021, the registrant had 25,267,271 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 related to the global COVID-19 pandemic 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 regarding the potential market size and size of the potential patient populations for our single-agent and combination therapy candidates and any future single-agent and combination therapy candidates if approved for commercial use;
- our clinical and regulatory development plans;
- 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 ability to acquire, discover, develop and advance single-agent and combination therapy 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 single-agent and combination therapy candidates;
- our commercialization, marketing and manufacturing capabilities and expectations;
- our intentions with respect to the commercialization of our single-agent and combination therapy candidates;
- the pricing and reimbursement of our single-agent and combination therapy candidates, if approved;
- the potential effects of COVID-19 on our preclinical and clinical programs and business;
- the implementation of our business model and strategic plans for our business and single-agent and combination therapy 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 single-agent and combination therapy 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;
- our future financial performance; and
- developments and projections relating to our competitors and our industry, including competing products.

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

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

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 64,751	$ 74,854
Marketable securities	112,445	—
Notes receivable	—	12,718
Deferred offering costs	—	2,137
Prepaid expenses and other current assets	1,598	1,160
Total current assets	178,794	90,869
Property and equipment, net	927	1,175
Other assets	169	246
Total assets	$ 179,890	$ 92,290
Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 1,582	$ 935
Accrued expenses and other current liabilities	5,311	9,006
Loans payable	—	12,880
Total current liabilities	6,893	22,821
Deferred rent, net of current portion	176	220
Taxes payable, non-current	665	657
Total liabilities	7,734	23,698
Commitments and contingencies		
Convertible preferred stock, $0.0001 par value; 10,000,000 and 188,029,084 shares authorized as of September 30, 2021 and December 31, 2020, respectively; no shares issued or outstanding as of September 30, 2021; 12,958,452 shares issued and outstanding as of December 31, 2020	—	186,033
Stockholders' equity (deficit):		
Common stock, $0.0001 par value, 150,000,000 and 299,700,000 shares authorized at September 30, 2021 and December 31, 2020, respectively; 25,264,845 and 337,508 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	3	—
Additional paid-in capital	340,145	14,598
Accumulated other comprehensive loss	(167)	(124)
Accumulated deficit	(167,825)	(131,915)
Total stockholders' equity (deficit)	172,156	(117,441)
Total liabilities, convertible preferred stock and stockholders' equity	$ 179,890	$ 92,290

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating expenses:				
Research and development	$ 7,153	$ 5,404	$ 21,849	$ 20,259
General and administrative	4,715	3,333	14,133	7,998
Total operating expenses	11,868	8,737	35,982	28,257
Loss from operations	(11,868)	(8,737)	(35,982)	(28,257)
Other income (expense):				
Interest income	49	1	115	53
Change in fair value of loans payable	—	(2,366)	—	(2,366)
Other income (expense), net	4	(387)	30	30
Total other income (expense), net	53	(2,752)	145	(2,283)
Loss before income tax expense	(11,815)	(11,489)	(35,837)	(30,540)
Income tax expense	(20)	(102)	(73)	(102)
Net loss	(11,835)	(11,591)	(35,910)	(30,642)
Net loss attributable to non-controlling interest	—	(156)	—	(518)
Net loss attributable to common stockholders	$ (11,835)	$ (11,435)	$ (35,910)	$ (30,124)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.47)	$ (37.82)	$ (1.64)	$ (111.38)
Weighted average common stock outstanding, basic and diluted	25,148,336	302,336	21,842,706	270,463
Other comprehensive loss:				
Net loss	$ (11,835)	$ (11,591)	$ (35,910)	$ (30,642)
Unrealized gain (loss) on available-for-sale securities, net of tax	2	—	(5)	—
Foreign exchange translation adjustment, net of tax	5	356	(38)	196
Comprehensive loss	(11,828)	(11,235)	(35,953)	(30,446)
Less: Comprehensive loss attributable to non-controlling interest	—	(128)	—	(490)
Comprehensive loss attributable to common stockholders	$ (11,828)	$ (11,107)	$ (35,953)	$ (29,956)

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

Terns Pharmaceuticals, Inc.
Condensed Consolidated Statements of Noncontrolling Interest, Convertible Preferred Stock and Stockholders' Equity (Deficit)
(Unaudited; in thousands, except share data)

Three and Nine Months Ended September 30, 2021

	Non-Controlling Interest	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' (Deficit) Equity
		Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balances at December 31, 2020	$ —	2,857,142	$ 30,000	2,600,645	$ 68,995	7,500,665	$ 87,038	337,508	$ —	$ 14,598	$ (124)	$ (131,915)	$ (117,441)
Conversion of preferred stock to common stock upon closing of the initial public offering	—	(2,857,142)	(30,000)	(2,600,645)	(68,995)	(7,500,665)	(87,038)	16,079,230	2	186,031	—	—	186,033
Sale of common stock in initial public offering, net of issuance costs of $3,339	—	—	—	—	—	—	—	8,625,000	1	133,022	—	—	133,023
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	1,832	—	—	1,832
Unrealized loss on available-for-sale securities	—	—	—	—	—	—	—	—	—	—	(43)	—	(43)
Foreign exchange translation adjustment	—	—	—	—	—	—	—	—	—	—	(65)	—	(65)
Net loss	—	—	—	—	—	—	—	—	—	—	—	(13,337)	(13,337)
Balances at March 31, 2021	$ —	—	$ —	—	$ —	—	$ —	25,041,738	$ 3	$ 335,483	$ (232)	$ (145,252)	$ 190,002
Exercise of stock options	—	—	—	—	—	—	—	17,446	—	101	—	—	101
Vesting of restricted stock	—	—	—	—	—	—	—	71,429	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	1,909	—	—	1,909
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	—	—	—	—	36	—	36
Foreign exchange translation adjustment	—	—	—	—	—	—	—	—	—	—	22	—	22
Net loss	—	—	—	—	—	—	—	—	—	—	—	(10,738)	(10,738)
Balances at June 30, 2021	$ —	—	$ —	—	$ —	—	$ —	25,130,613	$ 3	$ 337,493	$ (174)	$ (155,990)	$ 181,332
Exercise of stock options	—	—	—	—	—	—	—	134,232	—	797	—	—	797
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	1,855	—	—	1,855
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	—	—	—	—	2	—	2
Foreign exchange translation adjustment	—	—	—	—	—	—	—	—	—	—	5	—	5
Net loss	—	—	—	—	—	—	—	—	—	—	—	(11,835)	(11,835)
Balances at September 30, 2021	$ —	—	$ —	—	$ —	—	$ —	25,264,845	$ 3	$ 340,145	$ (167)	$ (167,825)	$ 172,156

Three and Nine Months Ended September 30, 2020

	Non-Controlling Interest	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Deficit
		Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balances at December 31, 2019	$ 14,117	2,089,285	$ 21,938	2,384,195	$ 73,029	—	$ —	215,890	$ —	$ 1,208	$ (106)	$ (91,862)	$ (90,760)
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	202	—	—	202
Foreign exchange translation adjustment	—	—	—	—	—	—	—	—	—	—	(176)	—	(176)
Net loss	(205)	—	—	—	—	—	—	—	—	—	—	(9,001)	(9,001)
Balances at March 31, 2020	$ 13,912	2,089,285	$ 21,938	2,384,195	$ 73,029	—	$ —	215,890	$ —	$ 1,410	$ (282)	$ (100,863)	$ (99,735)
Vesting of restricted stock	—	—	—	—	—	—	—	83,333	—	23	—	—	23
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	190	—	—	190
Capital discount on issuance of loans payable	—	—	—	—	—	—	—	—	—	(87)	—	—	(87)
Foreign exchange translation adjustment	—	—	—	—	—	—	—	—	—	—	16	—	16
Net loss	(157)	—	—	—	—	—	—	—	—	—	—	(9,688)	(9,688)
Balances at June 30, 2020	$ 13,755	2,089,285	$ 21,938	2,384,195	$ 73,029	—	$ —	299,223	$ —	$ 1,536	$ (266)	$ (110,551)	$ (109,281)
Exercise of stock options	—	—	—	—	—	—	—	9,933	—	32	—	—	32
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	513	—	—	513
Foreign exchange translation adjustment	—	—	—	—	—	—	—	—	—	—	356	—	356
Net loss	(156)	—	—	—	—	—	—	—	—	—	—	(11,435)	(11,435)
Balances at September 30, 2020	$ 13,599	2,089,285	$ 21,938	2,384,195	$ 73,029	—	$ —	309,156	$ —	$ 2,081	$ 90	$ (121,986)	$ (119,815)

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

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

	Nine Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (35,910)	$ (30,642)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	5,596	905
Depreciation and amortization expense	398	288
Amortization on marketable securities, net	685	37
Change in fair value of convertible notes	—	2,366
Change in deferred taxes and uncertain tax positions	45	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(391)	966
Other assets	(7)	—
Accounts payable	1,221	(1,176)
Accrued expenses and other current liabilities	(2,751)	4,857
Deferred rent	(44)	(23)
Net cash used in operating activities	(31,158)	(22,422)
Cash flows from investing activities:		
Purchase of property and equipment	(140)	(537)
Purchase of investments	(146,576)	(715)
Proceeds from sales and maturities of investments	33,441	7,992
Net cash (used in) provided by investing activities	(113,275)	6,740
Cash flows from financing activities:		
Net proceeds from initial public offering	136,362	—
Proceeds from notes receivable	12,718	—
Payment of loans payable	(12,880)	—
Payment of deferred offering costs	(2,721)	(33)
Proceeds from stock option exercises	898	32
Proceeds from issuance of loans payable	—	16,876
Net cash provided by financing activities	134,377	16,875
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(47)	236
Net (decrease) increase in cash, cash equivalents and restricted cash	(10,103)	1,429
Cash, cash equivalents and restricted cash at beginning of period	74,854	12,375
Cash, cash equivalents and restricted cash at end of period	$ 64,751	$ 13,804
Supplemental disclosure of noncash investing and financing activities:		
Conversion of preferred stock to common stock upon closing of the initial public offering	$ 186,033	$ —

The accompanying notes are an integral part of these 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 single-agent and combination therapy candidates to address serious diseases such as non-alcoholic steatohepatitis (NASH).

Terns was incorporated as an exempted company in the Cayman Islands in December 2016. In December 2020, the Company effected a de-registration of the Company in the Cayman Islands and a domestication in the State of Delaware (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. Prior period reflects a variable interest in Terns China in which Terns had a majority interest and was the primary beneficiary. The noncontrolling interest attributable to the Company's variable interest entity (VIE) is presented as a separate component from stockholders' equity (deficit) in the condensed consolidated balance sheets, and a noncontrolling interest in the condensed consolidated statements of operations and comprehensive loss and condensed consolidated statements of noncontrolling interest, convertible preferred stock and stockholders' equity (deficit). 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.

Initial Public Offering

In February 2021, the Company completed an initial public offering (the "IPO") of 8,625,000 shares of its common stock, including the exercise in full by the underwriters of their option to purchase up to 1,125,000 additional shares of common stock, for net proceeds of $133.0 million, after deducting underwriting discounts and commissions and offering expenses, and its shares started trading on the Nasdaq Global Select Market under the ticker symbol "TERN." Upon closing of the IPO, all of the Company's outstanding shares of convertible preferred stock automatically converted into an aggregate of 16,079,230 shares of common stock.

Certificate of Incorporation

Prior to the IPO, the Company's certificate of incorporation adopted in December 2020 in connection with the Domestication (the "December 2020 Charter") authorized the Company to issue the following shares of capital stock: (i) 299,700,000 shares of common stock, (ii) 40,000,000 shares of Series A convertible preferred stock, (iii) 36,409,088 shares of Series B convertible preferred stock, and (iii) 111,619,996 shares of Series C convertible preferred stock. All classes of stock under the December 2020 Charter were authorized at a par value of $0.0001.

In February 2021, the Company's amended and restated certificate of incorporation filed with the Secretary of State of the State of Delaware became effective in connection with the closing of the IPO. Under the amended and restated certificate of incorporation, 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.

Reverse Stock Split

In January 2021, the Company filed an amended and restated certificate of incorporation to effectuate a reverse split of shares of the Company's common stock and convertible preferred stock on a 1-for-14 basis (the "Reverse Stock Split"). The par value and the number of authorized shares of the convertible preferred stock and common stock were not adjusted as a result of the Reverse Stock Split. All issued and outstanding common stock, options to purchase common stock and per share amounts contained in the condensed consolidated financial statements have been retroactively adjusted to give effect to the Reverse Stock Split for all periods presented.

Variable Interest Entity

The Company consolidates a VIE where it has been determined that the Company is the primary beneficiary of the entity's operations. The Company has considered its relationships with a certain entity to determine whether the Company has a variable interest

in that entity, and if so, whether the Company is the primary beneficiary of the relationship. U.S. GAAP requires VIEs to be consolidated if an entity's interest in the VIE is a controlling financial interest. Under the variable interest model, a controlling financial interest is determined based on which entity, if any, has (i) the power to direct the activities of the VIE that most significantly impacts the VIE's economic performance and (ii) the obligations to absorb losses that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Management performs ongoing reassessments of whether changes in the facts and circumstances regarding the Company's involvement with a VIE will cause the consolidation conclusion to change. The consolidation status of a VIE may change as a result of such reassessments. Changes in consolidation status are applied prospectively in accordance with U.S. GAAP.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic is rapidly evolving. The COVID-19 virus and new variants that emerge continue to impact countries worldwide, including the United States and China where the Company has business operations. The extent of the impact of the COVID-19 pandemic on business, operations and development timelines and plans remains uncertain, and will depend on certain developments, including the duration and spread of the outbreak and its impact on the Company's development activities, planned clinical trial enrollment, future trial sites, contract research organizations (CROs), third-party manufacturers and other third parties with whom the Company conducts business, as well as its impact on regulatory authorities and the Company's key scientific and management personnel. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. To the extent possible, the Company is conducting business as usual, with necessary or advisable modifications to employee travel and to the on-site and in-person activities of the Company's personnel. The Company will continue to actively monitor the rapidly evolving situation related to the COVID-19 pandemic and may take further actions that alter the Company's operations, including those that may be required by federal, state or local authorities in the United States and China, or that the Company determines are in the best interest of its employees and other third parties with whom the Company conducts business. At this point, the extent to which the COVID-19 pandemic may affect the Company's business, operations and development timelines and plans, including the resulting impact on expenditures and capital needs, remains uncertain.

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 differ from those estimates.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated balance sheet as of September 30, 2021, the unaudited condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2021 and 2020, the unaudited condensed consolidated statements of noncontrolling interest, convertible preferred stock and stockholders' equity (deficit) for the three and nine months ended September 30, 2021 and 2020, the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2021 and 2020, and the related disclosures are unaudited. 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, 2020, as filed with the SEC on March 30, 2021. 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, 2020.

Cash, Cash Equivalents, Restricted Cash 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. Restricted cash represents a security deposit related to a lease.

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 government securities, corporate debt securities, asset-backed 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 (deficit) 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. Realized gains and losses on debt securities are determined using the specific identification method and are included in other income (expense), net.

If any adjustment to fair value reflects a decline in value of the investment, the Company considers all available evidence to evaluate the extent to which the decline is "other-than-temporary" and, if so, marks the investment to market through a charge to the Company's condensed consolidated statements of operations and comprehensive loss.

The fair value and amortized cost of marketable securities by major security type as of September 30, 2021 is as follows:

	September 30, 2021			
(in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Money market funds	$ 39,213	$ —	$ —	$ 39,213
U.S. government securities	21,123	5	(8)	21,120
Non-U.S. government securities	11,203	—	(1)	11,202
Corporate debt securities	44,161	10	(11)	44,160
Commercial paper	35,963	—	—	35,963
Total	$ 151,663	$ 15	$ (20)	$ 151,658
Classified as:				
Cash equivalents				$ 39,213
Marketable securities				112,445
Total				$ 151,658

The Company did not have any marketable securities for the year ended December 31, 2020.

The reconciliation of cash, cash equivalents and restricted cash reported within the applicable balance sheet line items that sum to the total of the same such amount shown in the consolidated statements of cash flows is as follows:

	September 30,	
(in thousands)	**2021**	**2020**
Cash and cash equivalents	$ 64,751	$ 13,756
Restricted cash, non-current	—	48
Total cash, cash equivalents and restricted cash	$ 64,751	$ 13,804

Classification of Convertible Preferred Stock and Presentation of Noncontrolling Interest

The holders of Series A, Series B and Series C convertible preferred stock, which were outstanding prior to the IPO, had certain liquidation rights in the event of a deemed liquidation that, in certain situations, were not solely within the control of the Company and would call for the redemption of the then outstanding convertible preferred stock. Therefore, the Series A, Series B and Series C convertible preferred stock were classified outside of shareholders' equity (deficit) on the condensed consolidated balance sheets as of December 31, 2020. In February 2021, upon the completion of the IPO, all the outstanding shares of convertible preferred stock converted into common stock and the Company does not have any shares of preferred stock outstanding.

The Company recognizes a noncontrolling interest related to VIEs in which the Company is the primary beneficiary as equity in the condensed consolidated financial statements separate from the parent entity's equity. The net loss attributable to noncontrolling interest is included in net loss in the condensed consolidated statements of operations and comprehensive loss. Changes in the parent entity's ownership interest in a subsidiary that do not result in deconsolidation are treated as equity transactions if the parent entity retains its controlling financial interest. In addition, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary will be initially measured at fair value and the difference between the carrying value and fair value of the retained interest will be recorded as a gain or loss.

Terns China, the Company's VIE, was established as a financing subsidiary to allow investment by Lilly Asia Ventures (LAV) investment entities: Suzhou Litai Equity Investment Centre (Limited Partnership) (PRC) and Suzhou Lirui Equity Investment Centre (Limited Partnership) (PRC), collectively referred to as the "LAV PRC Entities". The Company's board of directors has the unilateral ability to control the Terns China board of directors. Net losses of the China Subsidiaries have been allocated based on their ownership percentage to the LAV PRC Entities' noncontrolling interest and are reflected in the condensed consolidated statements of operations and comprehensive loss. The noncontrolling interest is classified outside of stockholders' equity (deficit) on the condensed consolidated balance sheets as it is redeemable for cash based on an investor option after a specified date. In December 2020, the LAV PRC Entities exercised their option resulting in the conversion of all of the equity interests in Terns China held by the LAV PRC Entities into shares of the Company's preferred stock (the "China Conversion"). Following the completion of the China Conversion, Terns China became a wholly owned subsidiary of the Company. The Company does not currently anticipate any further direct third-party investments into Terns China and Terns China will only act as an operating subsidiary for the Company's business activities in China.

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:

(in thousands)	**September 30, 2021**	**December 31, 2020**
Research and development costs	$ 1,907	$ 2,800
Refundable contract liability	836	836
Compensation and benefit costs	1,393	1,492
Accrued professional fees	1,092	2,185
Accrued development milestone	—	1,531
Other	83	162
Total accrued expenses and other current liabilities	$ 5,311	$ 9,006

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.

Common Stock Valuation

Due to the absence of an active market for the Company's common stock prior to the completion of the IPO in February 2021, the Company utilized methodologies to estimate the fair value of its common stock. In determining the fair value of options granted prior to the IPO, the Company has considered the estimated fair value of the common stock as of the measurement date. The estimated fair value of the common stock prior to the IPO was determined at each grant date based upon a variety of factors, including:

- the prices at which the Company sold shares of convertible preferred stock and the superior rights and preferences of the convertible preferred stock relative to its common stock at the time of each grant;
- the progress of the Company's research and development programs, including the status and results of clinical and nonclinical studies for its drugs;
- the Company's stage of development and commercialization and its business strategy;
- external market conditions affecting the biotechnology industry and trends within the biotechnology industry;
- the Company's financial position, including cash on hand, and its historical and forecasted performance and operating results;
- the lack of an active public market for the Company's common stock and convertible preferred stock;
- the likelihood of achieving a liquidity event, such as an IPO or sale of the Company in light of prevailing market conditions; and
- the analysis of IPOs and the market performance of similar companies in the biotechnology industry.

Significant changes to the key assumptions underlying the factors used could have resulted in different fair values of common stock at each valuation date.

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, 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 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. 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 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. 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 reports a net loss, such losses are not allocated to such securities. In periods in which the Company reports a net loss, diluted net loss per share of common stock is the same as basic net loss per share of common stock, since dilutive shares are not assumed to have been issued if their effect is anti-dilutive. The Company reported a net loss for the three and nine months ended September 30, 2021 and 2020.

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 (deficit) 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 condensed consolidated statements of operations and comprehensive loss.

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 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting* ("ASU 2018-07"). ASU 2018-07 primarily expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company adopted ASU 2018-07 on January 1, 2021, and the adoption of this standard did not have an impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or

not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less may be accounted for similar to existing guidance for operating leases today. For non-public entities, ASU 2016-02 is effective for annual reporting periods, and interim periods within those fiscal years, beginning after December 15, 2021, and early adoption is permitted. 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 ASU 2016-02. The Company is in the process of completing its review of its existing lease agreements under Topic 842 and does not expect the adoption of ASU 2016-02 to have a material impact on its financial position, results of operations or cash flows.

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 has elected to use this exemption to delay adopting ASU 2016-13. The Company is currently in the process of evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements.

2. 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:

	Fair Value at September 30, 2021			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents				
Cash in bank balances	$ 25,538	$ —	$ —	$ 25,538
Money market funds	39,213	—	—	39,213
Total cash and cash equivalents	$ 64,751	$ —	$ —	$ 64,751
Marketable securities				
U.S. government securities	$ —	$ 21,120	$ —	$ 21,120
Non-U.S. government securities	—	11,202	—	11,202
Corporate debt securities	—	44,160	—	44,160
Commercial paper	—	35,963	—	35,963
Total marketable securities	$ —	$ 112,445	$ —	$ 112,445

	Fair Value at December 31, 2020			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 74,854	$ —	$ —	$ 74,854
Total	$ 74,854	$ —	$ —	$ 74,854
Liabilities:				
Loans payable	$ —	$ —	$ 12,880	$ 12,880
Total	$ —	$ —	$ 12,880	$ 12,880

The aggregate fair value of marketable securities as of September 30, 2021, by contractual maturity, are as follows:

(in thousands)	Fair Value
Due in one year or less	$ 77,555
Due after one year through two years	34,890
Total marketable securities	$ 112,445

During the nine months ended September 30, 2021, there were no transfers between Level 1, Level 2 and Level 3.

3. Loans Payable

The following table provides the loans payable reported at fair value and measured on a recurring basis:

(in thousands)	Loans Payable
Balance at December 31, 2019	$ —
Issuance of 2020 Notes and Bridge Loan	16,800
Issuance of repurchase payable for the Lilly Asia Ventures option exercise	10,771
Issuance of loans payable for conversion settlement of the Bridge Loan	2,109
Conversion of 2020 convertible promissory notes to Series C convertible preferred stock	(17,690)
Conversion of Bridge Loan to Series C convertible preferred stock	(2,163)
Change in fair value of loans payable and other adjustments	3,053
Balance at December 31, 2020	$ 12,880

As of September 30, 2021, there was no loans payable balance.

2020 Notes

In May 2020, the Company issued convertible promissory notes (2020 Notes) in the aggregate amount of $15.0 million. The 2020 Notes had an interest rate of 10.0% per annum, were unsecured, and were due and payable, including accrued interest, in May 2021. In connection with the Series C Convertible Preferred Stock Financing, the 2020 Notes, totaling unpaid principal and accrued interest of $15.9 million, converted into 1,366,820 shares of Series C convertible preferred stock.

Bridge Loan

In May 2020, the Company entered into a bridge loan with Terns China (Bridge Loan) for aggregate proceeds of $1.8 million, payable in renminbi (RMB) at an established USD/RMB exchange rate, based on an average of the previous five working days before May 8, 2020. The Bridge Loan had an interest rate of 10% per year, which began to accrue on the date of drawdown, and was computed based on the actual number of days elapsed based on a year of 365 days. The Bridge Loan holders have the same conversion rights as the 2020 Notes holders.

In connection with the closing of the Series C convertible preferred stock financing in December 2020, entities that are a part of LAV agreed to effectively convert the Bridge Loan into shares of Series C preferred stock on the same terms as the 2020 Notes. The conversion will be based on an outstanding loan balance equal to $1.9 million, consisting of (i) the principal loan amount ($1.8 million) plus (ii) accrued interest through December 29, 2020 ($0.1 million).

To help facilitate the transfer of cash from China to the United States to effectively convert the Bridge Loan, the Company and Terns China agreed to enter into an agreement with LAV to (i) repay the Bridge Loan, and (ii) issue shares of Series C convertible preferred stock at the initial closing of the Series C financing to entities that are a part of LAV in exchange for a promissory note issued to the Company by LAV, or the LAV Affiliate Promissory Note.

The Bridge Loan was repaid in full by the Company following the requisite government approvals in China. Proceeds from the repayment of the Bridge Loan by Terns China were used by LAV to repay the LAV Affiliate Promissory Note in full. The fair value of the Bridge Loan was determined to be $2.1 million as of December 31, 2020. The Bridge Loan and the LAV Affiliate Promissory Note were paid in full in March 2021.

LAV Series A and Series B Promissory Notes

In November 2020, the Chinese government provided approval for entities affiliated with LAV to exercise the LAV Option (see Note 4, Convertible Preferred Stock). Terns Hong Kong agreed to repurchase all equity interests held by the LAV PRC Entities with proceeds to be used by LAV to purchase shares of Series A convertible preferred stock and Series B convertible preferred stock of the Company (Repurchase).

In December 2020, the Company issued 767,857 shares of Series A convertible preferred stock and 216,450 shares of Series B convertible preferred stock to an affiliate of LAV (LAV Affiliate) in exchange for a promissory note with a principal amount equal to the original investment by LAV in Terns China (LAV Series A and Series B Promissory Note). The LAV Series A and Series B Promissory Note was repaid through proceeds of the Repurchase which was completed in January 2021.

The carrying value of the LAV Series A and Series B Promissory Notes approximate its fair value due to the short-term nature of the liability.

Change in Fair Value of Loans Payable

The fair value of the loans payable liability was determined based on significant inputs not observable in the market, which represents a Level 3 measurement within the fair value hierarchy. The fair value of the loans payable liability is remeasured at each reporting period, with changes in fair value recognized in the condensed consolidated statements of operations.

During 2020, the Company used the PWERM method to value the loans payable. This approach involved the estimation of future potential outcomes for the Company, as well as values and probabilities associated with each respective potential outcome. The Company considered two scenarios (i) a 60% probability of an IPO in the near-term and (ii) a 40% probability of the Company remaining private for 1.75 years following the date of the valuation. The Company considered these two scenarios to calculate the (i) future value of the loans payable under each scenario and (ii) the present value of the loans payable under each scenario. The value of the Company's equity used to determine the appropriate allocation of value to the stockholders was calculated using different methodologies for each scenario. For the first scenario, the value of the Company's equity was estimated based on the Company's estimates, as well as recent IPO indications of comparable companies. For the second scenario, the value of the Company's equity was estimated using the income approach, which focuses on the income-producing capability of a business and estimates value based on the expectation of future cash flows, which are then discounted to the present using a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. Under each scenario, the rights and preferences of each share class were considered in order to determine the appropriate allocation of value to the common and preferred stockholders, as well as the loans payable. The value per share of common and preferred stock, as well as the loans payable, under each scenario was multiplied by a present value factor, calculated based on the Company's cost of equity and the expected timing of each scenario. After taking into consideration the PWERM of each scenario, the Company arrived at the fair value of the loans payable.

The Company recorded other expense of $2.9 million related to the change in the fair value of loans payable for the year ended December 31, 2020.

The outstanding LAV Series A and Series B Promissory Note was settled in January 2021 and was paid with the proceeds received from the note receivable of $10.8 million. The outstanding Bridge Loan was settled in March 2021 and was substantially paid with the proceeds received from the LAV Affiliate Promissory Note receivable of $1.9 million.

4. Convertible Preferred Stock

All shares of preferred stock described below were converted into an aggregate of 16,079,230 shares of the Company's common stock at the time of the IPO in February 2021.

Series A Preferred Stock

In April 2017, the Company entered into a Series A convertible preferred stock purchase agreement (Series A Agreement) whereby the Company issued 2,089,285 shares of Series A convertible preferred stock at $10.50 per share for an aggregate purchase price of $21.9 million.

Terns China received an aggregate $8.0 million from the LAV PRC Entities in connection with the Series A financing, which is presented as a noncontrolling interest. In connection with the Series A Agreement and this Terns China investment, the Company also issued an option to the LAV PRC Entities to convert their interest in the China Subsidiaries into an interest in Terns Cayman (the LAV Option).

Series B Preferred Stock

In October 2018, the Company entered into a Series B convertible preferred share purchase agreement (Series B Agreement), whereby the Company issued an aggregate of 2,384,195 shares of Series B convertible preferred stock at $30.80 per share for an aggregate purchase price of $73.4 million.

Terns China received $6.7 million from the LAV PRC Entities in connection with the Series B financing, which is presented as a noncontrolling interest. In connection with the Series B Agreement and this Terns China investment, the LAV Option was to allow the LAV PRC Entities to convert this interest in the China Subsidiaries into an interest in Terns Cayman.

LAV Series A and Series B Preferred Stock Options

In November 2020, the Chinese government provided approval for entities affiliated with Lilly Asia Ventures (LAV) to exercise the LAV Option. Terns Hong Kong agreed to repurchase all equity interests held by the LAV PRC Entities with proceeds to be used by LAV to purchase shares of Series A convertible preferred stock and Series B convertible preferred stock of the Company (Repurchase).

In December 2020, the Company issued 767,857 shares of Series A convertible preferred stock and 216,450 shares of Series B convertible preferred stock to an affiliate of LAV (LAV Affiliate) in exchange for a promissory note with a principal amount equal to the original investment by LAV in Terns China (LAV Series A and Series B Promissory Note). The LAV Series A and Series B Promissory Note was repaid through proceeds of the Repurchase which was completed in January 2021.

Series C Preferred Stock

In December 2020, the Company entered into a Series C preferred stock purchase agreement (Series C Convertible Preferred Stock Financing) whereby it issued an aggregate of 7,500,665 shares of Series C convertible preferred stock at $11.65 per share for gross proceeds of $87.4 million, which includes shares issued upon conversion of the 2020 Notes.

In connection with the Series C Convertible Preferred Stock Financing, the 2020 Notes, totaling unpaid principal and accrued interest of $15.9 million, converted into 1,366,820 shares of Series C convertible preferred stock. Furthermore, in December 2020, as part of the effective conversion of the Bridge Loan, the Company issued LAV an aggregate of 167,159 shares of Series C convertible preferred stock.

Series A convertible preferred stock, Series B convertible preferred stock and Series C convertible preferred stock are collectively referred to as “convertible preferred stock.” As of December 31, 2020, convertible preferred stock consisted of the following:

	December 31, 2020				
(in thousands, except share amounts)	Convertible Preferred Stock Authorized	Convertible Preferred Stock Issued and Outstanding	Carrying Value	Liquidation Preference	Common Stock Issuable Upon Conversion
Series A convertible preferred stock	40,000,000	2,857,142	$ 30,000	$ 30,000	2,857,142
Series B convertible preferred stock	36,409,088	2,600,645	68,995	80,100	5,721,423
Series C convertible preferred stock	111,619,996	7,500,665	87,038	87,368	7,500,665
Total convertible preferred stock	188,029,084	12,958,452	$ 186,033	$ 197,468	16,079,230

In connection with the IPO, all the outstanding shares of convertible preferred stock converted into common stock and the Company does not have any shares of preferred stock outstanding as of September 30, 2021.

5. Common Stock and Stock-Based Compensation

As of each balance sheet date, the Company had reserved shares of common stock for issuance in connection with the following:

	September 30, 2021	December 31, 2020
Conversion of outstanding shares of convertible preferred stock	—	16,079,230
Options outstanding under incentive award plans	3,556,043	2,466,670
Shares available for future grant under incentive award plans	1,164,490	17,556
Shares available for future grant under employee stock purchase plans	240,000	—
Total shares reserved	4,960,533	18,563,456

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, if any, as may be declared by the Company's board of directors, subject to the preferential dividend rights of the convertible preferred stock. Through September 30, 2021, no cash dividends have been declared or paid by the Company.

Stock-Based Compensation

The Company has two stock-based compensation plans, the 2017 Incentive Award Plan (the "2017 Plan") and the 2021 Incentive Award Plan (the "2021 Plan") which was adopted in February 2021. Each plan, while effective, authorizes the granting of equity awards to employees and directors of the Company, as well as non-employee consultants. Stock options granted to employees and nonemployees under the plans generally vest over four years and allows 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.

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. 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. As of September 30, 2021, 1,164,490 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 Board.

Stock Options

The following table summarizes the stock option activity for all stock plans during the nine months ended September 30, 2021:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
			(in years)	*(in thousands)*
Outstanding as of December 31, 2020	2,466,670	$ 8.03	9.61	$ 21,678
Granted	1,383,480	11.92		
Exercised	(151,678)	5.92		831
Forfeited	(142,429)	7.25		
Outstanding as of September 30, 2021	3,556,043	$ 9.75	9.32	$ 4,501
Exercisable, September 30, 2021	1,864,855	$ 8.32	8.94	$ 3,923
Vested and expected to vest, September 30, 2021	3,556,043	$ 9.75	9.32	$ 4,501

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

As of September 30, 2021, there was $31.0 million of unrecognized stock-based compensation expense related to unvested stock options which is estimated to be recognized over a period of 3.22 years.

The Company estimated the fair value of options granted using a Black-Scholes option pricing model with the following assumptions presented on a weighted average basis:

	Nine Months Ended September 30,	
	2021	2020
Expected option life	6.03	6.02
Expected volatility	76.59%	61.96%
Risk-free interest rate	1.12%	0.43%
Expected dividend yield	—%	—%
Fair value of underlying common stock	$ 11.92	$ 20.72
Fair value of option	$ 7.87	$ 16.14

Expected dividend yield is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future.

Restricted Stock

The following table summarizes the stock award activity for all stock plans during the nine months ended September 30, 2021:

	Number of Shares	Grant-Date Fair Value
Unvested restricted common stock as of December 31, 2020	83,334	$ 1.96
Vested	(71,429)	1.96
Forfeited	(11,905)	1.96
Unvested restricted common stock as of September 30, 2021	—	$ —

As of September 30, 2021, there was no unrecognized stock-based compensation expense related to restricted stock granted by the Company.

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2021	2020	2021	2020
Research and development expense	$ 401	$ 84	$ 1,374	$ 228
General and administrative expense	1,454	429	4,222	677
Total stock-based compensation expense	$ 1,855	$ 513	$ 5,596	$ 905

6. Income Tax

The Company recorded income tax expense for the three months ended September 30, 2021 of less than $0.1 million and of $0.1 million for the three months ended September 30, 2020. The expenses are primarily related to foreign income tax expenses from China.

The Company recorded income tax expense for the nine months ended September 30, 2021 of $0.1 million and of $0.1 million for the nine months ended September 30, 2020. The expenses are primarily related to foreign income tax expenses from China.

The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of September 30, 2021 and 2020, the total amount of gross interest accrued and penalties was nominal.

7. Net Loss Per Share of Common Stock

Basic and diluted net loss per share of common stock were calculated as follows:

(in thousands, except share and per share amounts)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Numerator:				
Net loss	$ (11,835)	$ (11,591)	$ (35,910)	$ (30,642)
Net loss attributable to noncontrolling interest	—	(156)	—	(518)
Net loss attributable to common stockholders	$ (11,835)	$ (11,435)	$ (35,910)	$ (30,124)
Denominator:				
Weighted average common stock outstanding, basic and diluted	25,148,336	302,336	21,842,706	270,463
Net loss per share attributable to common stockholders, basic and diluted	$ (0.47)	$ (37.82)	$ (1.64)	$ (111.38)

The Company excluded the following potential shares of common stock, presented based on amounts outstanding at each period end, from the computation of diluted net loss attributable to common stockholders per share of common stock for the periods indicated because including them would have had an anti-dilutive effect:

	September 30, 2021	September 30, 2020
Options to purchase common stock	3,556,043	940,034
Restricted common stock	—	83,334
Convertible preferred stock (as converted to common stock)	—	7,334,518
Options to purchase convertible preferred stock (as converted to common stock)	—	984,306
Total	3,556,043	9,342,192

8. Commitments and Contingencies

Lease Agreements

Future minimum lease payments due under operating leases as of September 30, 2021 are as follows:

(in thousands)	Operating Leases
2021	$ 175
2022	675
2023	652
2024	559
2025 and thereafter	—
Total	$ 2,061

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.

9. Assignment, License and Collaboration Agreements

License Agreements

TERN-101 License Agreement with Eli Lilly

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

The Company agreed to pay Lilly up to an aggregate of $6.0 million in pre-specified development milestones for the first covered product in mainland China, and up to an aggregate of $50.0 million in pre-specified development milestones for the first covered product in ex-mainland China. The Company also agreed to pay Lilly tiered royalties calculated on a calendar year basis, in the mid-single digits to low teens on net sales ranging from the low hundreds of millions of dollars to the low billions of dollars. The Lilly FXR 2018 License Agreement expires upon expiry of the last remaining royalty obligation for a licensed product. As of September 30, 2021, the Company has not paid any amounts under the agreement and no milestones have been achieved. The Company has not recorded any research and development expense during the three and nine months ended September 30, 2021 and 2020 related to this agreement.

TERN-201 License Agreement with Eli Lilly

In March 2018, the Company entered into an exclusive license agreement with Lilly (Lilly VAP-1 2018 License Agreement). Under the terms of the Lilly VAP-1 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 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 will remain directly responsible for all amounts owed to Lilly, regardless of sublicenses. The Company is required to use commercially reasonable efforts to meet development events according to achievement due dates and commercialize the covered product in the field in the major markets.

The Company paid Lilly a non-refundable, non-creditable upfront payment of $4.0 million, which was recorded as research and development expense in the Company's statement of operations and comprehensive loss for the year ended December 31, 2018. In addition, pursuant to the terms of the Lilly VAP-1 2018 License Agreement, the Company agreed to pay Lilly up to an aggregate of $74.0 million in pre-specified development milestones for the first covered product, and up to an aggregate of $30.0 million in pre-specified development milestones for the second indication of a covered product. The Company must also pay Lilly tiered royalties calculated on a calendar year basis, in the mid-single digits to mid-teens on net sales ranging from the high tens of millions of dollars to the low billions of dollars. The Lilly VAP-1 2018 License Agreement expires upon expiry of the last remaining royalty obligation for a licensed product. As of September 30, 2021, the Company has paid $4.0 million to Lilly. No development milestones have been met as of September 30, 2021. The Company has not recorded any research and development expense during the three and nine months ended September 30, 2021 and 2020 related to this agreement.

Assignment Agreement

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

The Company paid Vintagence 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 Vintagence 2019 Assignment Agreement, the Company agreed to pay Vintagence up to CNY 205.0 million in development milestones for the first covered product. The term of the Vintagence 2019 Assignment Agreement will continue in effect on a country-by-country basis until all milestone payments are made. The Company has the right to terminate the agreement in its entirety or on a covered product-by-covered product and country-by-country basis, in its sole discretion by giving 60 days advance written notice to Vintagence. As of September 30, 2021, the Company has paid $2.2 million to Vintagence which includes a milestone payment of $1.5 million in connection with the Company's IND filing for TERN-501 in December 2020. The Company has not recognized any research and development expense during the three and nine months ended September 30, 2021 and 2020, respectively, 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 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). Upon Hansoh's exercising the option, the Company will grant to Hansoh and its affiliates, an irrevocable, royalty-bearing license, with the right to sublicense to exploit licensed compound and licensed products in the Field, defined as in the Territory.

Hansoh is required to pay the Company a refundable, non-creditable upfront payment of $1.0 million, provided that in the event Hansoh elects to not exercise the option, the Company shall refund the amount of the upfront payment within six months from the expiration or termination of the option period. If the Company does not pay the refund amount within six months, the refund amount will be regarded as a debt owed by the Company to Hansoh, secured against the number of common shares as is equal to the refund amount divided by the share price of such shares issued by the Company in the latest equity financing round before the refund amount is due. Interest on the refund amount is at a rate equal to 5% per annum over the then-current applicable federal rate, compounded annually and will continue to accrue until paid. Interest shall be computed on the basis of a year of 365 days for the actual number of days elapsed. The entire amount of accrued but unpaid interest and all outstanding principal shall be due and payable on or before the close of business on the fifth anniversary of the last day of the refund period. The Company received an upfront payment of $0.8 million during the year ended December 31, 2020, which is recognized as a refund liability on the balance sheet. The upfront payment is included in the Company's condensed consolidated balance sheet as of September 30, 2021 and is presented within accrued expenses and other current liabilities. The upfront payment and future payments are all constrained as of September 30, 2021.

In addition, pursuant to the Hansoh 2020 Option and License Agreement, Hansoh has agreed to pay the Company up to $67.0 million in pre-specified clinical, regulatory and sales milestones. Hansoh must also pay the Company royalties in the mid-single digits based on net sales of all licensed products. The term of the Hansoh 2020 Option and License Agreement will continue until the end of the last-to-expire royalty term. As of September 30, 2021, no milestones have been met.

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, 2020, which was filed with the SEC on March 30, 2021. 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 single-agent and combination therapy candidates to address serious diseases such as non-alcoholic steatohepatitis, or NASH. Our NASH programs are based on clinically-validated and complementary mechanisms of action to address the multiple hepatic disease processes of NASH in order to drive meaningful clinical benefits for patients. The mechanisms of action targeted by our current drug candidates are the same mechanisms of action targeted by other drug candidates that have achieved clinical proof-of-concept in NASH clinical trials and have demonstrated significant improvements on histological and non-invasive markers of the disease, though no drug has been approved for the treatment of NASH in the United States or Europe.

Our most advanced program is TERN-101, a liver-distributed, non-bile acid Farnesoid X Receptor, or FXR, agonist that has demonstrated sustained liver FXR activation, as well as a favorable tolerability profile across multiple clinical trials. In June 2021, we announced positive top-line data from our Phase 2a LIFT Study of TERN-101 in NASH patients. In the LIFT Study, TERN-101 was generally well tolerated with a similar incidence of adverse events (AEs) across treatment groups. There were no treatment-related serious adverse events, and no patient discontinued TERN-101 due to any adverse event including pruritus. Multiple secondary and exploratory endpoints were also evaluated, including percent change from baseline in alanine aminotransferase (ALT) levels and plasma pharmacokinetics of TERN-101, changes in liver fibro-inflammation measured by MRI corrected T1 (cT1), liver fat content by MRI proton density fat fraction (MRI-PDFF), pharmacodynamic parameters, and serum NASH biomarkers. We believe TERN-101 is the first FXR agonist product candidate to show significant improvements in cT1, an imaging marker of liver inflammation and fibrosis linked to clinical outcomes, in a 12-week placebo-controlled clinical trial. In light of the positive results, we plan to initiate a Phase 2a clinical trial in NASH patients including both monotherapy and combination arms of TERN-101 and TERN-501 in NASH in the first half of 2022.

Our second clinical stage program, TERN-201, is a highly selective inhibitor of Vascular Adhesion Protein-1, or VAP-1. We initiated our Phase 1b AVIATION Trial of TERN-201 in NASH in June 2021. We completed enrollment of Part 1 of the trial in September 2021, and we expect to announce top-line data in the first quarter of 2022. We are also evaluating the potential to co-administer TERN-201 in combination with a metabolically active NASH treatment.

Our third clinical stage program is TERN-501, a Thyroid Hormone Receptor beta, or THR-β, agonist with high metabolic stability, enhanced liver distribution and greater selectivity for THR-β compared to other THR-β agonists in development. In November 2021, we announced positive top-line data from a Phase 1 clinical trial of TERN-501 in healthy volunteers with mildly elevated low-density lipoprotein, or LDL, cholesterol. This Phase 1 trial included single ascending dose (SAD), multiple ascending dose (MAD) and drug-drug interaction (DDI) cohorts evaluating the safety, tolerability, pharmacodynamics and pharmacokinetics of TERN-501. In the SAD and MAD cohorts, single and multiple doses of TERN-501 were generally safe and well-tolerated with a similar incidence of AEs across all TERN-501 treatment groups and placebo. All AEs were mild to moderate with no apparent dose relationship, with no treatment-emergent serious AEs and no discontinuations of study or study drug due to any AE. There were no cardiac safety signals, no incidence of diarrhea and no differences between TERN-501 groups and placebo in change from baseline in heart rate, blood pressure or other vital signs. Thyroid function test results were consistent with THR-β agonists currently in clinical development, and there were no findings of clinical hyper- or hypo-thyroidism. There were no differences between placebo and any TERN-501 dose group in liver function abnormalities or mean change from baseline in liver transaminases at Day 15 in the MAD cohorts. TERN-501 demonstrated a predictable pharmacokinetic profile with low variability: study drug plasma exposures were linear and approximately dose-proportional with no overlap between dose strengths. Significant effects on sex hormone binding globulin, or SHBG, a key pharmacodynamic marker of THR-β engagement linked to NASH histologic efficacy, were observed following treatment with TERN-501. The SHBG increases observed with 14 days of TERN-501 treatment were significant, dose dependent and have been associated with robust reductions in magnetic resonance imaging proton density fat fraction, or MRI-PDFF, and NAFLD Activity Score in a precedent late-stage clinical NASH trial. The overall pharmacokinetic profile from this trial indicates that TERN-501 is well-suited for co-formulation with other small molecule NASH agents as an oral, once-daily fixed dose combination. In the DDI cohort, the combination of TERN-101 and TERN-501 was well tolerated. Preliminary pharmacokinetic results support the co-administration of TERN-101 and TERN-501 in

NASH patients, with no apparent need for dose adjustment. We plan to initiate a Phase 2a clinical trial in NASH patients including both monotherapy and combination arms of TERN-101 and TERN-501 in the first half of 2022.

We are also developing an oral small-molecule glucagon-like peptide-1, or GLP-1R, agonist for the treatment of NASH. Synthetic GLP-1 peptides have been approved for indication such as diabetes and obesity, which are conditions that often accompany NASH. We anticipate designating a development candidate for our GLP-1R program as TERN-601 in the fourth quarter of 2021.

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 do not have any single-agent or combination therapy 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 single-agent or combination therapy 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 single-agent or combination therapy candidates. If we obtain regulatory approval for any of our single-agent or combination therapy 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 single-agent and combination therapy candidates for preclinical and clinical testing, as well as for commercial manufacturing if any of our single-agent and combination therapy 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 single-agent and combination therapy candidates.

The coronavirus disease 2019, or COVID-19, pandemic is rapidly evolving. The COVID-19 pandemic continues to impact countries worldwide, including the United States and China where we have business operations. The extent of the impact of the COVID-19 pandemic on our business, operations and development timelines and plans remains uncertain, and will depend on future developments, including the duration and spread of the outbreak and its impact on our development activities, planned clinical trial enrollment, future trial sites, contract research organizations, or CROs, third-party manufacturers and other third parties with whom we do business, as well as its impact on regulatory authorities and our key scientific and management personnel. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and will depend on future developments, including the duration and/or severity of the outbreak, the impact of any resurgences and new variants that emerge, actions by the government authorities to contain the spread of the virus, the availability, adoption and effectiveness of any vaccines, and when and to what extent normal economic and operating conditions can resume. To the extent possible, we are conducting business as usual, with necessary or advisable modifications to employee travel and to the on-site and in-person activities of our personnel. We will continue to actively monitor the rapidly evolving situation related to the COVID-19 pandemic and may take further actions that alter our operations, including those that may be required by federal, state or local authorities in the United States and China, or that we determine are in the best interest of our employees and other third parties with whom we do business. At this point, the extent to which the COVID-19 pandemic may affect our business, operations and development timelines and plans, including the resulting impact on our expenditures and capital needs, remains uncertain.

Results of operations

The following table summarizes our results of operations for the three and nine months ended September 30, 2021 and 2020:

(in thousands)	Three Months Ended September 30, 2021	2020	Change	Nine Months Ended September 30, 2021	2020	Change
Results of Operations						
Operating expenses:						
Research and development	$ 7,153	$ 5,404	$ 1,749	$ 21,849	$ 20,259	$ 1,590
General and administrative	4,715	3,333	1,382	14,133	7,998	6,135
Total operating expenses	11,868	8,737	3,131	35,982	28,257	7,725
Loss from operations	(11,868)	(8,737)	(3,131)	(35,982)	(28,257)	(7,725)
Other income (expense):						
Interest income	49	1	48	115	53	62
Change in fair value of loans payable	—	(2,366)	2,366	—	(2,366)	2,366
Other income (expense), net	4	(387)	391	30	30	—
Total other income (expense), net	53	(2,752)	2,805	145	(2,283)	2,428
Loss before income tax expense	(11,815)	(11,489)	(326)	(35,837)	(30,540)	(5,297)
Income tax expense	(20)	(102)	82	(73)	(102)	29
Net loss	$ (11,835)	$ (11,591)	$ (244)	$ (35,910)	$ (30,642)	$ (5,268)

Revenue

To date, we have not generated, and do not expect to generate, any revenue from the sale of products for the foreseeable future.

Research and development expenses

Our research and development expenses are related primarily to discovery efforts and preclinical and clinical development of our single-agent and combination therapy candidates.

The increase in research and development expenses for the three months ended September 30, 2021, compared to the same period in 2020, was primarily due to a $0.8 million increase in employee-related expenses as higher headcount increased salaries, benefits, and stock-based compensation-related charges, a $0.5 million increase related to clinical program expenses, and a $0.4 million increase due to higher allocation of facility-related and depreciation expenses to research and development expenses.

The increase in research and development expenses for the nine months ended September 30, 2021, compared to the same period in 2020, was primarily due to a $1.4 million increase in employee-related expenses as higher headcount increased salaries, benefits, and stock-based compensation-related charges and a $1.0 million increase due to higher allocation of facility-related and depreciation expenses to research and development expenses, partially offset by a $0.8 million decrease related to clinical program expenses.

General and administrative expenses

General and administrative expenses consist primarily of personnel-related expenses, including salaries, benefits and stock-based compensation expense, for personnel in executive, finance, accounting, business development, legal, human resource and other administrative functions.

The increase in general and administrative expenses for the three months ended September 30, 2021, compared to the same period in 2020, was primarily due to a $1.2 million increase in employee-related expenses as higher headcount increased salaries, benefits, and stock-based compensation-related charges and a $0.6 million increase in insurance, legal, IT and other professional services consulting. These increases were partially offset by a $0.4 million decrease due to higher allocation of facility-related and depreciation expenses to research and development expenses.

The increase in general and administrative expenses for the nine months ended September 30, 2021, compared to the same period in 2020, was primarily due to a $4.5 million increase in employee-related expenses as higher headcount increased salaries, benefits, and stock-based compensation-related charges and a $2.6 million increase in insurance, legal, IT and other professional services consulting. These increases were partially offset by a $1.0 million decrease due to higher allocation of facility-related and depreciation expenses to research and development expenses.

Interest income

Interest income primarily consists of interest income on our marketable securities.

Interest income for the three months ended September 30, 2021 was less than $0.1 million, compared to less than $0.1 million for the same period in 2020.

Interest income for the nine months ended September 30, 2021 was $0.1 million, compared to $0.1 million for the same period in 2020.

Change in fair value of loans payable

The change in fair value of loans payable for the nine months ended September 30, 2020 was a charge of $2.4 million. The change in the fair value of loans payable was due to the difference in fair value for our convertible loans payable between May 2020, when they were issued, and September 2020. Our U.S. convertible promissory notes and Chinese convertible bridge loan were converted into the underlying securities of our company in December 2020.

Other income (expense), net

Other income (expense), net for the three months ended September 30, 2021 was less than $0.1 million of income, compared to $0.4 million of expense for the same period in 2020.

Other income (expense), net for the nine months ended September 30, 2021 was less than $0.1 million of income, compared to less than $0.1 million of income for the same period in 2020.

Income tax expense

Income tax expense for the three months ended September 30, 2021 was less than $0.1 million, compared to $0.1 million of expense for the same period in 2020.

Income tax expense for the nine months ended September 30, 2021 was $0.1 million, compared to $0.1 million of expense for the same period in 2020.

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 expect to continue to incur net operating losses for at least the next several years, and we expect our research and development expenses, general and administrative expenses and capital expenditures will continue to increase. We expect our expenses and capital requirements will increase significantly in connection with our ongoing activities.

Sources of liquidity

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

Since our inception, we have not generated any revenue from product sales, and we have incurred significant operating losses and negative cash flows from our operations. As of September 30, 2021, we had an accumulated deficit of $167.8 million, a net loss of $35.9 million, negative cash flows from operations of $31.2 million, and cash, cash equivalents and marketable securities of $177.2 million.

In May 2020, we received proceeds of $16.8 million from the issuance of convertible promissory notes, or the 2020 Notes, and a bridge loan.

In December 2020, we issued and sold shares of our convertible preferred stock for gross proceeds of $87.4 million (including conversion of the $15.0 million of 2020 Notes and effective conversion of the $1.8 million bridge loan, plus accrued interest).

In February 2021, we completed our initial public offering of 8,625,000 shares of our common stock, including the exercise in full by the underwriters of their option to purchase additional shares of common stock. The net proceeds from this offering were $133.0 million after deducting underwriting discounts and commissions and offering expenses.

We believe that the net proceeds from these transactions, together with our existing cash and cash equivalents, will be sufficient to fund our operating expenses and capital expenditure requirements into 2024. 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 single-agent and combination therapy candidates. We expect that our research and development and general and administrative costs will increase in connection with conducting additional preclinical studies and clinical trials for our current and future research programs and single-agent and combination therapy candidates, contracting with CROs and contract manufacturing organizations, or 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 single-agent and combination therapy candidates. In addition, if we obtain marketing approval for our single-agent and combination therapy 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 single-agent and combination therapy 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 single-agent and combination therapy candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of single-agent and combination therapy candidates that we do not expect to be commercially available for many years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us on acceptable terms, or at all.

Cash flows

Operating activities

Net cash used in operating activities during the nine months ended September 30, 2021 was $31.2 million and consisted primarily of our net loss of $35.9 million as well as a $2.0 million decrease from changes in operating assets and liabilities. This was partially offset by non-cash adjustments of $5.6 million of stock-based compensation, $0.4 million of depreciation, and $0.7 million of net amortization on marketable securities.

Net cash used in operating activities during the nine months ended September 30, 2020 was $22.4 million and consisted primarily of our net loss of $30.6 million. This was partially offset by a $4.6 million increase from changes in operating assets and liabilities, as well as non-cash adjustments of $2.4 million from the change in fair value of convertible notes, $0.9 million of stock-based compensation, and $0.3 million of depreciation.

Investing activities

Net cash used in investing activities during the nine months ended September 30, 2021 was $113.3 million and consisted primarily of $146.6 million in purchases of investments and $0.1 million in purchases of property and equipment. This was partially offset by proceeds from the sale and maturity of investments of $33.4 million.

Net cash provided by investing activities during the nine months ended September 30, 2020 was $6.7 million and consisted primarily of $8.0 million in proceeds from the sale and maturity of investments. This was partially offset by $0.7 million in purchases of investments and $0.5 million in purchases of property and equipment.

Financing activities

Net cash provided by financing activities during the nine months ended September 30, 2021 was $134.4 million and consisted primarily of $136.4 million in proceeds from the issuance of common stock upon closing of the IPO in February 2021 and $0.9 million of proceeds from stock option exercises. This was partially offset by $2.7 million in payments of deferred offering costs and a $0.2 million net payment on loans payable.

Net cash provided by financing activities during the nine months ended September 30, 2020 was $16.9 million and consisted primarily of $16.9 million in proceeds from the issuance of loans payable.

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, 2020. 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, 2020.

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, 2020.

Item 4. Controls and Procedures.

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

As of September 30, 2021, 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 September 30, 2021, the design and operation of our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes. There were no changes during the quarter ended September 30, 2021 to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. While the outcome of any such proceedings cannot be predicted with certainty, as of September 30, 2021, 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, 2020, 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, 2020 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.

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

Use of Proceeds from Public Offering of Common Stock

In February 2021, we completed our initial public offering, or IPO, and issued an aggregate of 8,625,000 shares of our common stock at a price of $17.00 per share, including the exercise in full of the underwriters' option to purchase additional shares of our common stock. We received net proceeds from the IPO of $133.0 million, after deducting underwriting discounts and commissions of $10.3 million and offering expenses of $3.3 million. None of the expenses associated with the IPO were paid to directors, officers, persons owning 10% or more of any class of equity securities, or to their associates. J.P. Morgan Securities LLC, Goldman Sachs & Co. LLC and Cowen and Company, LLC acted as book-running managers for the IPO.

Since the completion of our IPO, our common stock is traded on the Nasdaq Global Select Market. The offer and sale of the shares were registered under the Securities Act on a registration statement on Form S-1 (Registration No. 333- 252180), which was declared effective on February 4, 2021.

There has been no material change in the planned use of proceeds from our IPO as described in the related prospectus filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act. We invested the funds received in cash equivalents and other marketable securities in accordance with our investment policy.

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	Amended and Restated Certificate of Incorporation.	8-K	2/9/2021	3.1	
3.2	Amended and Restated Bylaws.	8-K	2/9/2021	3.2	
10.1#	Amended and Restated Non-employee Director Compensation Program.				X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1^	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2^	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	Inline XBRL Instance Document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				X

# Indicates management contract or compensatory plan.

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

SIGNATURES

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

TERNS PHARMACEUTICALS, INC.

Date: November 15, 2021

By: /s/ Senthil Sundaram

Senthil Sundaram
Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 15, 2021

By: /s/ Mark Vignola

Mark Vignola, Ph.D.
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 10.1

TERNS PHARMACEUTICALS, INC.
AMENDED AND RESTATED
NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM

This Terns Pharmaceuticals, Inc. (the "***Company***") Amended and Restated Non-Employee Director Compensation Program (this "***Program***") has been adopted under the Company's 2021 Incentive Award Plan (the "***Plan***") and shall be effective as of September 28, 2021 (the "***Effective Date***"). This Program amends and restates in its entirety the Non-Employee Director Compensation Program adopted by the Company's Board of Directors (the "***Board***") in connection with the initial public offering of the Company's common stock. Capitalized terms not otherwise defined herein shall have the meaning ascribed in the Plan.

Cash Compensation

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

Non-Employee Director Base Fee:	$40,000
Non-Executive Chair:	$30,000
Audit Committee Chair:	$15,000
Compensation Committee Chair:	$10,000
Nominating and Corporate Governance Committee Chair:	$8,000
Audit Committee Member (non-Chair):	$7,500
Compensation Committee Member (non-Chair):	$5,000
Nominating and Corporate Governance Committee Member (non-Chair):	$4,000

For the avoidance of doubt, the annual retainers for committee service in the table above are additive to the base fee such that a Non-Employee Director shall be eligible to earn the base fee plus an annual retainer based on the Non-Employee Director's position within each committee on which the Non-Employee Director serves. All annual retainers will be paid in cash quarterly in arrears promptly following the end of the applicable calendar quarter, but in no event more than 30 days after the end of such quarter. In the event a Non-Employee Director does not serve as a Non-Employee Director, or in the applicable positions described above, for an entire calendar quarter, the retainer paid to such Non-Employee Director shall be prorated for the portion of such calendar quarter actually served as a Non-Employee Director, or in such position, as applicable.

Equity Compensation

Initial Stock Option Grant:	Each Non-Employee Director who is initially elected or appointed to serve on the Board on or after the Effective Date shall be granted an Option (the "***Initial Option***") under the Plan or any other applicable Company equity incentive plan then-maintained by the Company to purchase 44,000 shares of Common Stock. The Initial Option will be automatically granted on the date on which such Non-Employee Director commences service on the Board, and will vest as to 1/3rd of the total shares subject thereto on the first anniversary of the applicable date of grant and as to 1/36th of the total shares subject thereto on each monthly anniversary of the applicable date of grant over the next 24 months thereafter such that the shares subject to the Initial Option are fully vested on the third anniversary of the grant, in each case, subject to the Non-Employee Director continuing to constitute a Service Provider through the applicable vesting date.
Annual Stock Option Grant:	Each Non-Employee Director who is serving, and who has served for at least six months, on the Board as of the date of each annual stockholder meeting of the Company (each, an "***Annual Meeting***") shall be granted an Option (the "***Annual Option***") under the Plan or any other applicable Company equity incentive plan then-maintained by the Company to purchase 22,000 shares of Common Stock. The Annual Option will be automatically granted on the date of the applicable Annual Meeting, and will vest in full on the earlier of (i) the first anniversary of the date of grant and (ii) immediately prior to the Annual Meeting following the date of grant, in each case, subject to the Non-Employee Director continuing to constitute a Service Provider through such vesting date.

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

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

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

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

Change in Control

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

Reimbursements

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

Miscellaneous

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

*** * * * ***

Exhibit 31.1

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

I, 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: November 15, 2021

By: /s/ Senthil Sundaram

Senthil Sundaram
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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: November 15, 2021

By: /s/ Mark Vignola

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

Exhibit 32.1

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

In connection with the Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 15, 2021

By: /s/ Senthil Sundaram

Senthil Sundaram
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 15, 2021

By: /s/ Mark Vignola

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