

**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, 2022

OR

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

For the transition period from to

Commission File Number: 001-39926

Terns Pharmaceuticals, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

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

94404
(Zip Code)

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

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

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

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

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

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

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

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

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

As of November 4, 2022, the registrant had 37,613,829 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 with regard to the results of our clinical studies, preclinical studies and research and development programs, including the timing and availability of data from such studies;
- the timing of commencement of future nonclinical studies and clinical trials and research and development programs;
- our clinical and regulatory development plans;
- our expectations regarding the potential market size and size of the potential patient populations for our product candidates and any future product candidates if approved for commercial use;
- our ability to acquire, discover, develop and advance product candidates into, and successfully complete, clinical trials;
- our intentions and our ability to establish collaborations and/or partnerships;
- the timing or likelihood of regulatory filings and approvals for our product candidates;
- our commercialization, marketing and manufacturing capabilities and expectations;
- our intentions with respect to the commercialization of our product candidates;
- the pricing and reimbursement of our product candidates, if approved;
- the potential effects of COVID-19 and economic uncertainty on our preclinical and clinical programs and business;
- the implementation of our business model and strategic plans for our business and product candidates, including additional indications which we may pursue;
- the scope of protection we are able to establish, maintain, protect and enforce for intellectual property rights covering our product candidates including the projected terms of patent protection;
- estimates of our expenses, future revenue, capital requirements, our needs for additional financing and our ability to obtain additional capital and the timing of the sufficiency of our capital resources;
- our future financial performance; and
- developments and projections relating to our competitors and our industry, including competing products.

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

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

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 62,977	\$ 47,699
Marketable securities	124,309	118,283
Prepaid expenses and other current assets	3,251	948
Total current assets	190,537	166,930
Property and equipment, net	808	1,046
Operating lease assets	1,194	—
Other assets	47	94
Total assets	<u>\$ 192,586</u>	<u>\$ 168,070</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,094	\$ 2,126
Accrued expenses and other current liabilities	4,722	4,694
Current portion of operating lease liabilities	665	—
Total current liabilities	7,481	6,820
Deferred rent, net of current portion	—	160
Taxes payable, non-current	709	787
Operating lease liabilities, non-current	702	—
Total liabilities	8,892	7,767
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value, 150,000,000 shares authorized at September 30, 2022 and December 31, 2021; 37,613,829 and 25,269,271 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	4	3
Additional paid-in capital	411,634	342,711
Accumulated other comprehensive loss	(1,348)	(338)
Accumulated deficit	(226,596)	(182,073)
Total stockholders' equity	183,694	160,303
Total liabilities and stockholders' equity	<u>\$ 192,586</u>	<u>\$ 168,070</u>

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

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2022	2021	2022	2021
Operating expenses:				
Research and development	\$ 12,161	\$ 7,153	\$ 28,959	\$ 21,849
General and administrative	5,131	4,715	16,242	14,133
Total operating expenses	<u>17,292</u>	<u>11,868</u>	<u>45,201</u>	<u>35,982</u>
Loss from operations	<u>(17,292)</u>	<u>(11,868)</u>	<u>(45,201)</u>	<u>(35,982)</u>
Other income:				
Interest income	499	49	782	115
Other (expense) income, net	(14)	4	(64)	30
Total other income, net	<u>485</u>	<u>53</u>	<u>718</u>	<u>145</u>
Loss before income taxes	<u>(16,807)</u>	<u>(11,815)</u>	<u>(44,483)</u>	<u>(35,837)</u>
Income tax expense	<u>(13)</u>	<u>(20)</u>	<u>(40)</u>	<u>(73)</u>
Net loss	<u>\$ (16,820)</u>	<u>\$ (11,835)</u>	<u>\$ (44,523)</u>	<u>\$ (35,910)</u>
Net loss per share, basic and diluted	<u>\$ (0.44)</u>	<u>\$ (0.47)</u>	<u>\$ (1.50)</u>	<u>\$ (1.64)</u>
Weighted average common stock outstanding, basic and diluted	<u>38,511,655</u>	<u>25,148,336</u>	<u>29,743,579</u>	<u>21,842,706</u>
Other comprehensive loss:				
Net loss	\$ (16,820)	\$ (11,835)	\$ (44,523)	\$ (35,910)
Unrealized gain (loss) on available-for-sale securities, net of tax	31	2	(812)	(5)
Foreign exchange translation adjustment, net of tax	(138)	5	(198)	(38)
Comprehensive loss	<u>\$ (16,927)</u>	<u>\$ (11,828)</u>	<u>\$ (45,533)</u>	<u>\$ (35,953)</u>

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

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

Nine Months Ended September 30, 2022

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

Nine Months Ended September 30, 2021

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additio nal Paid-in Capital	Accumulate d Other Comprehen sive Loss	Accumula ted Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amou nt	Shares	Amount	Shares	Amount	Shares	Amou nt				
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
Issuance 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)	\$ (0)	\$ 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

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,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (44,523)	\$ (35,910)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	8,081	5,596
Depreciation and amortization expense	391	398
Amortization on marketable securities	647	685
Change in deferred taxes and uncertain tax positions	39	45
Amortization of operating lease assets	408	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(2,301)	(391)
Other assets	—	(7)
Accounts payable	(251)	1,221
Accrued expenses and other current liabilities	66	(2,751)
Operating lease liabilities	(455)	—
Deferred rent	—	(44)
Net cash used in operating activities	(37,898)	(31,158)
Cash flows from investing activities:		
Purchase of property and equipment	(241)	(140)
Purchase of investments	(91,720)	(146,576)
Proceeds from sales and maturities of investments	84,235	33,441
Net cash used in investing activities	(7,726)	(113,275)
Cash flows from financing activities:		
Net proceeds from the issuance of common stock and pre-funded warrants	61,145	—
Payment of deferred offering costs	(144)	(2,721)
Proceeds from the issuance of common stock under employee stock purchase plan	124	—
Net proceeds from initial public offering	—	136,362
Proceeds from notes receivable	—	12,718
Payment of loans payable	—	(12,880)
Proceeds from stock option exercises	—	898
Net cash provided by financing activities	61,125	134,377
Effect of exchange rate changes on cash and cash equivalents	(223)	(47)
Net increase (decrease) in cash and cash equivalents	15,278	(10,103)
Cash and cash equivalents at beginning of period	47,699	74,854
Cash and cash equivalents at end of period	\$ 62,977	\$ 64,751
Supplemental disclosure of cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities	\$ 508	\$ —
Supplemental disclosure of non-cash activities:		
Right-of-use assets obtained in exchange for lease liabilities	\$ 1,601	\$ —
Deferred offering costs included in accounts payable and accrued expense	\$ 282	\$ —
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.

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

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

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

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

Basis of Presentation

The accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of Terns and its wholly owned subsidiaries Terns U.S. Opco and Terns Hong Kong and its wholly owned subsidiaries Terns China and Terns Suzhou. The Company's condensed consolidated financial statements have been prepared in conformity with U.S. GAAP. All intercompany balances and transactions have been eliminated in consolidation.

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.

At-the-Market Offering

In March 2022, the Company entered into a Sales Agreement with Cowen and Company, LLC (Cowen) as sales agent, pursuant to which the Company has the ability to offer and sell, from time to time, through Cowen, shares of its common stock having an aggregate offering price of up to \$75.0 million in an at-the-market offering. The shares are offered pursuant to the Company's shelf registration statement on Form S-3 filed with the Securities and Exchange Commission, or SEC. There were no sales of the Company's common stock pursuant to this agreement through September 30, 2022.

August 2022 Financing

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

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

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 consolidated financial statements have been retroactively adjusted to give effect to the Reverse Stock Split for all periods presented.

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 materially differ from those estimates.

Unaudited Interim Financial Information

These unaudited condensed consolidated financial statements include all adjustments necessary, consisting of only normal recurring adjustments, to fairly state the financial position and the results of the Company's operations and cash flows for interim periods in accordance with U.S. GAAP. Interim period results are not necessarily indicative of results of operations or cash flows for a full year or any subsequent interim period. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K ("Annual Report") for the fiscal year ended December 31, 2021, as filed with the SEC on March 7, 2022. 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, 2021.

Cash, Cash Equivalents and Marketable Securities

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

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

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

(in thousands)	September 30, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 37,094	\$ —	\$ —	\$ 37,094
U.S. government securities	43,120	—	(681)	42,439
Non-U.S. government securities	3,022	—	(41)	2,981
Corporate debt securities	29,514	—	(284)	29,230
Commercial paper	49,659	—	—	49,659
Total	<u>\$ 162,409</u>	<u>\$ —</u>	<u>\$ (1,006)</u>	<u>\$ 161,403</u>
Classified as:				
Cash equivalents				\$ 37,094
Marketable securities				124,309
Total				<u>\$ 161,403</u>

(in thousands)	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 33,239	\$ —	\$ —	\$ 33,239
U.S. government securities	36,322	—	(130)	36,192
Non-U.S. government securities	11,194	—	(12)	11,182
Corporate debt securities	39,495	—	(52)	39,443
Commercial paper	31,466	—	—	31,466
Total	<u>\$ 151,716</u>	<u>\$ —</u>	<u>\$ (194)</u>	<u>\$ 151,522</u>
Classified as:				
Cash equivalents				\$ 33,239
Marketable securities				118,283
Total				<u>\$ 151,522</u>

Operating Leases and Rent Expense

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

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

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

Classification of Convertible Preferred Stock

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 on the consolidated balance sheets. 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.

Research and Development Expenses

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

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

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities included the following:

<i>(in thousands)</i>	September 30, 2022	December 31, 2021
Research and development costs	\$ 1,559	\$ 1,570
Compensation and benefit costs	1,993	2,403
Accrued professional fees	862	363
Other	308	358
Total accrued expenses and other current liabilities	<u>\$ 4,722</u>	<u>\$ 4,694</u>

Income Taxes

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

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

The Company assesses accounting for uncertainty in income taxes by modeling for the recognition, measurement and disclosure in financial statements any uncertain income tax positions that the Company has taken or expects to take on a tax return. As of each balance sheet date, unresolved uncertain tax positions are reassessed. The Company accrues interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of September 30, 2022 and 2021, the total amount of gross interest accrued and penalties was nominal.

The Company recorded income tax expense for the three and nine months ended September 30, 2022 and 2021 of less than \$0.1 million. The expenses are primarily related to foreign income tax expenses from China.

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 and rights to acquire stock granted under the Company's employee stock purchase plan (ESPP), is measured at the grant date based on the fair value of the awards and is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. The Company's determination of the fair value of stock options with time-based vesting and rights to acquire stock under the ESPP utilizes the Black-Scholes option-pricing model. The Company lacks sufficient company-specific historical and implied volatility information. Therefore, the Company 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 and right to acquire stock under the ESPP is calculated based upon the Company's common stock valuation on the date of the grant. The Company accounts for forfeitures of stock option grants as they occur.

Net Loss Per Share of Common Stock

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

Basic net income (loss) per share of common stock is computed by dividing the net income (loss) per share of common stock by the weighted average number of shares of common stock outstanding for the period. The weighted-average shares of common stock outstanding as of September 30, 2022 included pre-funded warrants to purchase up to an aggregate of 14,630,000 shares of common stock that were issued in connection with the August 2022 Financing.

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

The Company reported a net loss for the three and nine months ended September 30, 2022 and 2021. In periods in which the Company reported a net loss, diluted net loss per share of common stock was the same as basic net loss per share of common stock, since dilutive shares were not assumed to have been issued if their effect is anti-dilutive. The Company excluded the following potential shares of common stock, presented based on amounts outstanding at each period end, from the computation of diluted net loss attributable to common stockholders per share of common stock for the periods indicated because including them would have had an anti-dilutive effect:

	September 30,	
	2022	2021
Options to purchase common stock	4,760,085	3,556,043
Unvested restricted stock units	100,880	—
Shares issuable under employee stock purchase plan	112,757	—
Total	<u>4,973,722</u>	<u>3,556,043</u>

Deferred Offering Costs

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

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

Commitments and Contingencies

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

Recent Accounting Pronouncements

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

Recently Adopted Accounting Pronouncements

In 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 adopted the new standard on January 1, 2022 using the effective date as the date of initial application. Consequently, prior period amounts were not adjusted and continue to be reported in accordance with historical accounting policies under ASC 840: Leases (Topic 840). The Company elected the package of practical expedients under which the Company has not reassessed prior conclusions about lease identification, lease classification and initial direct costs. Additionally, the Company made a policy election that does not recognize ROU assets and lease liabilities related to leases with a term of 12 months or less. The Company has elected to not separate lease and non-lease components and instead treat them as a single component. The pattern of recognition for operating leases within the consolidated statements of comprehensive loss has not significantly changed. Upon adoption, the Company recognized operating liabilities of \$1.7 million, with corresponding ROU assets of \$1.5 million based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. The Company's current operating lease portfolio is primarily comprised of property leases.

Recently Issued Accounting Pronouncements Not Yet Adopted

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 and related disclosures.

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:

<i>(in thousands)</i>	Fair Value at September 30, 2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash in bank balances	\$ 25,883	\$ —	\$ —	\$ 25,883
Money market funds	37,094	—	—	37,094
Total cash and cash equivalents	\$ 62,977	\$ —	\$ —	\$ 62,977
Marketable securities				
U.S. government securities	\$ —	\$ 42,439	\$ —	\$ 42,439
Non-U.S. government securities	—	2,981	—	2,981
Corporate debt securities	—	29,230	—	29,230
Commercial paper	—	49,659	—	49,659
Total marketable securities	\$ —	\$ 124,309	\$ —	\$ 124,309

<i>(in thousands)</i>	Fair Value at December 31, 2021			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash in bank balances	\$ 14,460	\$ —	\$ —	\$ 14,460
Money market funds	33,239	—	—	33,239
Total cash and equivalents	\$ 47,699	\$ —	\$ —	\$ 47,699
Marketable securities				
U.S. government securities	\$ —	\$ 36,192	\$ —	\$ 36,192
Non-U.S. government securities	—	11,182	—	11,182
Corporate debt securities	—	39,443	—	39,443
Commercial paper	—	31,466	—	31,466
Total marketable securities	\$ —	\$ 118,283	\$ —	\$ 118,283

The aggregate amortized cost and fair value of marketable securities as of September 30, 2022, by contractual maturity, are as follows:

<i>(in thousands)</i>	Amortized Cost	Fair Value
Due in one year or less	\$ 125,315	\$ 124,309
Due after one year through two years	—	—
Total marketable securities	\$ 125,315	\$ 124,309

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

3. Leases

In March 2019, the Company entered into a lease agreement for office space in Foster City, California which expires October 2024. The Company has the option to extend the lease agreement for a period of five years. Additionally, the Company leases office space in Shanghai and Suzhou China.

Components of lease cost are as follows:

<i>(in thousands)</i>	Three Months Ended	Nine Months Ended
	September 30, 2022	September 30, 2022
Operating lease cost	\$ 145	\$ 450
Short-term cost	13	40
Total lease cost	<u>\$ 158</u>	<u>\$ 490</u>
Weighted-average remaining lease term		2.02
Weighted-average discount rate		6.00 %

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

<i>(in thousands)</i>	Operating Leases
2022	\$ 177
2023	716
2024	559
2025 and thereafter	—
Total lease payments	<u>1,452</u>
Less: Imputed interest	(85)
Present value of lease liabilities	<u>1,367</u>
Less: Current portion of lease liabilities	(665)
Total lease liabilities, non-current	<u>\$ 702</u>

The future minimum annual lease payments required under the Company's existing operating lease agreements as of December 31, 2021 prior to the adoption of ASC 842 were as follows:

<i>(in thousands)</i>	Operating Leases
2022	\$ 669
2023	652
2024	559
2025 and thereafter	—
Total	<u>\$ 1,880</u>

4. Loans Payable

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 was to 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 5, 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.

Prior to their repayment, the carrying value of the LAV Series A and Series B Promissory Notes approximated their respective fair value due to the short-term nature of the liability.

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.

5. Convertible Preferred Stock

All shares of preferred stock described below were converted into 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 was 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 was 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.”

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, 2022.

6. 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:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Options outstanding under incentive award plans	4,760,085	3,577,485
Unvested restricted stock units	100,880	—
Shares available for future grant under incentive award plans	1,108,605	1,138,622
Shares available for future grant under employee stock purchase plans	408,134	240,000
Shares available for future grant under employment inducement award plans	1,400,000	—
Pre-funded warrants	14,630,000	—
Total shares reserved	<u><u>22,407,704</u></u>	<u><u>4,956,107</u></u>

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company’s stockholders. Common stockholders are entitled to receive dividends, if any, as may be declared by the Company’s board of directors, subject to the preferential dividend rights of the convertible preferred stock. Through September 30, 2022, no cash dividends have been declared or paid by the Company.

Stock-Based Compensation Plans

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

2021 Incentive Award Plan

In January 2021, the Company's board of directors approved the 2021 Plan which permits the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance bonus awards, performance stock unit awards and other stock awards to employees, directors, officers and consultants. In February 2021, 2,400,007 shares were authorized for issuance under the 2021 Plan, which shall be cumulatively increased on the first day of each year beginning in 2022 and ending in 2031 equal to the lesser of (i) the amount equal to 5% of the number of shares issued and outstanding on the last day of the immediately preceding fiscal year or (ii) such lower number of shares as may be determined by the Company's board of directors. The 2021 Plan is the successor to the 2017 Incentive Award Plan and no additional awards may be issued from the 2017 Plan. However, the 2017 Plan will continue to govern the terms and conditions of the outstanding awards granted under this plan. Shares of common stock subject to awards granted under the 2017 Plan that are forfeited or lapse unexercised and which following the effective date of the 2021 Plan are not issued under the 2017 Plan will be available for issuance under the 2021 Plan. The number of authorized shares reserved for issuance under the 2021 Plan was increased by 1,263,463 shares effective as of January 1, 2022. As of September 30, 2022, 1,108,605 shares of the Company's common stock were available for future grants under the 2021 Plan.

2021 Employee Stock Purchase Plan

The 2021 Employee Stock Purchase Plan (the “2021 ESPP”) was approved by the Company's board of directors in January 2021. In February 2021, a total of 240,000 shares were initially reserved for issuance under this plan, which shall be cumulatively increased on the first day of each year beginning in 2022 and ending in 2031 equal to the lesser of (i) 1% of the shares outstanding (on an as converted basis) on the last day of the immediately preceding fiscal year and (ii) such number of shares as may be determined by the Company's board of directors. The number of authorized shares reserved for issuance under the 2021 ESPP was increased by 252,692 shares effective as of January 1, 2022. As of September 30, 2022, 408,134 shares of the Company's common stock were available for future grants under the 2021 ESPP.

Under the ESPP, eligible employees may select a rate of payroll deduction up to 15% of their eligible compensation subject to certain maximum purchase limitations. The duration for each offering period is 12 months and is divided into two purchase periods of approximately six months in length. Offerings are concurrent. The purchase price of the shares under the offering is the lesser of 85% of the fair market value of the shares on the offering date or 85% of the fair market value of the shares on the purchase date. A one-year look-back feature in the ESPP causes the offering period to automatically reset if the fair value of the Company's common stock on the last day of the purchase period is less than that on the original offering date. ESPP purchases by employees are settled with newly-issued common stock from the ESPP's previously authorized and available pool of shares.

As of September 30, 2022, there was \$0.1 million of unrecognized stock-based compensation expense related to unvested employee stock purchases. The unrecognized stock-based compensation expense is estimated to be recognized over a period of 0.67 years as of September 30, 2022. There were 84,558 shares purchased by employees under the ESPP during the nine months ended September 30, 2022.

2022 Employment Inducement Award Plan

In September 2022, the Company's compensation committee approved the 2022 Employment Inducement Award Plan (the "2022 Inducement Plan"), which authorized 1,400,000 shares of common stock to be issued and permits the granting of nonqualified stock options, stock appreciation rights, restricted stock awards and restricted stock unit awards to newly hired employees and officers. As of September 30, 2022, 1,400,000 shares of the Company's common stock were available for future grants under the 2022 Inducement Plan.

Pre-Funded Warrants

In connection with the August 2022 Financing, the Company sold pre-funded warrants to purchase 14,630,000 shares of common stock at a price of \$2.4199 per pre-funded warrant. The purchase price per share of each pre-funded warrant represents the per share offering price for the common stock, minus the \$0.0001 per share exercise price of such pre-funded warrant. No pre-funded warrants have been exercised as of September 30, 2022.

Stock Options

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

The following table summarizes the stock option activity for all stock plans during the nine months ended September 30, 2022:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term <i>(in years)</i>	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding as of December 31, 2021	3,577,485	\$ 9.72	9.09	\$ 491
Granted	1,330,020	4.32		
Exercised	(10,000)	0.00		21
Forfeited	(137,420)	9.23		
Outstanding as of September 30, 2022	<u>4,760,085</u>	\$ 8.24	8.69	\$ 2,435
Exercisable, September 30, 2022	2,380,117	\$ 9.10	8.18	\$ 131
Vested and expected to vest, September 30, 2022	4,760,085	\$ 8.24	8.69	\$ 2,435

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, 2022, there was \$23.6 million of unrecognized stock-based compensation expense related to unvested stock options which is estimated to be recognized over a period of 2.40 years.

Restricted Stock

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

The following table summarizes the RSU activity for all stock plans during the nine months ended September 30, 2022:

	Number of Shares	Weighted Average Grant- Date Fair Value
Unvested restricted stock units as of December 31, 2021	—	\$ —
Granted	117,750	3.27
Forfeited	(16,870)	3.36
Unvested restricted stock units as of September 30, 2022	<u>100,880</u>	\$ 3.26

As of September 30, 2022, there was \$0.3 million of unrecognized stock-based compensation expense related to restricted stock which is estimated to be recognized over a period of 3.35 years.

Stock-Based Compensation Expense

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

	Nine Months Ended September 30,			
	2022		2021	
Stock Option Plans				
Expected term (years)		5.99		6.03
Expected volatility		72.69%		76.59%
Risk-free interest rate		2.21%		1.12%
Fair value of underlying common stock	\$	4.32	\$	11.92
Weighted average grant-date fair value per share	\$	2.82	\$	7.87
Employee Stock Purchase Plans				
Expected term (years)		0.75		—
Expected volatility		70.86%		—%
Risk-free interest rate		1.89%		—%
Fair value of underlying common stock	\$	1.66	\$	—
Weighted average grant-date fair value per share	\$	0.65	\$	—

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Research and development expense	\$ 795	\$ 401	\$ 2,252	\$ 1,374
General and administrative expense	1,891	1,454	5,829	4,222
Total stock-based compensation expense	\$ 2,686	\$ 1,855	\$ 8,081	\$ 5,596

7. Assignment, License and Collaboration 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, 2022, 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, 2022 and 2021 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, 2022, the Company has paid \$4.0 million to Lilly. No development milestones have been met as of September 30, 2022. The Company has not recorded any research and development expense during the three and nine months ended September 30, 2022 and 2021 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, 2022, the Company has paid \$4.4 million to Vintagence which includes a milestone payment of \$1.5 million in connection with the Company's IND filing for TERN-501 in December 2020 and a milestone payment of \$2.2 million in connection with the initiation of dosing in the Phase 2a DUET trial in July 2022. The Company has recognized research and development expense of \$2.2 million during the three and nine months ended September 30, 2022 related to this agreement. The Company has not recognized any research and development expense during the three and nine months ended September 30, 2021 related to this agreement.

Hansoh Option and License Agreement

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

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

In addition, pursuant to the Hansoh 2020 Option and License Agreement, Hansoh has agreed to pay the Company up to \$67.0 million in pre-specified clinical, regulatory and sales milestones. Hansoh must also pay the Company royalties in the mid-single digits based on net sales of all licensed products. The term of the Hansoh 2020 Option and License Agreement will continue until the end of the last-to-expire royalty term. As of September 30, 2022, no milestones have been met and future payments are all constrained.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on March 7, 2022. In addition to historical financial information, this discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Special Note Regarding Forward-Looking Statements” and “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Our fiscal year ends on December 31 each year.

Overview

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

The most advanced product candidates in our pipeline – TERN-701, TERN-601 and TERN-501 – were internally discovered. TERN-701 is our allosteric BCR-ABL tyrosine kinase inhibitor (TKI) that is in clinical development in China for chronic myeloid leukemia (CML), a form of cancer that starts in bone marrow. TERN-601 is our small-molecule glucagon-like peptide-1 receptor (GLP-1R) agonist for metabolic diseases such as obesity, with the goal of initiating a first-in-human clinical trial in 2023. TERN-501 is our highly selective thyroid hormone receptor beta (THR- β) agonist for NASH in Phase 2a development. We expect our existing cash and cash equivalents to support our operations into 2025 and be sufficient to generate three key clinical data readouts from our three programs in CML, obesity and NASH. Additionally, we are conducting pre-clinical studies exploring TERN-201, our vascular adhesion protein-1 (VAP-1) inhibitor, in combination with immune checkpoint inhibitors for solid tumor indications, and have an ongoing discovery effort for the TERN-800 series of small-molecule glucose-dependent insulinotropic polypeptide receptor (GIPR) modulators for obesity.

TERN-701: Oral, allosteric BCR-ABL tyrosine kinase inhibitor for chronic myeloid leukemia

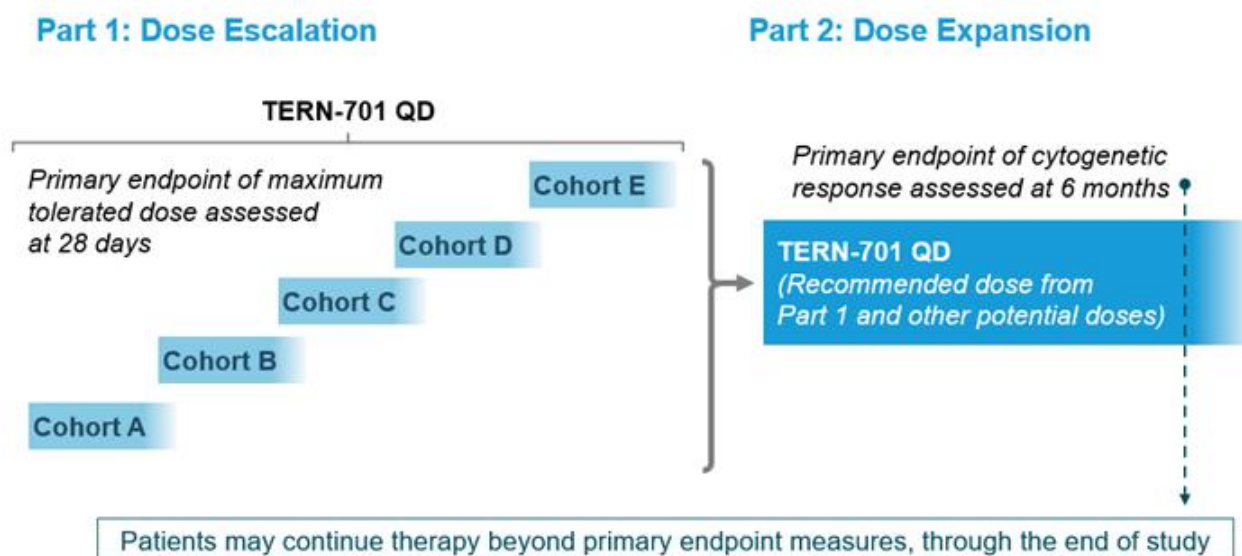
TERN-701 is our proprietary, oral, potent, allosteric BCR-ABL TKI specifically targeting the ABL myristoyl pocket for chronic myeloid leukemia. CML is a form of cancer that begins in the bone marrow and leads to growth of leukemic cells. CML accounts for approximately 15% of newly diagnosed cases of leukemia in adults. In the United States, the prevalence of CML is approximately 90,000 and is expected to reach 180,000 cases by 2030. In 2022, approximately 9,000 new cases of CML will be diagnosed, with a mortality rate of 1,200 patients expected. The standard of care (SOC) for CML includes active-site TKIs including imatinib, nilotinib, dasatinib, bosutinib and ponatinib. However, an unmet medical need remains due to (1) an increasing number of patients becoming refractory or intolerant to the current SOC, (2) BCR-ABL mutations that are difficult for active-site TKIs to treat (e.g., T315I), or (3) safety warnings for active-site TKIs used in CML patients who are resistant or intolerant to prior TKI therapy.

Allosteric TKIs, which bind to the myristoyl-binding pocket, represent a new treatment class for CML and have the potential to address active-site TKI shortcomings, including off-target activity and limited efficacy against active site resistance mutations. Asciminib is the only allosteric TKI that has been approved by the FDA for use in third-line CML patients and is being evaluated in clinical trials for earlier lines of treatment. In a Phase 3 trial, asciminib was shown to be more than twice as effective as bosutinib, a second generation active-site TKI, in achieving a major molecular response (MMR) in third-line CML patients after 96 weeks of treatment (37.6% asciminib v. 15.8% bosutinib; $p=0.001$). The discontinuation rate after 96 weeks due to the lack of efficacy or adverse events in patients on asciminib was nearly half of the rate of patients on bosutinib (31.2% asciminib v. 60.5% bosutinib).

Similar to asciminib, TERN-701 aims to address the limitations of active-site TKIs with the goal of achieving improved tumor suppression through a combination of (1) potent activity against BCR-ABL including a broad range of mutations, and (2) improved safety and tolerability profiles. As CML patient survival rates and treatment durations continue to increase, physicians are seeking additional efficacious CML therapies for patients whose tolerability, co-morbidity and/or drug-drug interaction profiles change over time, limiting their available treatment options and the effectiveness of mainstay therapies. We intend to initiate a clinical trial for TERN-701 in the second half of 2023 in the United States, with potential interim top-line readouts from initial cohorts in 2024.

We retain all worldwide development and commercialization rights for TERN-701 outside of greater China. In July 2020, Hansoh Pharmaceuticals in-licensed TERN-701 for development in the greater China region. TERN-701 is referred to by Hansoh Pharmaceuticals as HS-10382. Hansoh is responsible for all development costs in the greater China region, including the ongoing Phase 1 trial.

In May 2022, Hansoh initiated an open-label, multicenter, dose-escalation and expansion, first-in-human study in chronic or accelerated phase CML patients, who are resistant or intolerant to prior active-site BCR-ABL TKI treatment. The trial is comprised of two parts, with dose escalation being conducted in Part 1 to determine the maximum tolerated or maximum applicable dose followed by dose expansion in Part 2 of the trial, in which additional CML patients will be enrolled to receive one or more doses selected from Part 1. Part 2 of the trial will evaluate major cytogenetic response at six months as its primary endpoint, with key secondary endpoints including molecular response, hematologic response, measures of PK and an evaluation of safety and tolerability. The Phase 1 trial for TERN-701, which is conducted and funded by Hansoh in China, is illustrated below:



TERN-601: Oral, small-molecule glucagon-like peptide-1 (GLP-1) receptor agonist for obesity

We are also developing an oral small-molecule glucagon-like peptide-1 receptor (GLP-1R) agonist for the treatment of obesity known as TERN-601. Obesity represents a large unmet medical need, with recent studies estimating the aggregate U.S. national cost of obesity to exceed \$260 billion. While approximately 50% of Americans meet the criteria for medical obesity, only 2% of adults receive therapies for weight loss. GLP-1R agonism has many potentially beneficial effects including increased insulin secretion by the pancreas, reduced glucagon secretion in the liver, slowed gastric emptying into the gut, increased sense of satiety in the brain and reduced inflammation. Synthetic GLP-1 peptides have been approved for obesity and diabetes. Semaglutide (Wegovy), a GLP-1R peptide agonist recently approved for chronic weight management in overweight or obese patients, appears to be expanding the primary care market for obesity treatment, as 75% of Wegovy patients are receiving anti-obesity medication for the first time. However, approved synthetic GLP-1R peptide agonists are biologic molecules with complex manufacturing processes and may require higher doses for weight loss than for management of diabetes. These GLP-1R peptide agonists also require frequent subcutaneous injections, and titration or drug holidays for management of their poor tolerability profiles. These barriers are likely to limit their widespread use for chronic weight management, particularly if efficacious oral treatments become available.

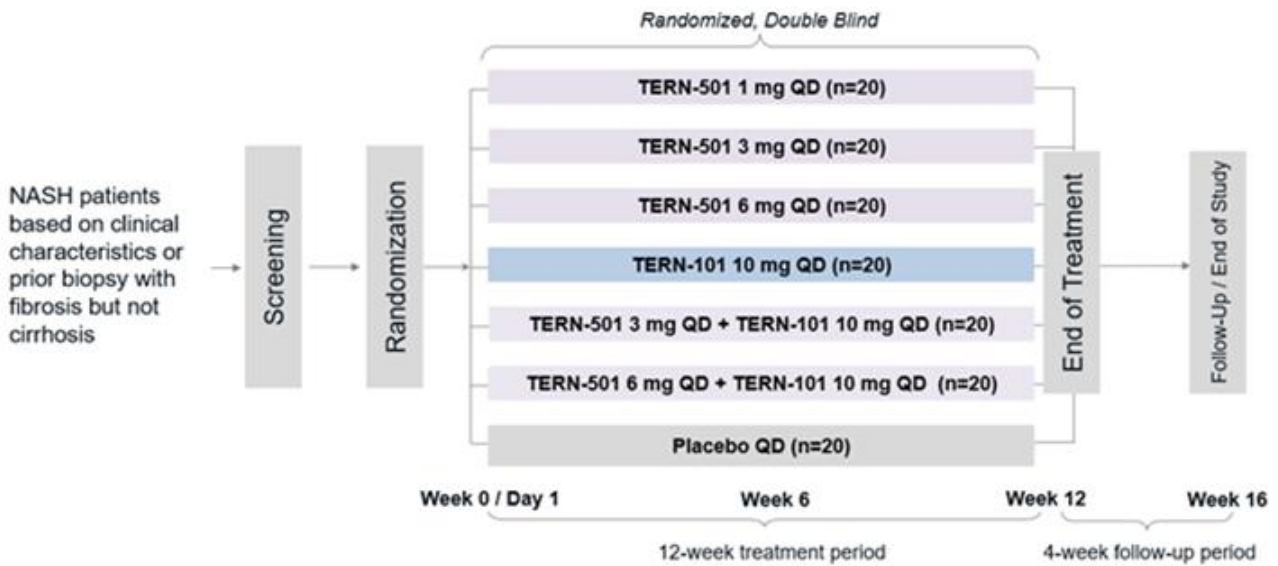
We aim to develop small molecule, orally administered GLP-1R agonists with a convenient oral dosing schedule for the treatment of obesity. Our GLP-1R agonist program has screened more than 20,000 molecular permutations through our proprietary quantitative structure activity relationship (QSAR) model to identify several potentially suitable small-molecule scaffolds with potentially improved properties relative to other GLP-1R agonism-based approaches. We have optimized these series of compounds and identified structures that we believe are suitable for oral administration as a single-agent or in combination with other drug candidates within our pipeline, including small-molecule GIPR modulators.

We designated a lead development candidate for our GLP-1R agonist program as TERN-601 in the fourth quarter of 2021. We are conducting IND-enabling activities for TERN-601 with the goal of initiating a first-in-human clinical trial in 2023 and receiving top-line data in 2024. We expect that the Phase 1 clinical program for TERN-601 will include a single ascending dose (SAD) trial in healthy volunteers and a multiple ascending dose (MAD) proof-of-concept trial in obese healthy volunteers and/or people with Type 2 diabetes that would potentially assess changes in body weight and glycemic control parameters, such as HbA1c. We also continue to evaluate other small-molecule GLP-1R agonists that have the potential to exhibit differentiated properties from TERN-601 and other GLP-1 product candidates.

TERN-501: Oral, thyroid hormone receptor-beta (THR- β) agonist for NASH

TERN-501 is an orally administered 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 (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 well-tolerated with a similar incidence of adverse events (AEs) across all TERN-501 treatment groups and placebo. All AEs were mild to moderate with no apparent dose relationship, 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 (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 (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-501 and TERN-101, our liver-distributed, non-bile acid FXR agonist, was well-tolerated. Preliminary pharmacokinetic results support the co-administration of TERN-501 and TERN-101 in NASH patients, with no apparent need for dose adjustment.

In April 2022, the U.S. Food and Drug Administration (FDA) cleared our investigational new drug (IND) application for our clinical-stage combination therapy candidates in NASH, including combinations of TERN-501 and TERN-101 as well as future studies of other potential combination therapy regimens. Under the IND, we are proceeding with a multicenter randomized, double-blind, placebo-controlled Phase 2a clinical trial in noncirrhotic NASH patients using a factorial design, which includes both monotherapy and combination arms of TERN-501 and TERN-101. This Phase 2a trial, known as the DUET trial, is expected to enroll approximately 140 adult patients with elevated body mass index (BMI \geq 25 kg/m²) and NASH with fibrosis, but not cirrhosis, based on prior liver biopsy and/or imaging criteria and clinical criteria. All patients must have liver fat content measured by MRI-PDFF of \geq 10%, MRI corrected T1 (cT1) relaxation time of \geq 800 msec, and meet other inclusion and exclusion criteria. The clinical trial includes a 12-week treatment period and a 4-week follow-up period. The primary endpoint will be the relative change from baseline in MRI-PDFF at Week 12 for TERN-501 monotherapy compared with placebo. Secondary endpoints include assessment of changes in PDFF (combination vs. placebo) and cT1 (TERN-501 monotherapy vs. placebo as well as TERN-501 and TERN-101 combination vs. placebo). Dosing in the DUET trial started in July 2022, and top-line data are expected in the second half of 2023. The Phase 2a DUET trial design is illustrated in the figure below:



TERN-201: Oral, vascular adhesion protein-1 (VAP-1) inhibitor in combination with immune checkpoint inhibitors for solid tumors

TERN-201 is a highly-selective inhibitor of VAP-1 that has demonstrated sustained target engagement in clinical trials without the off-target liabilities associated with other VAP-1 inhibitors in development. As part of our oncology pipeline development, we are engaging in preclinical research to evaluate the use of TERN-201 in combination with immune checkpoint inhibitors for solid tumor indications.

VAP-1 is an adhesion molecule and amine oxidase enzyme expressed on the surface of endothelial cells that supports rolling, adhesion, and transmigration of certain leukocytes into sites of inflammation. VAP-1 has also been associated with the recruitment of certain lymphocytes to several human tumors, including hepatocellular carcinoma and head and neck cancer, where VAP-1 expressed on tumor endothelium supports lymphocyte binding. Additionally, bioinformatic analyses have shown that VAP-1 expression is associated with poor prognosis of glioma patients. An analysis of various human cancers revealed that VAP-1 expression was a negative prognostic factor in patients with colorectal, renal, and urothelial cancers. In mouse models of melanoma and lymphoma, VAP-1 inhibition was also shown to decrease the number of CD11b-positive cells, which may suppress immune response, potentially resulting in the slowing of tumor growth.

Efficacy of cancer immunotherapy utilizing immune checkpoint inhibitors such as anti-CTLA4 and PD-1/PD-L1 antibodies is often diminished by underlying immunosuppressive resistance to the therapies in the tumor microenvironment. VAP-1 may contribute to tumor progression through migration of such immunosuppressive myeloid cells. In a recent publication, VAP-1 inhibition was shown to reduce tumor growth in murine colon cancer models. Furthermore, synergistic effects were observed with VAP-1 inhibition in combination with anti-CTLA4 or anti-PD-1 antibodies.

TERN-800 Series: Discovery series of small-molecule glucose-dependent insulinotropic polypeptide receptor (GIPR) modulators for obesity

As part of our ongoing discovery efforts, we are evaluating a family of small-molecule glucose-dependent insulinotropic polypeptide (GIP) receptor modulators, designated as the TERN-800 series, for obesity. GIP is secreted in response to nutrient ingestion to enhance meal-stimulated insulin secretion in a glucose-dependent manner by activating its associated GIP receptor (GIPR) in pancreatic beta cells and other cells in various tissues. In preclinical studies, GIPR activation appears to reduce food intake and promote weight loss when combined with its incretin partner GLP-1. The overlapping body weight-lowering actions of both GIP and GLP-1 suggests that combining the actions of these two peptide hormones may bolster glucose-lowering and appetite-suppressing effects beyond those observed with individual agents.

In a preclinical study, two weeks of simultaneous administration of equimolar amounts of a GLP-1R and a GIPR agonist reduced food intake, body weight, and fat mass in mice to a greater extent than either agent alone. Late stage dual GLP-1/GIP receptor agonists,

tirzepatide (Lilly) and NNC0090-2746 (Novo Nordisk), have shown improved glycemic control compared to GLP-1 agonist alone, and decreased body weight in clinical trials. Additionally, a monomolecular combination of a GIPR antagonist/GLP-1R agonist, AMG 133 (Amgen), enhanced the observed weight loss in animal obesity models. In a Phase 1 clinical study of AMG 133, a single high dose resulted in approximately 8 kilograms of weight loss.

Similar to our discovery process for GLP-1, we have synthesized small molecule ligands targeting the GIP receptor and are currently assessing their activity at relevant G-protein coupled receptors. We plan to combine GIPR modulators with GLP-1 receptor agonists, such as TERN-601, for the treatment of obesity and metabolic diseases. We believe our small molecules have the advantage of oral bioavailability and the ability to dose adjust to achieve an optimal response. Combining GIPR modulators with GLP-1 represents a promising strategy under investigation for the treatment of obesity.

Since the commencement of our operations, we have devoted substantially all of our resources to research and development activities, organizing and staffing our company, business planning, raising capital, establishing and maintaining our intellectual property portfolio, conducting preclinical studies and clinical trials and providing general and administrative support for these operations. We expect our cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements into 2025, including three clinical data readouts from our three lead programs.

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

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

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

The coronavirus disease 2019 (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 supply chains, our development activities, planned clinical trial enrollment, future trial sites, contract research organizations (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, 2022 and 2021:

<i>(in thousands)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Results of Operations						
Operating expenses:						
Research and development	\$ 12,161	\$ 7,153	\$ 5,008	\$ 28,959	\$ 21,849	\$ 7,110
General and administrative	5,131	4,715	416	16,242	14,133	2,109
Total operating expenses	17,292	11,868	5,424	45,201	35,982	9,219
Loss from operations	(17,292)	(11,868)	(5,424)	(45,201)	(35,982)	(9,219)
Other income:						
Interest income	499	49	450	782	115	667
Other (expense) income, net	(14)	4	(18)	(64)	30	(94)
Total other income, net	485	53	432	718	145	573
Loss before income taxes	(16,807)	(11,815)	(4,992)	(44,483)	(35,837)	(8,646)
Income tax expense	(13)	(20)	7	(40)	(73)	33
Net loss	\$ (16,820)	\$ (11,835)	\$ (4,985)	\$ (44,523)	\$ (35,910)	\$ (8,613)

Revenue

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

Research and development expenses

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

The increase in research and development expenses for the three months ended September 30, 2022, compared to the same period in 2021, was primarily due to a \$3.8 million increase in clinical program expenses and a \$1.2 million increase in personnel-related expenses due to higher headcount.

The increase in research and development expenses for the nine months ended September 30, 2022, compared to the same period in 2021, was primarily due to a \$3.7 million increase in personnel-related expenses due to higher headcount, a \$3.3 million increase in clinical program expenses and a \$0.1 million increase due to higher allocated facility-related and depreciation expenses to research and development expenses.

General and administrative expenses

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

The increase in general and administrative expenses for the three months ended September 30, 2022, compared to the same period in 2021, was primarily due to a \$0.5 million increase in personnel-related expenses due to higher headcount. The increase was partially offset by a \$0.1 million decrease in expenses related to professional services consulting.

The increase in general and administrative expenses for the nine months ended September 30, 2022, compared to the same period in 2021, was primarily due to a \$1.9 million increase in personnel-related expenses due to higher headcount and a \$0.3 million increase in insurance and professional services consulting. These increases were partially offset by a \$0.1 million decrease due to higher allocated 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, 2022 was \$0.5 million, compared to less than \$0.1 million for the same period in 2021.

Interest income for the nine months ended September 30, 2022 was \$0.8 million, compared to \$0.1 million for the same period in 2021.

Other (expense) income, net

Other (expense) income, net for the three months ended September 30, 2022 was less than \$0.1 million of expense, compared to less than \$0.1 million of income for the same period in 2021.

Other (expense) income, net for the nine months ended September 30, 2022 was \$0.1 million of expense, compared to less than \$0.1 million of income for the same period in 2021.

Income tax expense

Income tax expense for the three months ended September 30, 2022 was less than \$0.1 million, compared to less than \$0.1 million for the same period in 2021.

Income tax expense for the nine months ended September 30, 2022 was less than \$0.1 million, compared to \$0.1 million for the same period in 2021.

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 our existing cash and cash equivalents to be sufficient to fund our operating expenses and capital expenditures into 2025, including three clinical data readouts from our three lead programs. However, we continue to anticipate that our research and development expenses, general and administrative expenses and capital expenditures will remain significant to support our ongoing and planned activities. We expect to continue to incur net operating losses for at least the next several years.

Sources of liquidity

We have primarily funded our operations through proceeds from the issuance of shares of our common stock, convertible preferred stock and issuance 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, 2022, we had an accumulated deficit of \$226.6 million, a net loss of \$44.5 million, negative cash flows from operations of \$37.9 million, and cash, cash equivalents and marketable securities of \$187.3 million.

In May 2020, we received proceeds of \$16.8 million from the issuance of convertible promissory notes (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.

In March 2022, we entered into a Sales Agreement with Cowen and Company, LLC (Cowen), as sales agent, pursuant to which we have the ability to offer and sell, from time to time, through Cowen, shares of our common stock having an aggregate offering price of up to \$75.0 million in an at-the-market offering. The shares are offered pursuant to our shelf registration statement on Form S-3 filed with the Securities and Exchange Commission (SEC). There were no sales of our common stock pursuant to this agreement through September 30, 2022.

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

We believe that our existing cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements into 2025. We will need substantial additional funding to support our operating activities.

Future funding requirements

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

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

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

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

Cash flows

Operating activities

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

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.

Investing activities

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

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.

Financing activities

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

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.

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, 2021. 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, 2021.

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, 2021.

Item 4. Controls and Procedures.

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

As of September 30, 2022, 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, 2022, 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, 2022 to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 1. Legal Proceedings.

From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. While the outcome of any such proceedings cannot be predicted with certainty, as of September 30, 2022, 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, 2021, 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, 2021 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 year ended December 31, 2021.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

On November 8, 2022, we entered into an amended and restated employment letter agreement (the Amended Agreement) with Senthil Sundaram, our chief executive officer, on terms substantially similar to our prior employment letter agreement with Mr. Sundaram (the Prior Agreement).

Pursuant to the Amended Agreement, Mr. Sundaram is eligible to receive an annual base salary of \$561,400 (as may be increased from time to time) and a target annual bonus opportunity of up to 50% of his base salary, subject to adjustment by the Board of Directors. In the event of an Involuntary Termination, Mr. Sundaram will now be entitled, subject to execution and non-revocation of a general release of claims in the company's favor, to continuation of his healthcare insurance coverage (or an equivalent reimbursement from us) for a period of thirty-six (36) months (as compared to twelve (12) months in the Prior Agreement).

Further, and notwithstanding the terms of any equity award or the plan pursuant to which an equity award is or was granted to Mr. Sundaram, in the event of an Involuntary Termination that is result of Mr. Sundaram's death or that occurs within three months prior to or anytime following a Disability, then the vesting of each equity award held by Mr. Sundaram will be fully accelerated as of the termination date and each option to purchase common stock held by Mr. Sundaram will remain outstanding and exercisable until the earliest of: (i) three (3) years after the Involuntary Termination, (ii) the closing of a change in control or (iii) the original expiration date of the option.

The Amended Agreement defines an "Involuntary Termination" as a separation resulting from a termination without "cause," a voluntary resignation by Mr. Sundaram for "good reason," Mr. Sundaram's termination as a result of Disability, or Mr. Sundaram's death. "Disability" is defined as Mr. Sundaram's inability to perform essential functions of his position due to physical or mental impairment that can reasonably be expected to result in death or can reasonably be expected to continue for a period in excess of ninety (90) days in any twelve (12) month period.

The foregoing is only a summary of the material terms of the Amended Agreement and is qualified in its entirety by reference to the Amended Agreement, which will be filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2022.

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	
4.1	Form of Common Stock Certificate.	S-1/A	2/1/2021	4.2	
4.2	Form of Pre-Funded Warrant.	8-K	8/16/2022	4.1	
4.3	Amended and Restated Investor' Rights Agreement, dated December 29, 2020, by and among the Registrant and the investors listed therein.	S-1	1/15/2021	10.1	
10.1(a)#	2022 Employment Inducement Award Plan.				X
10.1(b)#	Form of Stock Option Grant Notice and Stock Option Agreement under the 2022 Employment Inducement Award Plan.				X
10.1(c)#	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement under the 2022 Employment Inducement Award Plan.				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 9, 2022

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

Date: November 9, 2022

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

TERNs PHARMACEUTICALS, INC.
2022 EMPLOYMENT INDUCEMENT AWARD PLAN

**ARTICLE I.
PURPOSE**

The Plan's purpose is to enhance the Company's ability to attract, retain and motivate employees who are expected to make important contributions to the Company by providing these individuals with equity ownership opportunities.

**ARTICLE II.
DEFINITIONS**

As used in the Plan, the following words and phrases have the meanings specified below, unless the context clearly indicates otherwise:

2.1 **"Administrator"** means the Board or the Committee to the extent that the Board's powers or authority under the Plan have been delegated to the Committee. Any action taken by the Board as the Administrator in connection with the administration of the Plan shall not be deemed approved by the Board unless such actions are approved by a majority of the Non-Employee Directors.

2.2 **"Applicable Law"** means any applicable law, including without limitation: (a) provisions of the Code, the Securities Act, the Exchange Act and any rules or regulations thereunder; (b) corporate, securities, tax or other laws, statutes, rules, requirements or regulations, whether U.S. or non-U.S. federal, state or local; and (c) rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded.

2.3 **"Automatic Exercise Date"** shall mean, with respect to an Option or a Stock Appreciation Right, the last business day of the applicable Option term or Stock Appreciation Right term that was initially established by the Administrator for such Option or Stock Appreciation Right (*e.g.*, the last business day prior to the tenth anniversary of the date of grant of such Option or Stock Appreciation Right if the Option or Stock Appreciation Right initially had a ten-year Option term or Stock Appreciation Right term, as applicable).

2.4 **"Award"** means an Option, Stock Appreciation Right, Restricted Stock award, Restricted Stock Unit award, Performance Bonus Award, Performance Stock Unit award, Dividend Equivalents award or Other Stock or Cash Based Award granted to a Participant under the Plan.

2.5 **"Award Agreement"** means an agreement evidencing an Award, which may be written or electronic, that contains such terms and conditions as the Administrator determines, consistent with and subject to the terms and conditions of the Plan.

2.6 **"Board"** means the Board of Directors of the Company.

2.7 **“Cause”** means, if the Participant is a party to a written employment with the Company or any of its Subsidiaries or an Award Agreement in which the term “cause” is defined, “Cause” shall be as defined in such agreement, or if no such agreement exists, (i) any willful, material violation by the Participant of any law or regulation applicable to the business of the Company or a Subsidiary or other affiliate of the Company, (ii) the Participant’s conviction for, or guilty plea to, a felony (or crime of similar magnitude under Applicable Law outside the United States) or a crime involving moral turpitude, or any willful perpetration by the Participant of a common law fraud, (iii) the Participant’s commission of an act of personal dishonesty which involves personal profit in connection with the Company or any other entity having a business relationship with the Company, (iv) any material breach or violation by the Participant of any provision of any agreement or understanding between the Company or any Subsidiary or other affiliate of the Company and the Participant regarding the terms of the Participant’s service as an employee or officer to the Company or a Subsidiary or other affiliate of the Company, including without limitation, the willful and continued failure or refusal of the Participant to perform the material duties required of such Participant as an employee or officer of the Company or a Subsidiary or other affiliate of the Company, other than as a result of having a Disability, or a breach of any applicable invention assignment and confidentiality agreement or similar agreement between the Company or a Subsidiary or other affiliate of the Company and the Participant, (v) the Participant’s violation of the Company’s code of ethics, (vi) the Participant’s disregard of the policies of the Company or any Subsidiary or other affiliate of the Company so as to cause loss, harm, damage or injury to the property, reputation or employees of the Company or a Subsidiary or other affiliate of the Company, or (vii) any other misconduct by the Participant which is injurious to the financial condition or business reputation of, or is otherwise injurious to, the Company or a Subsidiary or other affiliate of the Company.

2.8 **“Change in Control”** means any of the following:

(a) A transaction or series of transactions (other than an offering of Common Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any “person” or related “group” of “persons” (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) directly or indirectly acquires beneficial ownership (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) of the Company’s securities possessing more than 50% of the total combined voting power of the Company’s securities outstanding immediately after such acquisition; provided, however, that the following acquisitions shall not constitute a Change in Control: (i) any acquisition by the Company or any of its Subsidiaries; (ii) any acquisition by an employee benefit plan maintained by the Company or any of its Subsidiaries, (iii) any acquisition which complies with Sections 2.8(c)(i), 2.8(c)(ii) and 2.8(c)(iii); or (iv) in respect of an Award held by a particular Participant, any acquisition by the Participant or any group of persons including the Participant (or any entity controlled by the Participant or any group of persons including the Participant);

(b) The Incumbent Directors cease for any reason to constitute a majority of the Board;

(c) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination, (y) a sale or other disposition of all or substantially all of the Company’s assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(i) which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the "**Successor Entity**") directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction;

(ii) after which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this Section 2.8(c)(ii) as beneficially owning 50% or more of the combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; and

(iii) after which at least a majority of the members of the board of directors (or the analogous governing body) of the Successor Entity were Board members at the time of the Board's approval of the execution of the initial agreement providing for such transaction; or

(d) The completion of a liquidation or dissolution of the Company.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any Award (or any portion of an Award) that provides for the deferral of compensation that is subject to Section 409A, to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b), (c) or (d) of this Section 2.8 with respect to such Award (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing of such Award if such transaction also constitutes a "change in control event," as defined in Treasury Regulation Section 1.409A-3(i)(5).

The Administrator shall have full and final authority, which shall be exercised in its sole discretion, to determine conclusively whether a Change in Control has occurred pursuant to the above definition, the date of such Change in Control and any incidental matters relating thereto; provided that any exercise of authority in conjunction with a determination of whether a Change in Control is a "change in control event" as defined in Treasury Regulation Section 1.409A-3(i)(5) shall be consistent with such regulation.

2.9 "**Code**" means the U.S. Internal Revenue Code of 1986, as amended, and all regulations, guidance, compliance programs and other interpretative authority issued thereunder.

2.10 "**Committee**" means the Compensation Committee of the Board.

2.11 "**Common Stock**" means the common stock of the Company.

2.12 "**Company**" means Terns Pharmaceuticals, Inc., a Delaware corporation, or any successor.

2.13 "**Consultant**" means any person, including any adviser, engaged by the Company or a Subsidiary to render services to such entity.

2.14 "**Designated Beneficiary**" means, if permitted by the Company, the beneficiary or beneficiaries the Participant designates, in a manner the Company determines, to receive amounts due or exercise the Participant's rights if the Participant dies. Without a Participant's effective designation, "Designated Beneficiary" will mean the Participant's estate or legal heirs.

2.15 “**Director**” means a Board member.

2.16 “**Disability**” means a permanent and total disability under Section 22(e)(3) of the Code.

2.17 “**Dividend Equivalents**” means a right granted to a Participant to receive the equivalent value (in cash or Shares) of dividends paid on a specified number of Shares. Such Dividend Equivalent shall be converted to cash or additional Shares, or a combination of cash and Shares, by such formula and at such time and subject to such limitations as may be determined by the Administrator.

2.18 “**DRO**” means a “domestic relations order” as defined by the Code or Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

2.19 “**Effective Date**” has the meaning set forth in Section 11.3.

2.20 “**Eligible Employee**” means any Employee who has not previously been an employee or director of the Company or a Subsidiary, or is commencing employment with the Company or a Subsidiary following a bona fide period of non-employment by the Company or a Subsidiary, if such Employee is granted an Award in connection with such Employee’s commencement of employment with the Company or a Subsidiary and such grant is an inducement material to such Employee entering into employment with the Company or a Subsidiary. The Administrator may in its discretion adopt procedures from time to time to ensure that an Employee is eligible to participate in the Plan prior to the granting of any Awards to such Employee under the Plan (including, without limitation, a requirement, that each such Employee certify to the Company prior to the receipt of an Award under the Plan that such Employee has not been previously employed by the Company or a Subsidiary, or if previously employed, has had a bona fide period of non-employment, and that the grant of an Award under the Plan is an inducement material to such Employee’s agreement to enter into employment with the Company or a Subsidiary).

2.21 “**Employee**” means any employee of the Company or any of its Subsidiaries.

2.22 “**Equity Restructuring**” means a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split (including a reverse stock split), spin-off or recapitalization through a large, nonrecurring cash dividend, that affects the number or kind of Shares (or other Company securities) or the share price of Common Stock (or other Company securities) and causes a change in the per share value of the Common Stock underlying outstanding Awards.

2.23 “**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended, and all regulations, guidance and other interpretative authority issued thereunder.

2.24 “**Fair Market Value**” means, as of any date, the value of a Share determined as follows: (i) if the Common Stock is listed on any established stock exchange, the value of a Share will be the closing sales price for a Share as quoted on such exchange for such date, or if no sale occurred on such date, the last day preceding such date during which a sale occurred, as reported in *The Wall Street Journal* or another source the Administrator deems reliable; (ii) if the Common Stock is not listed on an established stock exchange but is quoted on a national market or other quotation system, the value of a Share will be the closing sales price for a Share on such date, or if no sales occurred on such date, then on the last date preceding such date during which a sale occurred, as reported in *The Wall Street Journal* or another source the Administrator deems reliable; or (iii) if the Common Stock is not listed on any established stock exchange or quoted on a national market or other quotation system, the value established by the Administrator in its sole discretion.

2.25 **“Good Reason”** shall have the meaning ascribed to such term, or term of similar effect, in any offer letter, employment, severance or similar agreement, including any Award Agreement, between the Participant and the Company; provided, that in the absence of an offer letter, employment, severance or similar agreement containing such definition, Good Reason means the occurrence of one or more of the following without the Participant’s consent: (i) a material reduction in the Participant’s base compensation, or (ii) a relocation of the principal place at which the Participant must perform services by more than 50 miles. In order to establish Good Reason, the Participant must provide the Administrator with notice of the event giving rise to Good Reason within 30 days of the occurrence of such event, the event shall remain uncured 30 days thereafter and the Participant must actually terminate services with 30 days following the end of such cure period.

2.26 **“Incentive Stock Option”** means an Option that meets the requirements to qualify as an “incentive stock option” as defined in Section 422 of the Code. Incentive Stock Options may not be granted under the Plan.

2.27 **“Incumbent Directors”** means, for any period of 12 consecutive months, individuals who, at the beginning of such period, constitute the Board together with any new Director(s) (other than a Director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 2.8(a) or 2.8(c)) whose election or nomination for election to the Board was approved by a vote of at least a majority (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for Director without objection to such nomination) of the Directors then still in office who either were Directors at the beginning of the 12-month period or whose election or nomination for election was previously so approved. No individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to Directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be an Incumbent Director.

2.28 **“Non-Employee Director”** means a Director who is not an Employee.

2.29 **“Nonqualified Stock Option”** means an Option that is not an Incentive Stock Option.

2.30 **“Option”** means a right granted under Article VI to purchase a specified number of Shares at a specified price per Share during a specified time period. Each Option shall constitute a Nonqualified Stock Option.

2.31 **“Other Stock or Cash Based Awards”** means cash awards, awards of Shares, and other awards valued wholly or partially by referring to, or are otherwise based on, Shares or other property.

2.32 **“Participant”** means an Eligible Employee who has been granted an Award.

2.33 **“Performance Bonus Award”** has the meaning set forth in Section 8.3.

2.34 **“Performance Stock Unit”** means a right granted to a Participant pursuant to Section 8.1 and subject to Section 8.2, to receive Shares, the payment of which is contingent upon achieving certain performance goals or other performance-based targets established by the Administrator.

2.35 **“Permitted Transferee”** means, with respect to a Participant, any “family member” of the Participant, as defined in the General Instructions to Form S-8 Registration Statement under the Securities Act (or any successor form thereto), or any other transferee specifically approved by the Administrator after taking into account Applicable Law.

- 2.36 “**Plan**” means this 2022 Employment Inducement Award Plan.
- 2.37 “**Restricted Stock**” means Shares awarded to a Participant under Article VII, subject to certain vesting conditions and other restrictions.
- 2.38 “**Restricted Stock Unit**” means an unfunded, unsecured right to receive, on the applicable settlement date, one Share or an amount in cash or other consideration determined by the Administrator to be of equal value as of such settlement date, subject to certain vesting conditions and other restrictions.
- 2.39 “**Rule 16b-3**” means Rule 16b-3 promulgated under the Exchange Act.
- 2.40 “**Section 409A**” means Section 409A of the Code.
- 2.41 “**Securities Act**” means the U.S. Securities Act of 1933, as amended, and all regulations, guidance and other interpretative authority issued thereunder.
- 2.42 “**Service Provider**” means an Employee, Consultant or Director.
- 2.43 “**Shares**” means shares of Common Stock.
- 2.44 “**Stock Appreciation Right**” or “**SAR**” means a right granted under Article VI to receive a payment equal to the excess of the Fair Market Value of a specified number of Shares on the date the right is exercised over the exercise price set forth in the applicable Award Agreement.
- 2.45 “**Subsidiary**” means any entity (other than the Company), whether U.S. or non-U.S., in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing at least 50% of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.
- 2.46 “**Substitute Awards**” means Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company or other entity acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.
- 2.47 “**Tax-Related Items**” means any U.S. and non-U.S. federal, state and/or local taxes (including, without limitation, income tax, social insurance contributions, fringe benefit tax, employment tax, stamp tax and any employer tax liability which has been transferred to a Participant) for which a Participant is liable in connection with Awards and/or Shares.
- 2.48 “**Termination of Service**” means:
- (a) As to a Consultant, the time when the engagement of a Participant as a Consultant to the Company or a Subsidiary is terminated for any reason, with or without cause, including, without limitation, by resignation, discharge, death or retirement, but excluding terminations where the Consultant simultaneously commences or remains in employment or service with the Company or any Subsidiary.
- (b) As to a Non-Employee Director, the time when a Participant who is a Non-Employee Director ceases to be a Director for any reason, including, without limitation, a termination by resignation, failure to be elected, death or retirement, but excluding terminations where the Participant simultaneously commences or remains in employment or service with the Company or any Subsidiary.

(c) As to an Employee, the time when the employee-employer relationship between a Participant and the Company or any Subsidiary is terminated for any reason, including, without limitation, a termination by resignation, discharge, death, disability or retirement; but excluding terminations where the Participant simultaneously commences or remains in employment or service with the Company or any Subsidiary.

The Company, in its sole discretion, shall determine the effect of all matters and questions relating to any Termination of Service, including, without limitation, whether a Termination of Service has occurred, whether a Termination of Service resulted from a discharge for "cause" and all questions of whether particular leaves of absence constitute a Termination of Service. For purposes of the Plan, a Participant's employee-employer relationship or consultancy relationship shall be deemed to be terminated in the event that the Subsidiary employing or contracting with such Participant ceases to remain a Subsidiary following any merger, sale of stock or other corporate transaction or event (including, without limitation, a spin-off), even though the Participant may subsequently continue to perform services for that entity.

ARTICLE III. ELIGIBILITY

Eligible Employees are eligible to be granted Awards under the Plan, subject to the limitations described herein. No Eligible Employee shall have any right to be granted an Award pursuant to the Plan and neither the Company nor the Administrator is obligated to treat Eligible Employees, Participants or any other persons uniformly.

ARTICLE IV. ADMINISTRATION AND DELEGATION

4.1 Administration.

(a) The Plan is administered by the Administrator. The Administrator has authority to determine which Eligible Employees receive Awards, grant Awards and set Award terms and conditions, subject to the conditions and limitations in the Plan. The Administrator also has the authority to take all actions and make all determinations under the Plan, to interpret the Plan and Award Agreements and to adopt, amend and repeal Plan administrative rules, guidelines and practices as it deems advisable and may impose, incidental to the grant of an Award, conditions with respect to the Award, including procedures to ensure that an Employee is eligible to participate in the Plan prior to the granting of any Awards to such Employee under the Plan (including, without limitation, a requirement, if any, that each such Employee certify to the Company prior to the receipt of an Award under the Plan that such Employee has not been previously employed by the Company or a Subsidiary, or if previously employed, has had a bona fide period of non-employment, and that the grant of an Award under the Plan is an inducement material to such Employee's agreement to enter into employment with the Company or a Subsidiary. The Administrator may correct defects and ambiguities, supply omissions, reconcile inconsistencies in the Plan or any Award and make all other determinations that it deems necessary or appropriate to administer the Plan and any Awards. The Administrator (and each member thereof) is entitled to, in good faith, rely or act upon any report or other information furnished to it, him or her by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan. The Administrator's determinations under the Plan are in its sole discretion and will be final, binding and conclusive on all persons having or claiming any interest in the Plan or any Award.

(b) Without limiting the foregoing, the Administrator has the exclusive power, authority and sole discretion to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant; (iii) determine the number of Awards to be granted and the number of Shares to which an Award will relate; (iv) subject to the limitations in the Plan, determine the terms and conditions of any Award and related Award Agreement, including, but not limited to, the exercise price, grant price, purchase price, any performance criteria, any restrictions or limitations on the Award, any schedule for vesting, lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations, waivers or amendments thereof; (v) determine whether, to what extent, and under what circumstances an Award may be settled in, or the exercise price of an Award may be paid in cash, Shares, or other property, or an Award may be canceled, forfeited, or surrendered; and (vi) make all other decisions and determinations that may be required pursuant to the Plan or as the Administrator deems necessary or advisable to administer the Plan.

ARTICLE V. STOCK AVAILABLE FOR AWARDS

5.1 Number of Shares. Subject to adjustment under Article IX and the terms of this Article V, Awards may be made under the Plan covering up to 1,400,000 Shares. Shares issued or delivered under the Plan may consist of authorized but unissued Shares, Shares purchased on the open market or treasury Shares.

5.2 Share Recycling.

(a) If all or any part of an Award expires, lapses or is terminated, converted into an award in respect of shares of another entity in connection with a spin-off or other similar event, exchanged for cash, surrendered, repurchased, canceled without having been fully exercised or forfeited, in any case, in a manner that results in the Company acquiring Shares covered by the Award at a price not greater than the price (as adjusted to reflect any Equity Restructuring) paid by the Participant for such Shares or not issuing any Shares covered by the Award, the unused Shares covered by the Award will, as applicable, become or again be available for Awards under the Plan. The payment of Dividend Equivalents in cash in conjunction with any outstanding Awards shall not count against the number of Shares that may be issued under the Plan.

(b) In addition, the following Shares shall be available for future grants of Awards: (i) Shares tendered by a Participant or withheld by the Company in payment of the exercise price of an Option; (ii) Shares tendered by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award; and (iii) Shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right on exercise thereof.

5.3 Substitute Awards. In connection with an entity's merger or consolidation with the Company or any Subsidiary or the Company's or any Subsidiary's acquisition of an entity's property or stock, the Administrator may grant Awards in substitution for any options or other stock or stock-based awards granted before such merger or consolidation by such entity or its affiliate. Substitute Awards may be granted on such terms and conditions as the Administrator deems appropriate, notwithstanding limitations on Awards in the Plan. Substitute Awards will not count against the Shares available for issuance under the Plan (nor shall Shares subject to a Substitute Award be added to the Shares available for Awards under the Plan as provided above). Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as appropriately adjusted to reflect the transaction) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan (and Shares subject to such Awards may again become available for Awards under the Plan as provided under Section 5.2 above); provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employees or directors of the Company or any of its Subsidiaries prior to such acquisition or combination.

ARTICLE VI. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

6.1 General. The Administrator may grant Options or Stock Appreciation Rights to one or more Eligible Employees, subject to such terms and conditions not inconsistent with the Plan as the Administrator shall determine. The Administrator will determine the number of Shares covered by each Option and Stock Appreciation Right, the exercise price of each Option and Stock Appreciation Right and the conditions and limitations applicable to the exercise of each Option and Stock Appreciation Right. A Stock Appreciation Right will entitle the Participant (or other person entitled to exercise the Stock Appreciation Right) to receive from the Company upon exercise of the exercisable portion of the Stock Appreciation Right an amount determined by multiplying the excess, if any, of the Fair Market Value of one Share on the date of exercise over the exercise price per Share of the Stock Appreciation Right by the number of Shares with respect to which the Stock Appreciation Right is exercised, subject to any limitations of the Plan or that the Administrator may impose and payable in cash, Shares valued at Fair Market Value on the date of exercise or a combination of the two as the Administrator may determine or provide in the Award Agreement.

6.2 Exercise Price. The Administrator will establish each Option's and Stock Appreciation Right's exercise price and specify the exercise price in the Award Agreement. The exercise price will not be less than 100% of the Fair Market Value on the grant date of the Option or Stock Appreciation Right. Notwithstanding the foregoing, in the case of an Option or Stock Appreciation Right that is a Substitute Award, the exercise price per share of the Shares subject to such Option or Stock Appreciation Right, as applicable, may be less than the Fair Market Value per share on the date of grant; provided that the exercise price of any Substitute Award shall be determined in accordance with the applicable requirements of Section 424 and 409A of the Code.

6.3 Duration of Options. Each Option or Stock Appreciation Right will be exercisable at such times and as specified in the Award Agreement, provided that the term of an Option or Stock Appreciation Right will not exceed ten years; provided, further, that, unless otherwise determined by the Administrator or specified in the Award Agreement, (a) no portion of an Option or Stock Appreciation Right which is unexercisable at a Participant's Termination of Service shall thereafter become exercisable and (b) the portion of an Option or Stock Appreciation Right that is unexercisable at a Participant's Termination of Service shall automatically expire on the date of such Termination of Service. In addition, in no event shall an Option or Stock Appreciation Right granted to an Employee who is a non-exempt employee for purposes of overtime pay under the U.S. Fair Labor Standards Act of 1938 be exercisable earlier than six (6) months after its date of grant. Notwithstanding the foregoing, if the Participant, prior to the end of the term of an Option or Stock Appreciation Right, commits an act of "cause" (as determined by the Administrator), or violates any non-competition, non-solicitation or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other agreement between the Participant and the Company or any of its Subsidiaries, the right to exercise the Option or Stock Appreciation Right, as applicable, shall be terminated, unless otherwise determined by the Company, and the Company may suspend the Participant's right to exercise the Option or Stock Appreciation Right when it reasonably believes that the Participant may have participated in any such act or violation.

6.4 Exercise. Options and Stock Appreciation Rights may be exercised by delivering to the Company (or such other person or entity designated by the Administrator) a notice of exercise, in a form and manner the Company approves (which may be written, electronic or telephonic and may contain representations and warranties deemed advisable by the Administrator), signed or authenticated by the person authorized to exercise the Option or Stock Appreciation Right, together with, as applicable, (a) payment in full of the exercise price for the number of Shares for which the Option is exercised in a manner specified in Section 6.5 and (b) satisfaction in full of any withholding obligation for Tax-Related Items in a manner specified in Section 10.5. The Administrator may, in its discretion, limit exercise with respect to fractional Shares and require that any partial exercise of an Option or Stock Appreciation Right be with respect to a minimum number of Shares.

6.5 Payment Upon Exercise. The Administrator shall determine the methods by which payment of the exercise price of an Option shall be made, including, without limitation:

(a) Cash, check or wire transfer of immediately available funds; provided that the Company may limit the use of one of the foregoing methods if one or more of the methods below is permitted;

(b) If there is a public market for Shares at the time of exercise, unless the Company otherwise determines, (A) delivery (including electronically or telephonically to the extent permitted by the Company) of a notice that the Participant has placed a market sell order with a broker acceptable to the Company with respect to Shares then issuable upon exercise of the Option and that the broker has been directed to deliver promptly to the Company funds sufficient to pay the exercise price, or (B) the Participant's delivery to the Company of a copy of irrevocable and unconditional instructions to a broker acceptable to the Company to deliver promptly to the Company an amount sufficient to pay the exercise price by cash, wire transfer of immediately available funds or check; provided that such amount is paid to the Company at such time as may be required by the Company;

(c) To the extent permitted by the Administrator, delivery (either by actual delivery or attestation) of Shares owned by the Participant valued at their Fair Market Value on the date of delivery;

(d) To the extent permitted by the Administrator, surrendering Shares then issuable upon the Option's exercise valued at their Fair Market Value on the exercise date;

(e) To the extent permitted by the Administrator, delivery of a promissory note or any other lawful consideration; or

(f) To the extent permitted by the Administrator, any combination of the above payment forms.

6.6 Expiration of Option Term or SAR Term: Automatic Exercise of In-The-Money Options and Stock Appreciation Rights. Unless otherwise provided by the Administrator in an Award Agreement or otherwise or as otherwise directed by a holder of Option or Stock Appreciation Rights in writing to the Company, each vested and exercisable Option and Stock Appreciation Right outstanding on the Automatic Exercise Date with an exercise price per Share that is less than the sum of the Fair Market Value per Share and the related broker's fees (as described in Section 11.19(c)), if any, per Share as of such date shall automatically and without further action by the holder of the Option or Stock Appreciation Rights or the Company be exercised on the Automatic Exercise Date. In the sole discretion of the Administrator, payment of the exercise price of any such Option shall be made pursuant to Section 6.5(b) or 6.5(d) and the Company or any Subsidiary shall be entitled to deduct or withhold an amount sufficient to satisfy any withholding obligation for Tax-Related Items associated with such exercise in accordance with Section 10.5. Unless otherwise determined by the Administrator, this Section 6.6 shall not apply to an Option or Stock Appreciation Right if the holder of such Option or Stock Appreciation Right incurs a Termination of Service on or before the Automatic Exercise Date. For the avoidance of doubt, no Option or Stock Appreciation Right with an exercise price per Share that is equal to or greater than the Fair Market Value per Share on the Automatic Exercise Date shall be exercised pursuant to this Section 6.6.

**ARTICLE VII.
RESTRICTED STOCK; RESTRICTED STOCK UNITS**

7.1 General. The Administrator may grant Restricted Stock, or the right to purchase Restricted Stock, to any Eligible Employee, subject to forfeiture or the Company's right to repurchase all or part of such shares at their issue price or other stated or formula price from the Participant if conditions the Administrator specifies in the Award Agreement are not satisfied before the end of the applicable restriction period or periods that the Administrator establishes for such Award. In addition, the Administrator may grant Restricted Stock Units, which may be subject to vesting and forfeiture conditions during the applicable restriction period or periods, as set forth in an Award Agreement, to Eligible Employee. The Administrator shall establish the purchase price, if any, and form of payment for Restricted Stock and Restricted Stock Units; provided, however, that if a purchase price is charged, such purchase price shall be no less than the par value, if any, of the Shares to be purchased, unless otherwise permitted by Applicable Law. In all cases, legal consideration shall be required for each issuance of Restricted Stock and Restricted Stock Units to the extent required by Applicable Law. The Award Agreement for each Award of Restricted Stock and Restricted Stock Units shall set forth the terms and conditions not inconsistent with the Plan as the Administrator shall determine.

7.2 Restricted Stock.

(a) *Stockholder Rights.* Unless otherwise determined by the Administrator, each Participant holding shares of Restricted Stock will be entitled to all the rights of a stockholder with respect to such Shares, subject to the restrictions in the Plan and the applicable Award Agreement, including the right to receive all dividends and other distributions paid or made with respect to the Shares to the extent such dividends and other distributions have a record date that is on or after the date on which such Participant becomes the record holder of such Shares; provided, however, that with respect to a share of Restricted Stock subject to restrictions or vesting conditions, except in connection with a spin-off or other similar event as otherwise permitted under Section 9.2, dividends which are paid to Company stockholders prior to the removal of restrictions and satisfaction of vesting conditions shall only be paid to the Participant to the extent that the restrictions are subsequently removed and the vesting conditions are subsequently satisfied and the share of Restricted Stock vests.

(b) *Stock Certificates.* The Company may require that the Participant deposit in escrow with the Company (or its designee) any stock certificates issued in respect of shares of Restricted Stock, together with a stock power endorsed in blank.

(c) *Section 83(b) Election.* If a Participant makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which such Participant would otherwise be taxable under Section 83(a) of the Code, such Participant shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service along with proof of the timely filing thereof.

7.3 Restricted Stock Units. The Administrator may provide that settlement of Restricted Stock Units will occur upon or as soon as reasonably practicable after the Restricted Stock Units vest or will instead be deferred, on a mandatory basis or at the Participant's election, subject to compliance with Applicable Law.

**ARTICLE VIII.
OTHER TYPES OF AWARDS**

8.1 General. The Administrator may grant Performance Stock Unit awards, Performance Bonus Awards, Dividend Equivalents or Other Stock or Cash Based Awards, to one or more Eligible Employees in such amounts and subject to such terms and conditions not inconsistent with the Plan as the Administrator shall determine.

8.2 Performance Stock Unit Awards. Each Performance Stock Unit award shall be denominated in a number of Shares or in unit equivalents of Shares or units of value (including a dollar value of Shares) and may be linked to any one or more of performance or other specific criteria, including service to the Company or Subsidiaries, determined to be appropriate by the Administrator, in each case on a specified date or dates or over any period or periods determined by the Administrator. In making such determinations, the Administrator may consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.3 Performance Bonus Awards. Each right to receive a bonus granted under this Section 8.3 shall be denominated in the form of cash (but may be payable in cash, stock or a combination thereof) (a “**Performance Bonus Award**”) and shall be payable upon the attainment of performance goals that are established by the Administrator and relate to one or more of performance or other specific criteria, including service to the Company or Subsidiaries, in each case on a specified date or dates or over any period or periods determined by the Administrator.

8.4 Dividend Equivalents. If the Administrator provides, an Award (other than an Option or Stock Appreciation Right) may provide a Participant with the right to receive Dividend Equivalents. Dividend Equivalents may be paid currently or credited to an account for the Participant, settled in cash or Shares and subject to the same restrictions on transferability and forfeitability as the Award with respect to which the Dividend Equivalents are granted and subject to other terms and conditions as set forth in the Award Agreement. Notwithstanding anything to the contrary herein, Dividend Equivalents with respect to an Award subject to vesting shall either (i) to the extent permitted by Applicable Law, not be paid or credited or (ii) be accumulated and subject to vesting to the same extent as the related Award. All such Dividend Equivalents shall be paid at such time as the Administrator shall specify in the applicable Award Agreement.

8.5 Other Stock or Cash Based Awards. Other Stock or Cash Based Awards may be granted to Participants, including Awards entitling Participants to receive cash or Shares to be delivered in the future and annual or other periodic or long-term cash bonus awards (whether based on specified performance criteria or otherwise), in each case subject to any conditions and limitations in the Plan. Such Other Stock or Cash Based Awards will also be available as a payment form in the settlement of other Awards, as standalone payments and as payment in lieu of compensation to which a Participant is otherwise entitled. Other Stock or Cash Based Awards may be paid in Shares, cash or other property, as the Administrator determines. Subject to the provisions of the Plan, the Administrator will determine the terms and conditions of each Other Stock or Cash Based Award, including any purchase price, performance goal(s), transfer restrictions, and vesting conditions, which will be set forth in the applicable Award Agreement. Except in connection with a spin-off or other similar event as otherwise permitted under Article IX, dividends that are paid prior to vesting of any Other Stock or Cash Based Award shall only be paid to the applicable Participant to the extent that the vesting conditions are subsequently satisfied and the Other Stock or Cash Based Award vests.

ARTICLE IX.
ADJUSTMENTS FOR CHANGES IN COMMON STOCK
AND CERTAIN OTHER EVENTS

9.1 Equity Restructuring. In connection with any Equity Restructuring, notwithstanding anything to the contrary in this Article IX the Administrator will equitably adjust the terms of the Plan and each outstanding Award as it deems appropriate to reflect the Equity Restructuring, which may include (i) adjusting the number and type of securities subject to each outstanding Award or with respect to which Awards may be granted under the Plan (including, but not limited to, adjustments of the limitations in Article V hereof on the maximum number and kind of shares that may be issued); (ii) adjusting the terms and conditions of (including the grant or exercise price), and the performance goals or other criteria included in, outstanding Awards; and (iii) granting new Awards or making cash payments to Participants. The adjustments provided under this Section 9.1 will be nondiscretionary and final and binding on all interested parties, including the affected Participant and the Company; provided that the Administrator will determine whether an adjustment is equitable.

9.2 Corporate Transactions. In the event of any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), reorganization, merger, consolidation, split-up, spin off, combination, amalgamation, repurchase, recapitalization, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, or sale or exchange of Common Stock or other securities of the Company, Change in Control, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, other similar corporate transaction or event, other unusual or nonrecurring transaction or event affecting the Company or its financial statements or any change in any Applicable Law or accounting principles, the Administrator, on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event (except that action to give effect to a change in Applicable Law or accounting principles may be made within a reasonable period of time after such change) and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to (x) prevent dilution or enlargement of the benefits or potential benefits intended by the Company to be made available under the Plan or with respect to any Award granted or issued under the Plan, (y) to facilitate such transaction or event or (z) give effect to such changes in Applicable Law or accounting principles:

(a) To provide for the cancellation of any such Award in exchange for either an amount of cash or other property with a value equal to the amount that could have been obtained upon the exercise or settlement of the vested portion of such Award or realization of the Participant's rights under the vested portion of such Award, as applicable; provided that, if the amount that could have been obtained upon the exercise or settlement of the vested portion of such Award or realization of the Participant's rights, in any case, is equal to or less than zero, then the Award may be terminated without payment;

(b) To provide that such Award shall vest and, to the extent applicable, be exercisable as to all Shares (or other property) covered thereby, notwithstanding anything to the contrary in the Plan or the provisions of such Award;

(c) To provide that such Award be assumed by the successor or survivor corporation or entity, or a parent or subsidiary thereof, or shall be substituted for by awards covering the stock of the successor or survivor corporation or entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and applicable exercise or purchase price, in all cases, as determined by the Administrator;

(d) To make adjustments in the number and type of shares of Common Stock (or other securities or property) subject to outstanding Awards or with respect to which Awards may be granted under the Plan (including, but not limited to, adjustments of the limitations in Article V hereof on the maximum number and kind of shares which may be issued) or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Awards;

(e) To replace such Award with other rights or property selected by the Administrator; or

(f) To provide that the Award will terminate and cannot vest, be exercised or become payable after the applicable event.

9.3 Change in Control.

(a) Notwithstanding any other provision of the Plan, except as may be provided in an applicable Award Agreement for an Award subject to performance-based vesting, in the event of a Change in Control, unless the Administrator elects to (i) terminate an Award in exchange for cash, rights or property, or (ii) cause an Award to become fully exercisable and no longer subject to any forfeiture restrictions prior to the consummation of a Change in Control, pursuant to Section 9.2, (A) such Award (other than any portion subject to performance-based vesting) shall continue in effect or be assumed or an equivalent Award substituted by the successor corporation or a parent or subsidiary of the successor corporation and (B) the portion of such Award subject to performance-based vesting shall be subject to the terms and conditions of the applicable Award Agreement and, in the absence of applicable terms and conditions, the Administrator's discretion.

(b) Except as may be provided in an applicable Award Agreement for an Award subject to performance-based vesting, in the event that the successor corporation in a Change in Control refuses to assume or substitute for an Award (other than any portion subject to performance-based vesting), the Administrator shall cause such Award to become fully vested and, if applicable, exercisable immediately prior to the consummation of such transaction and all forfeiture restrictions on such Award to lapse and, to the extent unexercised upon the consummation of such transaction, to terminate in exchange for cash, rights or other property. The Administrator shall notify the Participant of any Award that becomes exercisable pursuant to the preceding sentence that such Award shall be fully exercisable for a period of 15 days from the date of such notice, contingent upon the occurrence of the Change in Control, and such Award shall terminate upon the consummation of the Change in Control in accordance with the preceding sentence.

(c) For the purposes of this Section 9.3, an Award shall be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control was not solely common stock of the successor corporation or its parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Award, for each Share subject to an Award, to be solely common stock of the successor corporation or its parent equal in fair market value to the per-share consideration received by holders of Common Stock in the Change in Control.

(d) Notwithstanding anything to the contrary in Section 9.3(a), if a Participant experiences a Termination of Service during the period beginning three months prior to and ending 12 months following the closing of a Change in Control that is effected by the Company without Cause or by the Participant for Good Reason, then, the Award(s) held by such Participant shall become fully vested and, if applicable, exercisable and all forfeiture restrictions on such Award(s) shall lapse as of immediately prior to the consummation of such Change in Control or, if later, the date of such Termination of Service.

9.4 Administrative Stand Still. In the event of any pending stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other extraordinary transaction or change affecting the Shares or the share price of Common Stock (including any Equity Restructuring or any securities offering or other similar transaction) or for reasons of administrative convenience or to facilitate compliance with any Applicable Law, the Company may refuse to permit the exercise or settlement of one or more Awards for such period of time as the Company may determine to be reasonably appropriate under the circumstances.

9.5 General. Except as expressly provided in the Plan or the Administrator's action under the Plan, no Participant will have any rights due to any subdivision or consolidation of Shares of any class, dividend payment, increase or decrease in the number of Shares of any class or dissolution, liquidation, merger, or consolidation of the Company or other corporation. Except as expressly provided with respect to an Equity Restructuring under Section 9.1 above or the Administrator's action under the Plan, no issuance by the Company of Shares of any class, or securities convertible into Shares of any class, will affect, and no adjustment will be made regarding, the number of Shares subject to an Award or the Award's grant or exercise price. The existence of the Plan, any Award Agreements and the Awards granted hereunder will not affect or restrict in any way the Company's right or power to make or authorize (i) any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, (ii) any merger, consolidation, spinoff, dissolution or liquidation of the Company or sale of Company assets or (iii) any sale or issuance of securities, including securities with rights superior to those of the Shares or securities convertible into or exchangeable for Shares.

**ARTICLE X.
PROVISIONS APPLICABLE TO AWARDS**

10.1 Transferability.

(a) No Award may be sold, assigned, transferred, pledged or otherwise encumbered, either voluntarily or by operation of law, except by will or the laws of descent and distribution, or, subject to the Administrator's consent, pursuant to a DRO, unless and until such Award has been exercised or the Shares underlying such Award have been issued, and all restrictions applicable to such Shares have lapsed. During the life of a Participant, Awards will be exercisable only by the Participant, unless it has been disposed of pursuant to a DRO. After the death of a Participant, any exercisable portion of an Award may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Award Agreement, be exercised by the Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then-Applicable Law of descent and distribution. References to a Participant, to the extent relevant in the context, will include references to a transferee approved by the Administrator.

(b) Notwithstanding Section 10.1(a), the Administrator, in its sole discretion, may determine to permit a Participant or a Permitted Transferee of such Participant to transfer an Award to any one or more Permitted Transferees of such Participant, subject to the following terms and conditions: (i) an Award transferred to a Permitted Transferee shall not be assignable or transferable by the Permitted Transferee other than (A) to another Permitted Transferee of the applicable Participant or (B) by will or the laws of descent and distribution or, subject to the consent of the Administrator, pursuant to a domestic relations order; (ii) an Award transferred to a Permitted Transferee shall continue to be subject to all the terms and conditions of the Award as applicable to the original Participant (other than the ability to further transfer the Award to any person other than another Permitted Transferee of the applicable Participant); (iii) the Participant (or transferring Permitted Transferee) and the receiving Permitted Transferee shall execute any and all documents requested by the Administrator, including, without limitation documents to (A) confirm the status of the transferee as a Permitted Transferee, (B) satisfy any requirements for an exemption for the transfer under Applicable Law and (C) evidence the transfer; and (iv) any transfer of an Award to a Permitted Transferee shall be without consideration, except as required by Applicable Law.

(c) Notwithstanding Section 10.1(a), if permitted by the Administrator, a Participant may, in the manner determined by the Administrator, designate a Designated Beneficiary. A Designated Beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant and any additional restrictions deemed necessary or appropriate by the Administrator. If the Participant is married or a domestic partner in a domestic partnership qualified under Applicable Law and resides in a community property state, a designation of a person other than the Participant's spouse or domestic partner, as applicable, as the Participant's Designated Beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written or electronic consent of the Participant's spouse or domestic partner. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time; provided that the change or revocation is delivered in writing to the Administrator prior to the Participant's death.

10.2 Documentation. Each Award will be evidenced in an Award Agreement in such form as the Administrator determines in its discretion. Each Award may contain such terms and conditions as are determined by the Administrator in its sole discretion, to the extent not inconsistent with those set forth in the Plan.

10.3 Discretion. Except as the Plan otherwise provides, each Award may be made alone or in addition or in relation to any other Award. The terms of each Award to a Participant need not be identical, and the Administrator need not treat Participants or Awards (or portions thereof) uniformly.

10.4 Changes in Participant's Status. The Administrator will determine how the Disability, death, retirement, authorized leave of absence or any other change or purported change in an Eligible Employee status affects an Award and the extent to which, and the period during which, the Participant, the Participant's legal representative, conservator, guardian or Designated Beneficiary may exercise rights under the Award, if applicable. Except to the extent otherwise required by Applicable Law or expressly authorized by the Company or by the Company's written policy on leaves of absence, no service credit shall be given for vesting purposes for any period the Participant is on a leave of absence.

10.5 Withholding. Each Participant must pay the Company or a Subsidiary, as applicable, or make provision satisfactory to the Administrator for payment of, any Tax-Related Items required by Applicable Law to be withheld in connection with such Participant's Awards and/or Shares by the date of the event creating the liability for Tax-Related Items.

At the Company's discretion and subject to any Company insider trading policy (including black-out periods), any withholding obligation for Tax-Related Items may be satisfied by (i) deducting an amount sufficient to satisfy such withholding obligation from any payment of any kind otherwise due to a Participant; (ii) accepting a payment from the Participant in cash, by wire transfer of immediately available funds, or by check made payable to the order of the Company or a Subsidiary, as applicable; (iii) accepting the delivery of Shares, including Shares delivered by attestation; (iv) retaining Shares from the Award creating the withholding obligation for Tax-Related Items, valued on the date of delivery, (v) if there is a public market for Shares at the time the withholding obligation for Tax-Related Items is satisfied, selling Shares issued pursuant to the Award creating the withholding obligation for Tax-Related Items, either voluntarily by the Participant or mandatorily by the Company; (vi) accepting delivery of a promissory note or any other lawful consideration; or (vii) any combination of the foregoing payment forms. The amount withheld pursuant to any of the foregoing payment forms shall be determined by the Company and may be up to, but no greater than, the aggregate amount of such obligations based on the maximum statutory withholding rates in the applicable Participant's jurisdiction for all Tax-Related Items that are applicable to such taxable income.

If any tax withholding obligation will be satisfied under clause (v) of the preceding paragraph, each Participant's acceptance of an Award under the Plan will constitute the Participant's authorization to the Company and instruction and authorization to any brokerage firm selected by the Company to effect the sale to complete the transactions described in clause (v).

10.6 Amendment of Award; Repricing. The Administrator may amend, modify or terminate any outstanding Award, including by substituting another Award of the same or a different type and changing the exercise or settlement date. The Participant's consent to such action will be required unless (i) the action, taking into account any related action, does not materially and adversely affect the Participant's rights under the Award, or (ii) the change is permitted under Article IX or pursuant to Section 11.6. In addition, the Administrator shall, without the approval of the stockholders of the Company, have the authority to (a) amend any outstanding Option or Stock Appreciation Right to reduce its exercise price per Share, or (b) cancel any Option or Stock Appreciation Right in exchange for cash or another Award.

10.7 Conditions on Delivery of Stock. The Company will not be obligated to deliver any Shares under the Plan or remove restrictions from Shares previously delivered under the Plan until (i) all Award conditions have been met or removed to the Company's satisfaction, (ii) as determined by the Company, all other legal matters regarding the issuance and delivery of such Shares have been satisfied, including, without limitation, any applicable securities laws and stock exchange or stock market rules and regulations, (iii) any approvals from governmental agencies that the Company determines are necessary or advisable have been obtained and (iv) the Participant has executed and delivered to the Company such representations or agreements as the Administrator deems necessary or appropriate to satisfy Applicable Law. The inability or impracticability of the Company to obtain or maintain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained, and shall constitute circumstances in which the Administrator may determine to amend or cancel Awards pertaining to such Shares, with or without consideration to the Participant.

10.8 Acceleration. The Administrator may at any time provide that any Award will become immediately vested and fully or partially exercisable, free of some or all restrictions or conditions, or otherwise fully or partially realizable.

ARTICLE XI. MISCELLANEOUS

11.1 No Right to Employment or Other Status. No person will have any claim or right to be granted an Award, and the grant of an Award will not be construed as giving a Participant the right to continue employment or any other relationship with the Company or a Subsidiary. The Company and its Subsidiaries expressly reserve the right at any time to dismiss or otherwise terminate its relationship with a Participant free from any liability or claim under the Plan or any Award, except as expressly provided in an Award Agreement or other written agreement between the Participant and the Company or any Subsidiary.

11.2 No Rights as Stockholder; Certificates. Subject to the Award Agreement, no Participant or Designated Beneficiary will have any rights as a stockholder with respect to any Shares to be distributed under an Award until becoming the record holder of such Shares. Notwithstanding any other provision of the Plan, unless the Administrator otherwise determines or Applicable Law requires, the Company will not be required to deliver to any Participant certificates evidencing Shares issued in connection with any Award and instead such Shares may be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator). The Company may place legends on any share certificate or book entry to reference restrictions applicable to the Shares (including, without limitation, restrictions applicable to Restricted Stock).

11.3 Effective Date. The Plan will become effective on the date the Board has adopted the Plan (the “**Effective Date**”). It is expressly intended that approval of the Company’s stockholders not be required as a condition of the effectiveness of the Plan, and the Plan’s provisions shall be interpreted in a manner consistent with such intent for all purposes. Specifically, Nasdaq Stock Market Rule 5635(c) generally requires stockholder approval for stock option plans or other equity compensation arrangements adopted by companies whose securities are listed on the Nasdaq Stock Market pursuant to which stock awards or stock may be acquired by officers, directors, employees, or consultants of such companies. Nasdaq Stock Market Rule 5635(c)(4) provides an exception to this requirement for issuances of securities to a person not previously an employee or director of the issuer, or following a bona fide period of non-employment, as an inducement material to the individual’s entering into employment with the issuer; provided, such issuances are approved by either the issuer’s compensation committee comprised of a majority of independent directors or a majority of the issuer’s independent directors. Notwithstanding anything to the contrary herein, Awards under the Plan may only be made to employees who have not previously been an employee or director of the Company or a Subsidiary, or following a bona fide period of non-employment by the Company or a Subsidiary, as an inducement material to the employee’s entering into employment with the Company or a Subsidiary. Awards under the Plan will be approved by (i) the Compensation Committee of the Board, comprised of Non-Employee Directors or (ii) a majority of the Company’s Non-Employee Directors. Accordingly, pursuant to Nasdaq Stock Market Rule 5635(c)(4), the issuance of Awards and the Shares issuable upon exercise or vesting of such Awards pursuant to the Plan are not subject to the approval of the Company’s stockholders.

11.4 Amendment of Plan. The Board may amend, suspend or terminate the Plan at any time and from time to time; provided that (a) no amendment requiring stockholder approval to comply with Applicable Law shall be effective unless approved by the Board, and (b) no amendment, other than an increase to the Shares reserved for issuance under the Plan or pursuant to Article IX or Section 11.6, may materially and adversely affect any Award outstanding at the time of such amendment without the affected Participant’s consent. No Awards may be granted under the Plan during any suspension period or after Plan termination. Awards outstanding at the time of any Plan suspension or termination will continue to be governed by the Plan and the Award Agreement, as in effect before such suspension or termination. The Board will obtain stockholder approval of any Plan amendment to the extent necessary to comply with Applicable Law.

11.5 Provisions for Foreign Participants. The Administrator may modify Awards granted to Participants who are nationals of a country other than the United States or employed or residing outside the United States, establish subplans or procedures under the Plan or take any other necessary or appropriate action to address Applicable Law, including (a) differences in laws, rules, regulations or customs of such jurisdictions with respect to tax, securities, currency, employee benefit or other matters, (b) listing and other requirements of any non-U.S. securities exchange, and (c) any necessary local governmental or regulatory exemptions or approvals.

(a) *General.* The Company intends that all Awards be structured to comply with, or be exempt from, Section 409A, such that no adverse tax consequences, interest, or penalties under Section 409A apply. Notwithstanding anything in the Plan or any Award Agreement to the contrary, the Administrator may, without a Participant's consent, amend this Plan or Awards, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and retroactive actions) as are necessary or appropriate to preserve the intended tax treatment of Awards, including any such actions intended to (A) exempt this Plan or any Award from Section 409A, or (B) comply with Section 409A, including regulations, guidance, compliance programs and other interpretative authority that may be issued after an Award's grant date. The Company makes no representations or warranties as to an Award's tax treatment under Section 409A or otherwise. The Company will have no obligation under this Section 11.6 or otherwise to avoid the taxes, penalties or interest under Section 409A with respect to any Award and will have no liability to any Participant or any other person if any Award, compensation or other benefits under the Plan are determined to constitute noncompliant "nonqualified deferred compensation" subject to taxes, penalties or interest under Section 409A.

(b) *Separation from Service.* If an Award constitutes "nonqualified deferred compensation" under Section 409A, any payment or settlement of such Award upon a Participant's Termination of Service will, to the extent necessary to avoid taxes under Section 409A, be made only upon the Participant's "separation from service" (within the meaning of Section 409A), whether such "separation from service" occurs upon or after the Participant's Termination of Service. For purposes of this Plan or any Award Agreement relating to any such payments or benefits, references to a "termination," "termination of employment" or like terms means a "separation from service."

(c) *Payments to Specified Employees.* Notwithstanding any contrary provision in the Plan or any Award Agreement, any payment(s) of "nonqualified deferred compensation" required to be made under an Award to a "specified employee" (as defined under Section 409A and as the Administrator determines) due to his or her "separation from service" will, to the extent necessary to avoid taxes under Section 409A(a)(2)(B)(i) of the Code, be delayed for the six-month period immediately following such "separation from service" (or, if earlier, until the specified employee's death) and will instead be paid (as set forth in the Award Agreement) on the day immediately following such six-month period or as soon as administratively practicable thereafter (without interest). Any payments of "nonqualified deferred compensation" under such Award payable more than six months following the Participant's "separation from service" will be paid at the time or times the payments are otherwise scheduled to be made.

11.7 Limitations on Liability. Notwithstanding any other provisions of the Plan, no individual acting as a director, officer or other employee of the Company or any Subsidiary will be liable to any Participant, former Participant, spouse, beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan or any Award, and such individual will not be personally liable with respect to the Plan because of any contract or other instrument executed in his or her capacity as an Administrator, director, officer or other employee of the Company or any Subsidiary. The Company will indemnify and hold harmless each director, officer or other employee of the Company or any Subsidiary that has been or will be granted or delegated any duty or power relating to the Plan's administration or interpretation, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim with the Administrator's approval) arising from any act or omission concerning this Plan unless arising from such person's own fraud or bad faith; provided that he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf.

11.8 Data Privacy. As a condition for receiving any Award, each Participant explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of personal data as described in this Section 11.8 by and among the Company and its Subsidiaries and affiliates exclusively for implementing, administering and managing the Participant's participation in the Plan. The Company and its Subsidiaries and affiliates may hold certain personal information about a Participant, including the Participant's name, address and telephone number; birthdate; social security, insurance number or other identification number; salary; nationality; job title(s); any Shares held in the Company or its Subsidiaries and affiliates; and Award details, to implement, manage and administer the Plan and Awards (the "**Data**"). The Company and its Subsidiaries and affiliates may transfer the Data amongst themselves as necessary to implement, administer and manage a Participant's participation in the Plan, and the Company and its Subsidiaries and affiliates may transfer the Data to third parties assisting the Company with Plan implementation, administration and management. These recipients may be located in the Participant's country, or elsewhere, and the Participant's country may have different data privacy laws and protections than the recipients' country. By accepting an Award, each Participant authorizes such recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, to implement, administer and manage the Participant's participation in the Plan, including any required Data transfer to a broker or other third party with whom the Company or the Participant may elect to deposit any Shares. The Data related to a Participant will be held only as long as necessary to implement, administer, and manage the Participant's participation in the Plan. A Participant may, at any time, view the Data that the Company holds regarding such Participant, request additional information about the storage and processing of the Data regarding such Participant, recommend any necessary corrections to the Data regarding the Participant or refuse or withdraw the consents in this Section 11.8 in writing, without cost, by contacting the local human resources representative. The Company may cancel Participant's ability to participate in the Plan and, in the Administrator's sole discretion, the Participant may forfeit any outstanding Awards if the Participant refuses or withdraws the consents in this Section 11.8. For more information on the consequences of refusing or withdrawing consent, Participants may contact their local human resources representative.

11.9 Severability. If any portion of the Plan or any action taken under it is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of the Plan, and the Plan will be construed and enforced as if the illegal or invalid provisions had been excluded, and the illegal or invalid action will be null and void.

11.10 Governing Documents. If any contradiction occurs between the Plan and any Award Agreement or other written agreement between a Participant and the Company (or any Subsidiary), the Plan will govern, unless such Award Agreement or other written agreement was approved by the Administrator and expressly provides that a specific provision of the Plan will not apply.

11.11 Governing Law. The Plan and all Awards will be governed by and interpreted in accordance with the laws of the State of Delaware, without regard to the conflict of law rules thereof or of any other jurisdiction.

11.12 Clawback Provisions. All Awards (including the gross amount of any proceeds, gains or other economic benefit the Participant actually or constructively receives upon receipt or exercise of any Award or the receipt or resale of any Shares underlying the Award) will be subject to recoupment by the Company to the extent required to comply with Applicable Law or any policy of the Company providing for the reimbursement of incentive compensation, whether or not such policy was in place at the time of grant of an Award.

11.13 Titles and Headings. The titles and headings in the Plan are for convenience of reference only and, if any conflict, the Plan's text, rather than such titles or headings, will control.

11.14 Conformity to Applicable Law. Participant acknowledges that the Plan is intended to conform to the extent necessary with Applicable Law. Notwithstanding anything herein to the contrary, the Plan and all Awards will be administered only in a manner intended to conform with Applicable Law. To the extent Applicable Law permits, the Plan and all Award Agreements will be deemed amended as necessary to conform to Applicable Law.

11.15 Relationship to Other Benefits. No payment under the Plan will be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary, except as expressly provided in writing in such other plan or an agreement thereunder.

11.16 Unfunded Status of Awards. The Plan is intended to be an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

11.17 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan, the Plan and any Award granted or awarded to any individual who is then subject to Section 16 of the Exchange Act shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including Rule 16b-3 of the Exchange Act and any amendments thereto) that are requirements for the application of such exemptive rule. To the extent permitted by Applicable Law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

11.18 Prohibition on Executive Officer Loans. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment, with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

11.19 Broker-Assisted Sales. In the event of a broker-assisted sale of Shares in connection with the payment of amounts owed by a Participant under or with respect to the Plan or Awards, including amounts to be paid under Section 10.5: (a) any Shares to be sold through the broker-assisted sale will be sold on the day the payment first becomes due, or as soon thereafter as practicable; (b) such Shares may be sold as part of a block trade with other Participants in the Plan in which all Participants receive an average price; (c) the applicable Participant will be responsible for all broker’s fees and other costs of sale, and by accepting an Award, each Participant agrees to indemnify and hold the Company harmless from any losses, costs, damages, or expenses relating to any such sale; (d) to the extent the Company or its designee receives proceeds of such sale that exceed the amount owed, the Company will pay such excess in cash to the applicable Participant as soon as reasonably practicable; (e) the Company and its designees are under no obligation to arrange for such sale at any particular price; and (f) in the event the proceeds of such sale are insufficient to satisfy the Participant’s applicable obligation, the Participant may be required to pay immediately upon demand to the Company or its designee an amount in cash sufficient to satisfy any remaining portion of the Participant’s obligation.

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**TERNS PHARMACEUTICALS, INC.
2022 EMPLOYMENT INDUCEMENT AWARD PLAN
GLOBAL STOCK OPTION GRANT NOTICE**

Terns Pharmaceuticals, Inc., a Delaware corporation, (the “**Company**”), pursuant to its 2022 Employment Inducement Award Plan, as may be amended from time to time (the “**Plan**”), hereby grants to the holder listed below (“**Participant**”), an option to purchase the number of shares of the Company’s Common Stock (the “**Shares**”), set forth below (the “**Option**”). This Option is subject to all of the terms and conditions set forth herein, as well as in the Plan and the Global Stock Option Agreement attached hereto as **Exhibit A**, including any additional terms and conditions set forth in any appendix for the Participant’s country (the “**Appendix**” and, together with the Global Stock Option Agreement, the “**Stock Option Agreement**”), each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Stock Option Agreement.

Participant: [_____]
Grant Date: [_____]
Vesting Commencement Date: [_____]
Exercise Price per Share: \$[_____]
Total Exercise Price: [_____]
Total Number of Shares Subject to the Option: [_____]
Expiration Date: [_____]
Vesting Schedule: [_____]

Type of Option: Nonqualified Stock Option

By his or her signature and the Company’s signature below, Participant agrees to be bound by the terms and conditions of the Plan, the Stock Option Agreement and this Grant Notice. Participant has reviewed the Plan, the Stock Option Agreement and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of the Plan, the Stock Option Agreement and this Grant Notice. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, the Stock Option Agreement or this Grant Notice.

TERNS PHARMACEUTICALS, INC.: HOLDER:

By:
Print Name:
Title:
Address:

PARTICIPANT:

By:
Print Name:
Address:

**EXHIBIT A
TO GLOBAL STOCK OPTION GRANT NOTICE**

GLOBAL STOCK OPTION AGREEMENT

Pursuant to the Stock Option Grant Notice (the “**Grant Notice**”) to which this Stock Option Agreement (this “**Agreement**”) is attached, Terns Pharmaceuticals, Inc., a Delaware corporation (the “**Company**”), has granted to the Participant an Option under the Company’s 2022 Employment Inducement Award Plan, as may be amended from time to time (the “**Plan**”), to purchase the number of Shares indicated in the Grant Notice.

ARTICLE 1.

GENERAL

1.1 **Defined Terms.** Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

1.2 **Incorporation of Terms of Plan.** The Option is subject to the terms and conditions of the Plan which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE 2.

GRANT OF OPTION

2.1 **Grant of Option.** In consideration of the Participant’s past or continued employment with or service to the Company or any Subsidiary and for other good and valuable consideration, effective as of the Grant Date set forth in the Grant Notice (the “**Grant Date**”), the Company irrevocably grants to the Participant the Option to purchase any part or all of an aggregate of the number of Shares set forth in the Grant Notice, upon the terms and conditions set forth in the Plan and this Agreement, subject to adjustments as provided in Article IX of the Plan. The Option is intended to constitute a Nonqualified Stock Option.

2.2 **Exercise Price.** The exercise price of the Shares subject to the Option shall be as set forth in the Grant Notice, without commission or other charge; *provided, however*, that the price per share of the Shares subject to the Option shall not be less than 100% of the Fair Market Value of a Share on the Grant Date.

2.3 **Consideration to the Company.** In consideration of the grant of the Option by the Company, the Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in the Plan or this Agreement shall confer upon the Participant any right to continue in the employ or service of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of the Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and the Participant.

ARTICLE 3.

PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability.

(a) Subject to Sections 3.2, 3.3, 5.12 and 5.18 hereof, the Option shall become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice.

(b) No portion of the Option which has not become vested and exercisable at the date of the Participant's Termination of Service shall thereafter become vested and exercisable, except as may be otherwise provided by the Administrator or as set forth in a written agreement between the Company and the Participant. For the avoidance of doubt, employment or service during only a portion of the vesting period shall not entitle the Participant to vest in a pro-rata portion of the Option.

(c) Notwithstanding Section 3.1(a) hereof and the Grant Notice, but subject to Section 3.1(b) hereof, in the event of a Change in Control, the Option shall be treated pursuant to Sections 9.2 and 9.3 of the Plan.

3.2 Duration of Exercisability. The installments provided for in the vesting schedule set forth in the Grant Notice are cumulative. Each such installment which becomes vested and exercisable pursuant to the vesting schedule set forth in the Grant Notice shall remain vested and exercisable until it becomes unexercisable under Section 3.3 hereof.

3.3 Expiration of Option. The Option may not be exercised to any extent by anyone after the first to occur of the following events:

(a) The Expiration Date set forth in the Grant Notice, which shall in no event be more than ten years from the Grant Date;

(b) The expiration of three months from the date of the Participant's Termination of Service, unless such termination is for Cause or occurs by reason of the Participant's death or Disability;

(c) The expiration of one year from the date of the Participant's Termination of Service by reason of the Participant's death or Disability; or

(d) The Participant's Termination of Service for Cause.

3.4 Tax Withholding.

(a) The Participant acknowledges that, regardless of any action taken by the Company or, if different, the Subsidiary or other affiliate of the Company for which the Participant renders services (the "**Service Recipient**") the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount (if any) actually withheld by the Company or the Service Recipient. The Participant further acknowledges that the Company and/or the Service Recipient (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Option, including, but not limited to, the grant, vesting or exercise of this Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of this Option to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is subject to Tax-Related Items in more than one jurisdiction, the Participant

acknowledges that the Company and/or the Service Recipient (or former Service Recipient, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) The Option cannot be exercised until the Participant has made such arrangements as the Company may require for the satisfaction of any Tax-Related Items that may arise in connection with the exercise of the Option or the acquisition of the Shares by the Participant. The Company shall not be required to issue, allot or transfer Shares until the Participant has satisfied this obligation. At the time Participant exercises the Option, in whole or in part, or at the time any other withholding event for Tax-Related Items occurs with respect to the Option, the Participant hereby authorizes the Company and/or Service Recipient, or their respective agents, at their discretion, to satisfy any applicable withholding obligations for Tax-Related Items by one or a combination of the following methods:

(i) withholding from the Participant's salary, wages, or any other amounts payable to the Participant, in accordance with Applicable Law;

(ii) withholding Shares otherwise issuable to the Participant upon the exercise of the Option, provided that to the extent necessary to qualify for an exemption from application of Section 16(b) of the Exchange Act, if applicable, such Share withholding procedure will be subject to the express prior approval of the Board or the Committee;

(iii) instructing a broker on the Participant's behalf to sell Shares otherwise issuable to the Participant upon exercise of the Option and to submit the proceeds of such sale to the Company; or

(iv) any other method determined by the Company to be in compliance with Applicable Law.

(c) The Company may withhold or account for Tax-Related Items by considering statutory withholding amounts or other applicable withholding rates, including maximum rates applicable in the Participant's jurisdiction(s). In the event of over-withholding, the Participant may receive a refund of any over-withheld amount in cash and (with no entitlement to the equivalent in Shares) or if not refunded, the Participant may seek a refund from the local tax authorities. In the event of under-withholding, the Participant may be required to pay any additional Tax-Related Items directly to the applicable tax authority or to the Company and/or the Service Recipient. If the obligations for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the exercised Option, notwithstanding that a number of the Shares is held back solely for the purpose of satisfying the withholding obligations for Tax-Related Items.

(d) Finally, the Participant agrees to pay the Company or the Service Recipient any amount of Tax-Related Items that cannot be satisfied by the means described above in Section 3.5(b). The Company shall not be obligated to deliver any Shares to the Participant or the Participant's legal representative unless and until the Participant or the Participant's legal representative shall have paid or otherwise satisfied in full the amount of any withholding obligation for Tax-Related Items resulting from the Option or the Shares subject to the Option.

ARTICLE 4.

EXERCISE OF OPTION

4.1 Person Eligible to Exercise. Except as provided in Section 5.4 hereof, during the lifetime of the Participant, only the Participant may exercise the Option or any portion thereof, unless it has been disposed of pursuant to a DRO. After the death of the Participant, any exercisable portion of the Option

may, prior to the time when the Option becomes unexercisable under Section 3.3 hereof, be exercised by the deceased Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

4.2 Partial Exercise. Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.3 hereof. However, the Option shall not be exercisable with respect to fractional Shares.

4.3 Manner of Exercise. The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary of the Company (or any third party administrator or other person or entity designated by the Company; for the avoidance of doubt, delivery shall include electronic delivery), during regular business hours, of all of the following prior to the time when the Option or such portion thereof becomes unexercisable under Section 3.3 hereof:

(a) An exercise notice in a form specified by the Administrator, stating that the Option or portion thereof is thereby exercised, such notice complying with all applicable rules established by the Administrator. The notice shall be signed by the Participant or other person then entitled to exercise the Option or such portion of the Option;

(b) The receipt by the Company of full payment for the Shares with respect to which the Option or portion thereof is exercised, including payment of any applicable Tax-Related Items, which shall be made by deduction from other compensation payable to the Participant or in such other form of consideration permitted under Section 4.4 hereof that is acceptable to the Company;

(c) Any other written representations or documents as may be required in the Administrator's sole discretion to evidence compliance with the Securities Act, the Exchange Act or any other applicable law, rule or regulation; and

(d) In the event the Option or portion thereof shall be exercised pursuant to Section 4.1 hereof by any person or persons other than the Participant, appropriate proof of the right of such person or persons to exercise the Option.

Notwithstanding any of the foregoing, the Company shall have the right to specify all conditions of the manner of exercise, which conditions may vary by country and which may be subject to change from time to time.

4.4 Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of the Participant:

(a) Cash or check;

(b) With the consent of the Administrator, surrender of Shares (including, without limitation, Shares otherwise issuable upon exercise of the Option) held for such period of time as may be required by the Administrator in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof; or

(c) Other legal consideration acceptable to the Administrator (including, without limitation, through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option, and that the broker has been directed to

pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company at such time as may be required by the Company, but in any event not later than the settlement of such sale).

4.5 Conditions to Issuance of Shares. The Shares deliverable upon the exercise of the Option, or any portion thereof, may be either previously authorized but unissued Shares or issued Shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares purchased upon the exercise of the Option or portion thereof prior to fulfillment of all of the conditions in Section 10.7 of the Plan and following conditions:

(a) The admission of such Shares to listing on all stock exchanges on which such Shares are then listed;

(b) The completion of any registration or other qualification of such Shares under any U.S. or non-U.S. state or federal law or under rulings or regulations of the U.S. Securities and Exchange Commission or of any other governmental regulatory body, which the Administrator shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any U.S. or non-U.S. state or federal governmental agency which the Administrator shall, in its absolute discretion, determine to be necessary or advisable;

(d) The receipt by the Company of full payment for such Shares, including payment of any applicable Tax-Related Items, which may be in one or more of the forms of consideration permitted under Section 4.4 hereof; and

(e) The lapse of such reasonable period of time following the exercise of the Option as the Administrator may from time to time establish for reasons of administrative convenience.

4.6 Rights as Stockholder. The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, voting rights and rights to dividends, in respect of any Shares purchasable upon the exercise of any part of the Option unless and until such Shares shall have been issued by the Company and held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Article IX of the Plan.

ARTICLE 5.

OTHER PROVISIONS

5.1 Nature of Grant. By accepting the Option, the Participant acknowledges, understands, and agrees that:

(a) the Plan is established voluntarily by the Company, it is wholly discretionary in nature;

(b) the grant of this Option is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted in the past;

- (c) all decisions with respect to future option or other grants, if any, will be at the sole discretion of the Company;
- (d) the Participant is voluntarily participating in the Plan;
- (e) this Option and any Shares acquired under the Plan, and the income from and value of same, are not intended to replace any pension rights or compensation;
- (f) this Option and any Shares acquired under the Plan, and the income from and value of same, are not part of normal or expected compensation for any purposes, including for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, holiday pay, pension or retirement or welfare benefits or similar payments;
- (g) the future value of the Shares underlying this Option is unknown, indeterminable, and cannot be predicted with certainty;
- (h) if the underlying Shares do not increase in value, this Option will have no value;
- (i) if the Participant exercises this Option and acquires Shares, the value of such Shares may increase or decrease in value, even below the exercise price;
- (j) no claim or entitlement to compensation or damages shall arise from forfeiture of this Option resulting from the Participant's Termination of Service (for any reason whatsoever, whether or not later found to be invalid or in breach of Applicable Law in the jurisdiction where the Participant is providing service or the terms of the Participant's employment or other service agreement, if any);
- (k) unless otherwise agreed with the Company, this Option and the Shares subject to this Option, and the income from and value of same, are not granted as consideration for, or in connection with, the service the Participant may provide as a director of a Subsidiary or other affiliate of the Company;
- (l) unless otherwise provided in the Plan or by the Company in its discretion, this Option and the benefits evidenced by this Agreement do not create any entitlement to have this Option or any such benefits transferred to, or assumed by, another company nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and
- (m) neither the Company, the Service Recipient nor any other Subsidiary or other affiliate of the Company shall be liable for any foreign exchange rate fluctuation between the Participant's local currency and the U.S. dollar that may affect the value of this Option or of any amounts due to the Participant pursuant to the exercise of this Option or the subsequent sale of any Shares acquired upon exercise.

5.2 Administration. The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Option.

5.3 Whole Shares. The Option may only be exercised for whole Shares.

5.4 Transferability.

(a) Subject to Section 4.1 hereof, the Option may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent of the Administrator, pursuant to a DRO, unless and until the Option has been exercised and the Shares underlying the Option have been issued, and all restrictions applicable to such Shares have lapsed. Neither the Option nor any interest or right therein shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) unless and until the Option has been exercised, and any attempted disposition thereof prior to exercise shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

(b) During the lifetime of the Participant, only the Participant may exercise the Option (or any portion thereof), unless it has been disposed of pursuant to a DRO; after the death of the Participant, any exercisable portion of the Option may, prior to the time when such portion becomes unexercisable under the Plan or this Agreement, be exercised by the Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then-applicable laws of descent and distribution.

(c) Notwithstanding any other provision in this Agreement, the Participant may, in the manner permitted and determined by the Administrator, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to the Option upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and this Agreement, except to the extent the Plan and this Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Administrator. If the Participant is married or a domestic partner in a domestic partnership qualified under Applicable Law and resides in a community property state, a designation of a person other than the Participant's spouse or domestic partner, as applicable, as his or her beneficiary with respect to more than 50% of the Participant's interest in the Option shall not be effective without the prior written consent of the Participant's spouse or domestic partner. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by the Participant at any time provided the change or revocation is filed with the Administrator prior to the Participant's death.

5.5 No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making recommendations regarding participation in the Plan, or the Participant's acquisition or sale of the underlying Shares. The Participant understands that the Participant may incur tax consequences as a result of the grant, vesting or exercise of the Option, or with the purchase or disposition of the Shares subject to the Option. The Participant understands and agrees that the Participant should consult with the Participant's own tax, legal and financial advisors regarding participation in the Plan before taking any action related to the Plan.

5.6 Binding Agreement. Subject to the limitation on the transferability of the Option contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

5.7 Adjustments Upon Specified Events. The Administrator may accelerate the vesting of the Option in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Shares contemplated by Article IX of the Plan (including, without limitation, an extraordinary cash dividend on such Shares), the Administrator shall make such adjustments the

Administrator deems appropriate in the number of Shares subject to the Option, the exercise price of the Option and the kind of securities that may be issued upon exercise of the Option. The Participant acknowledges that the Option is subject to adjustment, modification and termination in certain events as provided in this Agreement and Article IX of the Plan.

5.8 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to the Participant shall be addressed to the Participant at the Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 5.8, either party may hereafter designate a different address for notices to be given to that party. Any notice which is required to be given to the Participant shall, if the Participant is then deceased, be given to the person entitled to exercise his or her Option pursuant to Section 4.1 hereof by written notice under this Section 5.8. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service or comparable non-U.S. postal service.

5.9 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.10 Governing Law. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

5.11 Conformity to Securities Laws. The Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all Applicable Law and regulations and rules promulgated by the U.S. Securities and Exchange Commission thereunder, and U.S. state and non-U.S. securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Option is granted and may be exercised, only in such a manner as to conform to such Applicable Law. To the extent permitted by Applicable Law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such Applicable Law.

5.12 Amendment, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator or the Board; *provided, however,* that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall adversely affect the Option in any material way without the prior written consent of the Participant.

5.13 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 5.4 hereof, this Agreement shall be binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

5.14 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if the Participant is subject to Section 16 of the Exchange Act, the Plan, the Option and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

5.15 Not a Contract of Service Relationship. Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue to serve as a Service Provider or interfere with or restrict in any way with the right of the Company or the Service Recipient, as applicable, which rights are hereby expressly reserved, to discharge or to terminate for any reason whatsoever, with or without cause, the services of the Participant's at any time.

5.16 Entire Agreement. The Plan, the Grant Notice and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof, provided that the Option shall be subject to any accelerated vesting provisions in any written agreement between the Participant and the Company or a Company plan pursuant to which the Participant is eligible to participate, in each case, in accordance with the terms therein.

5.17 Section 409A. This Option is not intended to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, "**Section 409A**"). However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that the Option (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify the Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate either for the Option to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

5.18 Limitation on the Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Option, and rights no greater than the right to receive the Shares as a general unsecured creditor with respect to options, as and when exercised pursuant to the terms hereof.

5.19 Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the company or a third party designated by the Company.

5.20 Language. The Participant acknowledges that the Participant is sufficiently proficient in English, or has consulted with an advisor who is sufficiently proficient in English, so as to allow the Participant to understand the terms and conditions of this Agreement. If the Participant received this Agreement, or any other document related to this Option and/or the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

5.21 Appendix. Notwithstanding any provisions in this Global Stock Option Agreement, this Option shall be subject to any additional terms and conditions set forth in any Appendix to this Global Stock Option Agreement for the Participant's country. Moreover, if the Participant relocates to one of the countries included in the Appendix, the additional terms and conditions for such country will apply to the

Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Agreement.

5.22 Insider Trading/Market Abuse Laws. The Participant acknowledges that, depending on the Participant's country or broker's country, or the country in which the Shares are listed, the Participant may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, which may affect his or her ability to accept, acquire, sell or attempt to sell, or otherwise dispose of the Shares, rights to Shares (*e.g.*, this Option) or rights linked to the value of Shares, during such times as the Participant is considered to have "inside information" regarding the Company (as defined by the laws or regulations in applicable jurisdictions). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Participant placed before possessing inside information. Furthermore, the Participant may be prohibited from (i) disclosing insider information to any third party, including fellow employees (other than on a "need to know" basis) and (ii) "tipping" third parties or causing them to otherwise buy or sell securities. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Participant acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Participant should speak to his or her personal advisor on this matter.

5.23 Foreign Asset/Account, Exchange Control and Tax Reporting. The Participant acknowledges that the Participant may be subject to foreign asset/account, exchange control and/or tax reporting requirements as a result of the acquisition, holding and/or transfer of Shares or cash (including dividends and the proceeds arising from the sale of Shares) derived from his or her participation in the Plan in, to and/or from a brokerage/bank account or legal entity located outside the Participant's country. Applicable Law may require that the Participant report such accounts, assets, the balances therein, the value thereof and/or the transactions related thereto to the applicable authorities in such country. The Participant also may be required to repatriate sale proceeds or other funds received as a result of the Participant's participation in the Plan to his or her country through a designated bank or broker within a certain time after receipt. The Participant acknowledges that he or she is responsible for ensuring compliance with any applicable foreign asset/account, exchange control and tax reporting requirements and should consult his or her personal legal advisor on this matter.

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**APPENDIX
TO
GLOBAL STOCK OPTION AGREEMENT**

**Terns Pharmaceuticals, Inc.
2022 Employment Inducement Award Plan**

Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Grant Notice, the Agreement and the Plan.

Terms and Conditions

This Appendix includes additional terms and conditions that govern this Option if the Participant resides and/or works in China. If the Participant is a citizen or resident (or is considered as such for local law purposes) of a country other than the country in which the Participant is currently residing and/or working, or if the Participant transfers to another country after the Grant Date, the Administrator shall, in its discretion, determine to what extent the terms and conditions contained herein shall be applicable to the Participant.

Notifications

This Appendix also includes information regarding securities, exchange controls, tax and certain other issues of which the Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control, tax and other laws in effect in China as of September 2022. Such laws are often complex and change frequently. As a result, the Company strongly recommends that the Participant not rely on the information noted herein as the only source of information relating to the consequences of his or her participation in the Plan because the information may be out of date at the time the Participant exercises this Option or sells Shares acquired under the Plan.

In addition, the information contained herein is general in nature and may not apply to the Participant's particular situation, and the Company is not in a position to assure the Participant of any particular result. Accordingly, the Participant should seek appropriate professional advice as to how the relevant laws in his or her country may apply to the Participant's situation.

If the Participant is a citizen or resident (or is considered as such for local law purposes) of a country other than the one in which he or she is currently residing and/or working, or if the Participant transfers to another country after the Grant Date, the information contained herein may not be applicable to the Participant in the same manner.

CHINA

Terms and Conditions

The following provisions apply only to Participants who are subject to exchange control restrictions imposed by the State Administration of Foreign Exchange (“SAFE”), as determined by the Company in its sole discretion:

Exercisability of Option. In addition to the vesting conditions set forth in the Grant Notice and the Stock Option Agreement, this Option shall not vest nor be exercisable until all necessary exchange control and other approvals from SAFE or its local counterpart have been received by the Company or one of its Chinese Subsidiaries or other affiliates under applicable exchange control rules with respect to the Plan and the awards thereunder (the “**SAFE Approval Date**”). The Participant must continue to provide service through each date on the Vesting Schedule and through the SAFE Approval Date to be able to exercise this Option. Should the SAFE Approval Date occur after any of the vesting dates in the Vesting Schedule, the Participant will (i) receive a credit for any vesting that would have occurred under the Vesting Schedule once the SAFE Approval Date occurs and (ii) continue to vest in accordance with the Vesting Schedule following the SAFE Approval Date, provided that the Participant has not experienced a Termination of Service as of the SAFE Approval Date and is otherwise entitled to exercise this Option pursuant to the terms of any applicable SAFE approval or regulations.

If the Company is unable to complete the SAFE registration or maintain the registration, no Shares subject to this Option shall be issued and the Company has the sole discretion to allow any vested Options to be settled in cash paid through local payroll in an amount equal to the Fair Market Value of the Shares underlying this Option on the applicable date of exercise, less the Total Exercise Price and any withholding for Tax-Related Items.

Furthermore, notwithstanding any provision in the Grant Notice and the Stock Option Agreement, if the Participant experiences a Termination of Service before the SAFE Approval Date, this Option shall be forfeited, unless the Company determines in its discretion that any portion of this Option that may otherwise have vested and become exercisable in accordance with the terms of the Stock Option Agreement may be exercised in compliance with applicable SAFE regulations and restrictions.

Finally, notwithstanding any provision in the Grant Notice and the Stock Option Agreement, if the Participant experiences a Termination of Service after the SAFE Approval Date, this Option, to the extent that vested and exercisable as of the Termination Date, may be exercised by the Participant only within such time period as required by the Company in accordance with SAFE requirements.

Stock Must Remain With Company’s Designated Broker. The Participant agrees to hold any Shares received upon exercise of this Option with the Company’s designated broker until the Shares are sold. The limitation shall apply to all Shares issued to the Participant under the Plan, whether or not the Participant has experienced a Termination of Service.

Manner of Exercise. Notwithstanding any provision in the Grant Notice and the Stock Option Agreement, the Participant must pay the Total Exercise Price by using a “cashless exercise” method as described in Section 4.4(c) of the Agreement. The Company reserves the right to provide the Participant with additional methods of payment depending on the development of local law.

Forced Sale of Shares. The Company has the discretion to arrange for the sale of the Shares issued upon exercise of this Option, either immediately upon exercise or at any time thereafter. In any event, if the Participant has experienced a Termination of Service, the Participant will be required to sell any Shares

acquired upon exercise of this Option within such time period as required by the Company in accordance with SAFE requirements. Any Shares remaining in the brokerage account at the end of this period shall be sold by the broker (on behalf of the Participant and the Participant hereby authorizes such sale). The Participant agrees to sign any additional agreements, forms and/or consents that reasonably may be requested by the Company (or the Company's designated broker) to effectuate the sale of Shares (including, without limitation, as to the transfer of the sale proceeds and other exchange control matters noted below) and shall otherwise cooperate with the Company with respect to such matters. The Participant acknowledges that neither the Company nor the designated broker is under any obligation to arrange for the sale of Shares at any particular price (it being understood that the sale will occur in the market) and that broker's fees and similar expenses may be incurred in any such sale. In any event, when the Shares are sold, the sale proceeds, less any withholding for Tax-Related Items, any broker's fees or commissions, and any similar expenses of the sale will be remitted to the Participant in accordance with applicable exchange control laws and regulations.

Exchange Control Restrictions. The Participant understands and agrees that the Participant will be required to immediately repatriate to China the proceeds from the sale of any Shares acquired under the Plan and any cash dividends paid on such Shares. The Participant further understands that such repatriation of proceeds may need to be effected through a special bank account established by the Company (or a Subsidiary), and the Participant hereby consents and agrees that any sale proceeds and cash dividends may be transferred to such special account by the Company (or a Subsidiary) on the Participant's behalf prior to being delivered to the Participant and that no interest shall be paid with respect to funds held in such account.

The proceeds may be paid to the Participant in U.S. dollars or local currency at the Company's discretion. If the proceeds are paid to the Participant in U.S. dollars, the Participant understands that a U.S. dollar bank account in China must be established and maintained so that the proceeds may be deposited into such account. If the proceeds are paid to the Participant in local currency, the Participant acknowledges that the Company (or its Subsidiaries) are under no obligation to secure any particular exchange conversion rate and that the Company (or its Subsidiaries) may face delays in converting the proceeds to local currency due to exchange control restrictions. The Participant agrees to bear any currency fluctuation risk between the time the Shares are sold and the net proceeds are converted into local currency and distributed to the Participant. The Participant further agrees to comply with any other requirements that may be imposed by the Company (or its Subsidiary) in the future in order to facilitate compliance with exchange control requirements in China.

Administration. The Company (or its Subsidiaries) shall not be liable for any costs, fees, lost interest or dividends or other losses that the Participant may incur or suffer resulting from the enforcement of the terms of this Appendix or otherwise from the Company's operation and enforcement of the Plan, the Grant Notice and this Option in accordance with any Applicable Laws, rules, regulations and requirements.

Notifications

Exchange Control Information. Chinese residents may be required to report to SAFE all details of their foreign financial assets and liabilities (including Shares acquired under the Plan), as well as details of any economic transactions conducted with non-Chinese residents.

TERNS PHARMACEUTICALS, INC.
2022 EMPLOYMENT INDUCEMENT AWARD PLAN

GLOBAL RESTRICTED STOCK UNIT AWARD GRANT NOTICE

Terns Pharmaceuticals, Inc., a Delaware corporation, (the “**Company**”), pursuant to its 2022 Employment Inducement Award Plan, as amended from time to time (the “**Plan**”), hereby grants to the holder listed below (the “**Participant**”), an award of restricted stock units (“**Restricted Stock Units**” or “**RSUs**”). Each vested Restricted Stock Unit represents the right to receive, in accordance with the Global Restricted Stock Unit Award Agreement attached hereto as **Exhibit A**, including any additional terms and conditions set forth in any appendix for the Participant’s country (the “**Appendix**” and, together with the Global Restricted Stock Unit Award Agreement, the “**Agreement**”), one share of Common Stock (“**Share**”). This award of Restricted Stock Units is subject to all of the terms and conditions set forth herein and in the Agreement and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Global Restricted Stock Unit Award Grant Notice (the “**Grant Notice**”) and the Agreement.

Participant: [_____]

Grant Date: [_____]

Total Number of RSUs: [_____]

Vesting Commencement Date: [_____]

Vesting Schedule: [_____]

Termination: If the Participant experiences a Termination of Service, all RSUs that have not become vested on or prior to the date of such Termination of Service will thereupon be automatically forfeited by the Participant without payment of any consideration therefor.

Withholding Tax: The Participant understands that the terms of this grant of the RSUs explicitly includes the following (the “**Sell to Cover**”): Upon vesting of the RSUs and release of the resulting Shares, the Company, on the Participant’s behalf, will instruct the Company’s transfer agent (together with any other party the Company determines necessary to execute the Sell to Cover, the “**Agent**”) to sell that number of Shares determined in accordance with Section 2.6 of the Agreement as may be necessary to satisfy any resulting withholding tax obligations and/or social security contributions on the Company, and the Agent will remit the cash proceeds of such sale to the Company. The Company shall then make a cash payment equal to the required tax withholding and/or social security contributions from the cash proceeds of such sale directly to the appropriate taxing authorities.

By his or her signature and the Company’s signature below, the Participant agrees to be bound by the terms and conditions of the Plan, the Agreement and this Grant Notice. The Participant has reviewed the Plan, the Agreement and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of the Plan, the Agreement and this Grant Notice. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, the Agreement or this Grant Notice.

TERNS PHARMACEUTICALS, INC.: PARTICIPANT:

By:
Print Name:
Title:
Address:

PARTICIPANT:

By:
Print Name:
Address:

**EXHIBIT A
TO GLOBAL RESTRICTED STOCK UNIT AWARD GRANT NOTICE**

GLOBAL RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Global Restricted Stock Unit Award Grant Notice (the “**Grant Notice**”) to which this Global Restricted Stock Unit Award Agreement, including any additional terms and conditions set forth in any appendix for the Participant’s country (the “**Appendix**” and, together with this Global Restricted Stock Unit Award Agreement, this “**Agreement**”) is attached, Terns Pharmaceuticals, Inc., a Delaware corporation (the “**Company**”), has granted to the Participant the number of restricted stock units (“**Restricted Stock Units**” or “**RSUs**”) set forth in the Grant Notice under the Company’s 2022 Employment Inducement Award Plan, as amended from time to time (the “**Plan**”). Each Restricted Stock Unit represents the right to receive one share of Common Stock (a “**Share**”) upon vesting.

ARTICLE I.

GENERAL

1.1 **Defined Terms.** Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

1.2 **Incorporation of Terms of Plan.** The RSUs are subject to the terms and conditions of the Plan, which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE II.

GRANT OF RESTRICTED STOCK UNITS

2.1 **Grant of RSUs.** Pursuant to the Grant Notice and upon the terms and conditions set forth in the Plan and this Agreement, effective as of the Grant Date set forth in the Grant Notice, the Company hereby grants to the Participant an award of RSUs under the Plan.

2.2 **Unsecured Obligation to RSUs.** Unless and until the RSUs have vested in the manner set forth in Article 2 hereof, the Participant will have no right to receive Common Stock under any such RSUs. Prior to actual payment of any vested RSUs, such RSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

2.3 **Vesting Schedule.** Subject to Section 2.5 hereof, the RSUs shall vest and become nonforfeitable with respect to the applicable portion thereof according to the vesting schedule set forth in the Grant Notice (rounding down to the nearest whole Share).

2.4 **Consideration to the Company.** In consideration of the grant of the award of RSUs pursuant hereto, the Participant agrees to render faithful and efficient services to the Company or any Subsidiary.

2.5 **Forfeiture, Termination and Cancellation upon Termination of Service.** Notwithstanding any contrary provision of this Agreement or the Plan, upon the Participant’s Termination of Service for any or no reason, all Restricted Stock Units which have not vested prior to or in connection with such Termination of Service shall thereupon automatically be forfeited, terminated and cancelled as of the applicable termination date without payment of any consideration by the Company, and the Participant, or

the Participant's beneficiary or personal representative, as the case may be, shall have no further rights hereunder. No portion of the RSUs which has not become vested as of the date on which the Participant incurs a Termination of Service shall thereafter become vested, except as may otherwise be provided by the Administrator or set forth in a written agreement between the Company and the Participant. For the avoidance of doubt, employment or service during only a portion of the vesting period shall not entitle the Participant to vest in a pro-rata portion of the RSUs.

2.6 Issuance of Common Stock upon Vesting.

(a) As soon as administratively practicable following the vesting of any Restricted Stock Units pursuant to Section 2.3 hereof, but in no event later than 30 days after such vesting date (for the avoidance of doubt, this deadline is intended to comply with the "short term deferral" exemption from Section 409A of the Code), the Company shall deliver to the Participant (or any transferee permitted under Section 3.2 hereof) a number of Shares equal to the number of RSUs subject to this Award that vest on the applicable vesting date. Notwithstanding the foregoing, in the event Shares cannot be issued pursuant to Section 10.7 of the Plan, the Shares shall be issued pursuant to the preceding sentence as soon as administratively practicable after the Administrator determines that Shares can again be issued in accordance with such Section.

(b) As set forth in Section 2.7, the Company shall not be obligated to deliver any Shares to the Participant or the Participant's legal representative unless and until the Participant or the Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of the Participant resulting from the grant or vesting of the Restricted Stock Units or the issuance of Shares.

2.7 Responsibility for Taxes.

(a) The Participant acknowledges that, regardless of any action taken by the Company or, if different, the Subsidiary or other affiliate of the Company for which the Participant renders services (the "**Service Recipient**"), the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount (if any) actually withheld by the Company or the Service Recipient. The Participant further acknowledges that the Company and/or the Service Recipient (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the RSUs, including, but not limited to, the grant, vesting or settlement of the RSUs, the subsequent sale of Shares acquired pursuant to the settlement of any RSUs and the receipt of any dividends; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the RSUs to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is subject to Tax-Related Items in more than one jurisdiction, the Participant acknowledges that the Company and/or the Service Recipient (or former Service Recipient, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) As set forth in Section 10.5 of the Plan, the Company shall have the authority and the right to deduct or withhold, or to require the Participant to remit to the Company, an amount sufficient to satisfy all applicable Tax-Related Items with respect to any taxable event arising in connection with the RSUs. All such tax withholding obligations shall be satisfied using a Sell to Cover pursuant to the Grant Notice. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to deliver any new certificate representing Shares to the Participant or the Participant's legal representative or enter such Shares in book entry form unless and until the Participant or the Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of the Participant resulting from the grant or vesting of the Restricted Stock Units or the

issuance of Shares. By accepting this award of RSUs, the Participant has agreed to a Sell to Cover to satisfy any tax withholding obligations and the Participant hereby acknowledges and agrees:

(i) The Participant hereby appoints the Agent as the Participant's agent and authorizes the Agent to (A) sell on the open market at the then prevailing market price(s), on the Participant's behalf, as soon as practicable on or after the Shares are issued upon the vesting of the Restricted Stock Units, that number (rounded up to the next whole number) of the Shares so issued necessary to generate proceeds to cover (1) any tax withholding obligations incurred with respect to such vesting or issuance and (2) all applicable fees and commissions due to, or required to be collected by, the Agent with respect thereto and (B) in the Company's discretion, apply any remaining funds to the Participant's federal tax withholding.

(ii) The Participant hereby authorizes the Company and the Agent to cooperate and communicate with one another to determine the number of Shares that must be sold pursuant to subsection (i) above and further authorizes the Company and the Agent to calculate any such amount based on tax rates deemed appropriate by the Company and the Agent, up to the maximum applicable statutory tax rate.

(iii) The Participant understands that the Agent may effect sales as provided in subsection (i) above in one or more sales and that the average price for executions resulting from bunched orders will be assigned to the Participant's account. In addition, the Participant acknowledges that it may not be possible to sell Shares as provided by subsection (i) above due to (A) a legal or contractual restriction applicable to the Participant or the Agent, (B) a market disruption, or (C) rules governing order execution priority on the national exchange where the Shares may be traded. In the event of the Agent's inability to sell Shares, the Participant will continue to be responsible for the timely payment to the Company and/or its Affiliates of all federal, state, local and foreign taxes that are required by applicable laws and regulations to be withheld, including but not limited to those amounts specified in subsection (i) above.

(iv) The Participant acknowledges that regardless of any other term or condition of this Section 2.7(b), the Agent will not be liable to the Participant for (A) special, indirect, punitive, exemplary, or consequential damages, or incidental losses or damages of any kind, or (B) any failure to perform or for any delay in performance that results from a cause or circumstance that is beyond its reasonable control.

(v) The Participant hereby agrees to execute and deliver to the Agent any other agreements or documents as the Agent reasonably deems necessary or appropriate to carry out the purposes and intent of this Section 2.7(b). The Agent is a third-party beneficiary of this Section 2.7(b).

(vi) This Section 2.7(b) shall terminate not later than the date on which all tax withholding obligations arising in connection with the vesting of the Award have been satisfied

(c) The Company may withhold or account for Tax-Related Items by considering statutory withholding amounts or other applicable withholding rates, including maximum rates applicable in the Participant's jurisdiction(s). In the event of over-withholding, the Participant may receive a refund of any over-withheld amount in cash and (with no entitlement to the equivalent in Shares) or if not refunded, the Participant may seek a refund from the local tax authorities. In the event of under-withholding, the Participant may be required to pay any additional Tax-Related Items directly to the applicable tax authority or to the Company and/or the Service Recipient. If the obligations for Tax-Related Items is satisfied by withholding Shares, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares is held back solely for the purpose of satisfying withholding obligations for Tax-Related Items.

(d) Finally, the Participant agrees to pay the Company or the Service Recipient any amount of Tax-Related Items that cannot be satisfied by the means described above in Section 2.7(b). The Company shall not be obligated to deliver any Shares to the Participant or the Participant's legal representative unless and until the Participant or the Participant's legal representative shall have paid or otherwise satisfied in full the amount of any withholding obligation for Tax-Related Items resulting from the RSUs or the Shares subject to the RSUs.

2.8 Conditions to Delivery of Shares. The Shares deliverable hereunder may be either previously authorized but unissued Shares, treasury Shares or issued Shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue Shares deliverable hereunder prior to fulfillment of the conditions set forth in Section 10.7 of the Plan.

2.9 Rights as Stockholder. The holder of the RSUs shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, voting rights and rights to dividends, in respect of the RSUs and any Shares underlying the RSUs and deliverable hereunder unless and until such Shares shall have been issued by the Company and held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Article IX of the Plan.

ARTICLE III.

OTHER PROVISIONS

3.1 Nature of Grant. By accepting the RSUs, the Participant acknowledges, understands, and agrees that:

- (a) the Plan is established voluntarily by the Company, it is wholly discretionary in nature;
- (b) the grant of the RSUs is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of restricted stock units, or benefits in lieu of restricted stock units, even if restricted stock units have been granted in the past;
- (c) all decisions with respect to future RSU or other grants, if any, will be at the sole discretion of the Company;
- (d) the Participant is voluntarily participating in the Plan;
- (e) the RSUs and any Shares acquired under the Plan, and the income from and value of same, are not intended to replace any pension rights or compensation;
- (f) the RSUs and any Shares acquired under the Plan, and the income from and value of same, are not part of normal or expected compensation for any purposes, including for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, holiday pay, pension or retirement or welfare benefits or similar payments;
- (g) the future value of the Shares underlying the RSUs is unknown, indeterminable, and cannot be predicted with certainty;

(h) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs resulting from the Participant's Termination of Service (for any reason whatsoever, whether or not later found to be invalid or in breach of Applicable Law in the jurisdiction where the Participant is providing service or the terms of the Participant's employment or other service agreement, if any);

(i) unless otherwise agreed with the Company, the RSUs and the Shares subject to the RSUs, and the income from and value of same, are not granted as consideration for, or in connection with, the service the Participant may provide as a director of a Subsidiary or other affiliate of the Company;

(j) unless otherwise provided in the Plan or by the Company in its discretion, the RSUs and the benefits evidenced by this Agreement do not create any entitlement to have the RSUs or any such benefits transferred to, or assumed by, another company nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and

(k) neither the Company, the Service Recipient nor any other Subsidiary or other affiliate of the Company shall be liable for any foreign exchange rate fluctuation between the Participant's local currency and the U.S. dollar that may affect the value of the RSUs or of any amounts due to the Participant pursuant to the vesting of the RSUs or the subsequent sale of any Shares acquired upon settlement of the RSUs.

3.2 Administration. The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Administrator or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the RSUs.

3.3 Transferability. The RSUs shall be subject to the restrictions on transferability set forth in Section 10.1 of the Plan.

3.4 No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making recommendations regarding participation in the Plan, or the Participant's acquisition or sale of the underlying Shares. The Participant understands that the Participant may incur tax consequences in connection with the RSUs granted pursuant to this Agreement (and the Shares issuable with respect thereto). The Participant understands and agrees that the Participant should consult with the Participant's own tax, legal and financial advisors regarding participation in the Plan before taking any action related to the Plan.

3.5 Binding Agreement. Subject to the limitation on the transferability of the RSUs contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

3.6 Adjustments Upon Specified Events. The Administrator may accelerate the vesting of the RSUs in such circumstances as it, in its sole discretion, may determine. The Participant acknowledges that the RSUs are subject to adjustment, modification and termination in certain events as provided in this Agreement and Article IX of the Plan.

3.7 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to the Participant shall be addressed to the Participant at the Participant's last

address reflected on the Company's records. By a notice given pursuant to this Section 3.7, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service or comparable non-U.S. postal service.

3.8 Participant's Representations. If the Shares issuable hereunder have not been registered under the Securities Act or any applicable state laws on an effective registration statement at the time of such issuance, the Participant shall, if required by the Company, concurrently with such issuance, make such written representations as are deemed necessary or appropriate by the Company or its counsel.

3.9 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.10 Governing Law. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

3.11 Conformity to Securities Laws. The Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any other Applicable Law. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the RSUs are granted, only in such a manner as to conform to Applicable Law. To the extent permitted by Applicable Law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such Applicable Law.

3.12 Amendment, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator or the Board; *provided, however*, that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall adversely affect the RSUs in any material way without the prior written consent of the Participant.

3.13 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 3.3 hereof, this Agreement shall be binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

3.14 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if the Participant is subject to Section 16 of the Exchange Act, then the Plan, the RSUs and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by Applicable Law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.15 Not a Contract of Service Relationship. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue to serve as a Service Provider or interfere with or restrict in any way with the right of the Company or the Service Recipient, as applicable, which rights are hereby expressly reserved, to discharge or to terminate for any reason whatsoever, with or without cause, the services of the Participant at any time.

3.16 Entire Agreement. The Plan, the Grant Notice and this Agreement (including all Exhibits thereto, if any) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof, provided that the RSUs shall be subject to any accelerated vesting provisions in any written agreement between the Participant and the Company or a Company plan pursuant to which the Participant is eligible to participate, in each case, in accordance with the terms therein.

3.17 Section 409A. This Award is not intended to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, “**Section 409A**”). However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that this Award (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate for this Award either to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

3.18 Limitation on Participant’s Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company and its Subsidiaries with respect to amounts credited and benefits payable, if any, with respect to the RSUs, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to RSUs, as and when payable hereunder.

3.19 Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the company or a third party designated by the Company.

3.20 Language. The Participant acknowledges that the Participant is sufficiently proficient in English, or has consulted with an advisor who is sufficiently proficient in English, so as to allow the Participant to understand the terms and conditions of this Agreement. If the Participant received this Agreement, or any other document related to the RSUs and/or the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

3.21 Appendix. Notwithstanding any provisions in this Global Restricted Stock Unit Award Agreement, the RSUs shall be subject to any additional terms and conditions set forth in any Appendix to this Global Restricted Stock Unit Award Agreement for the Participant’s country. Moreover, if the Participant relocates to one of the countries included in the Appendix, the additional terms and conditions for such country will apply to the Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Agreement.

3.22 Insider Trading/Market Abuse Laws. The Participant acknowledges that, depending on the Participant’s country or broker’s country, or the country in which the Shares are listed, the Participant

may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, which may affect his or her ability to accept, acquire, sell or attempt to sell, or otherwise dispose of the Shares, rights to Shares (e.g., the RSUs) or rights linked to the value of Shares, during such times as the Participant is considered to have “inside information” regarding the Company (as defined by the laws or regulations in applicable jurisdictions). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Participant placed before possessing inside information. Furthermore, the Participant may be prohibited from (i) disclosing insider information to any third party, including fellow employees (other than on a “need to know” basis) and (ii) “tipping” third parties or causing them to otherwise buy or sell securities. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Participant acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Participant should speak to his or her personal advisor on this matter.

3.23 Foreign Asset/Account, Exchange Control and Tax Reporting. The Participant acknowledges that the Participant may be subject to foreign asset/account, exchange control and/or tax reporting requirements as a result of the acquisition, holding and/or transfer of Shares or cash (including dividends and the proceeds arising from the sale of Shares) derived from his or her participation in the Plan in, to and/or from a brokerage/bank account or legal entity located outside the Participant’s country. Applicable Law may require that the Participant report such accounts, assets, the balances therein, the value thereof and/or the transactions related thereto to the applicable authorities in such country. The Participant also may be required to repatriate sale proceeds or other funds received as a result of the Participant’s participation in the Plan to his or her country through a designated bank or broker within a certain time after receipt. The Participant acknowledges that he or she is responsible for ensuring compliance with any applicable foreign asset/account, exchange control and tax reporting requirements and should consult his or her personal legal advisor on this matter.

* * * * *

**APPENDIX
TO
GLOBAL RESTRICTED STOCK UNIT AWARD AGREEMENT**

**TERNS PHARMACEUTICALS, INC.
2022 EMPLOYMENT INDUCEMENT AWARD PLAN**

Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Grant Notice, the Global Restricted Stock Unit Award Agreement (the “*Award Agreement*”) and the Plan.

Terms and Conditions

This Appendix includes additional terms and conditions that govern the RSUs if the Participant resides and/or works in China.

If the Participant is a citizen or resident (or is considered as such for local law purposes) of a country other than the country in which the Participant is currently residing and/or working, or if the Participant transfers to another country after the Grant Date, the Administrator shall, in its discretion, determine to what extent the terms and conditions contained herein shall be applicable to the Participant.

Notifications

This Appendix also includes information regarding securities, exchange controls, tax and certain other issues of which the Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control, tax and other laws in effect in China as of September 2022. Such laws are often complex and change frequently. As a result, the Company strongly recommends that the Participant not rely on the information noted herein as the only source of information relating to the consequences of his or her participation in the Plan because the information may be out of date at the time the RSUs vest or the Participant sells Shares acquired under the Plan.

In addition, the information contained herein is general in nature and may not apply to the Participant’s particular situation, and the Company is not in a position to assure the Participant of any particular result. Accordingly, the Participant should seek appropriate professional advice as to how the relevant laws in his or her country may apply to the Participant’s situation.

If the Participant is a citizen or resident (or is considered as such for local law purposes) of a country other than the one in which he or she is currently residing and/or working, or if the Participant transfers to another country after the Grant Date, the information contained herein may not be applicable to the Participant in the same manner.

CHINA

Terms and Conditions

The following provisions apply only to Participants who are subject to exchange control restrictions imposed by the State Administration of Foreign Exchange (“SAFE”), as determined by the Company in its sole discretion:

Award Conditioned on Satisfaction of Regulatory Obligations. In addition to the vesting schedule in the Grant Notice, settlement of the RSUs is also conditioned on the Company’s completion of a registration of the Plan with SAFE and on the continued effectiveness of such registration (the “**SAFE Registration Requirement**”). If or to the extent the Company is unable to complete the registration or maintain the registration, no Shares subject to the RSUs for which a registration cannot be completed or maintained shall be issued. In this case, the Company retains the discretion to settle any RSUs for which the vesting schedule in the Grant Notice, but not the SAFE Registration Requirement, has been met in cash paid through local payroll in an amount equal to the market value of the Shares subject to the RSUs less any Tax-Related Items; provided, however, that in case the Company is able to complete a SAFE registration with respect to any RSUs, the cash payment for RSUs not covered by the SAFE registration shall not be made until the initial SAFE registration has been completed.

Stock Must Remain With Company’s Designated Broker. The Participant agrees to hold any Shares received upon settlement of the RSUs with the Company’s designated broker until the Shares are sold. The limitation shall apply to all Shares issued to the Participant under the Plan, whether or not Participant remains a Service Provider.

Forced Sale of Shares. The Company has the discretion to arrange for the sale of the Shares issued upon settlement of the RSUs, either immediately upon settlement or at any time thereafter. In any event, if the Participant experiences a Termination of Service, the Participant will be required to sell all Shares acquired upon settlement of the RSUs within such time period as required by the Company in accordance with SAFE requirements. Any Shares remaining in the brokerage account at the end of this period shall be sold by the broker (on behalf of the Participant and the Participant hereby authorizes such sale). The Participant agrees to sign any additional agreements, forms and/or consents that reasonably may be requested by the Company (or the Company’s designated broker) to effectuate the sale of Shares (including, without limitation, as to the transfer of the sale proceeds and other exchange control matters noted below) and shall otherwise cooperate with the Company with respect to such matters. The Participant acknowledges that neither the Company nor the designated broker is under any obligation to arrange for the sale of Shares at any particular price (it being understood that the sale will occur in the market) and that broker’s fees and similar expenses may be incurred in any such sale. In any event, when the Shares are sold, the sale proceeds, less any withholding for Tax-Related Items, any broker’s fees or commissions, and any similar expenses of the sale will be remitted to the Participant in accordance with applicable exchange control laws and regulations.

Exchange Control Restrictions. The Participant understands and agrees that the Participant will be required to immediately repatriate to China the proceeds from the sale of any Shares acquired under the Plan and any cash dividends paid on such Shares. The Participant further understands that such repatriation of proceeds may need to be effected through a special bank account established by the Company (or a Subsidiary), and the Participant hereby consents and agrees that any sale proceeds and cash dividends may be transferred to such special account by the Company (or a Subsidiary) on the Participant’s behalf prior to being delivered to Participant and that no interest shall be paid with respect to funds held in such account.

The proceeds may be paid to the Participant in U.S. dollars or local currency at the Company’s discretion. If the proceeds are paid to the Participant in U.S. dollars, the Participant understands that a U.S. dollar bank

account in China must be established and maintained so that the proceeds may be deposited into such account. If the proceeds are paid to the Participant in local currency, the Participant acknowledges that the Company (or its Subsidiaries) are under no obligation to secure any particular exchange conversion rate and that the Company (or its Subsidiaries) may face delays in converting the proceeds to local currency due to exchange control restrictions. The Participant agrees to bear any currency fluctuation risk between the time the Shares are sold and the net proceeds are converted into local currency and distributed to the Participant. The Participant further agrees to comply with any other requirements that may be imposed by the Company (or its Subsidiary) in the future in order to facilitate compliance with exchange control requirements in China.

Administration. The Company (or its Subsidiaries) shall not be liable for any costs, fees, lost interest or dividends or other losses that the Participant may incur or suffer resulting from the enforcement of the terms of this Appendix or otherwise from the Company's operation and enforcement of the Plan, the Agreement, the Grant Notice and the RSUs in accordance with any applicable laws, rules, regulations and requirements.

Notifications

Exchange Control Information. Chinese residents may be required to report to SAFE all details of their foreign financial assets and liabilities (including Shares acquired under the Plan), as well as details of any economic transactions conducted with non-Chinese residents.

**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 9, 2022

By: _____ /s/ Senthil Sundaram
Senthil Sundaram
Chief Executive Officer
(Principal Executive Officer)

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

I, Mark Vignola, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Terns Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(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 9, 2022

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

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

In connection with the Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2022 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 9, 2022

By: _____ /s/ Senthil Sundaram
Senthil Sundaram
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report of Terns Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2022 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 9, 2022

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