

**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 June 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 Hillside Blvd., Suite 100
Foster City, California
(Address of principal executive offices)

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

94404
(Zip Code)

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

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

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

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

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

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

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

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

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

As of August 5, 2022, the registrant had 25,363,829 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 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)

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,806	\$ 47,699
Marketable securities	123,004	118,283
Prepaid expenses and other current assets	2,791	948
Total current assets	142,601	166,930
Property and equipment, net	950	1,046
Operating lease assets	1,245	—
Other assets	64	94
Total assets	<u>\$ 144,860</u>	<u>\$ 168,070</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 973	\$ 2,126
Accrued expenses and other current liabilities	4,485	4,694
Current portion of operating lease liabilities	586	—
Total current liabilities	6,044	6,820
Deferred rent, net of current portion	—	160
Taxes payable, non-current	749	787
Operating lease liabilities, non-current	851	—
Total liabilities	7,644	7,767
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value, 150,000,000 shares authorized at June 30, 2022 and December 31, 2021; 25,363,829 and 25,269,271 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	3	3
Additional paid-in capital	348,230	342,711
Accumulated other comprehensive loss	(1,241)	(338)
Accumulated deficit	(209,776)	(182,073)
Total stockholders' equity	137,216	160,303
Total liabilities and stockholders' equity	<u>\$ 144,860</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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating expenses:				
Research and development	\$ 8,662	\$ 5,961	\$ 16,798	\$ 14,696
General and administrative	5,422	4,857	11,111	9,418
Total operating expenses	14,084	10,818	27,909	24,114
Loss from operations	(14,084)	(10,818)	(27,909)	(24,114)
Other income:				
Interest income	214	55	283	66
Other (expense) income, net	(54)	39	(50)	26
Total other income, net	160	94	233	92
Loss before income taxes	(13,924)	(10,724)	(27,676)	(24,022)
Income tax expense	(6)	(14)	(27)	(53)
Net loss	<u>\$ (13,930)</u>	<u>\$ (10,738)</u>	<u>\$ (27,703)</u>	<u>\$ (24,075)</u>
Net loss per share, basic and diluted	<u>\$ (0.55)</u>	<u>\$ (0.43)</u>	<u>\$ (1.10)</u>	<u>\$ (1.19)</u>
Weighted average common stock outstanding, basic and diluted	<u>25,304,290</u>	<u>25,109,973</u>	<u>25,286,877</u>	<u>20,162,496</u>
Other comprehensive loss:				
Net loss	\$ (13,930)	\$ (10,738)	\$ (27,703)	\$ (24,075)
Unrealized (loss) gain on available-for-sale securities, net of tax	(292)	36	(843)	(7)
Foreign exchange translation adjustment, net of tax	(53)	22	(60)	(43)
Comprehensive loss	<u>\$ (14,275)</u>	<u>\$ (10,680)</u>	<u>\$ (28,606)</u>	<u>\$ (24,125)</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)

Six Months Ended June 30, 2022

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulate d	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Loss	Deficit	Equity
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

Six Months Ended June 30, 2021

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

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)

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (27,703)	\$ (24,075)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	5,395	3,741
Depreciation and amortization expense	279	291
Amortization on marketable securities	673	150
Change in deferred taxes and uncertain tax positions	25	38
Amortization of operating lease assets	268	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,841)	(581)
Other assets	—	(8)
Accounts payable	(1,115)	1,327
Accrued expenses and other current liabilities	(147)	(3,932)
Operating lease liabilities	(296)	—
Deferred rent	—	(27)
Net cash used in operating activities	<u>(24,462)</u>	<u>(23,076)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(249)	(66)
Purchase of investments	(62,471)	(137,593)
Proceeds from sales and maturities of investments	56,234	19,941
Net cash used in investing activities	<u>(6,486)</u>	<u>(117,718)</u>
Cash flows from financing activities:		
Net proceeds from initial public offering	—	136,362
Proceeds from notes receivable	—	12,718
Payment of loans payable	—	(12,880)
Payment of deferred offering costs	—	(2,721)
Proceeds from stock option exercises	—	101
Proceeds from the issuance of common stock under employee stock purchase plan	124	—
Net cash provided by financing activities	<u>124</u>	<u>133,580</u>
Effect of exchange rate changes on cash and cash equivalents	(69)	(51)
Net decrease in cash and cash equivalents	<u>(30,893)</u>	<u>(7,265)</u>
Cash and cash equivalents at beginning of period	47,699	74,854
Cash and cash equivalents at end of period	<u>\$ 16,806</u>	<u>\$ 67,589</u>
Supplemental disclosure of cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities	\$ 334	\$ —
Supplemental disclosure of non-cash activities:		
Right-of-use assets obtained in exchange for lease liabilities	\$ 1,513	\$ —
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 June 30, 2022.

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:

	June 30, 2022			
<i>(in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 2,948	\$ —	\$ —	\$ 2,948
U.S. government securities	50,180	—	(740)	49,440
Non-U.S. government securities	3,045	—	(48)	2,997
Corporate debt securities	25,337	—	(250)	25,087
Commercial paper	45,480	—	—	45,480
Total	<u>\$ 126,990</u>	<u>\$ —</u>	<u>\$ (1,038)</u>	<u>\$ 125,952</u>
Classified as:				
Cash equivalents				\$ 2,948
Marketable securities				123,004
Total				<u>\$ 125,952</u>

	December 31, 2021			
<i>(in thousands)</i>	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>	June 30, 2022	December 31, 2021
Research and development costs	\$ 1,927	\$ 1,570
Compensation and benefit costs	1,320	2,403
Accrued professional fees	1,089	363
Other	149	358
Total accrued expenses and other current liabilities	<u>\$ 4,485</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 June 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 six months ended June 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. 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. 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 reported a net loss for the three and six months ended June 30, 2022 and 2021.

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:

	June 30,	
	2022	2021
Options to purchase common stock	4,478,338	2,583,563
Unvested restricted stock units	97,330	—
Shares issuable under employee stock purchase plan	29,837	—
Total	<u>4,605,505</u>	<u>2,583,563</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:

(in thousands)	Fair Value at June 30, 2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash in bank balances	\$ 13,858	\$ —	\$ —	\$ 13,858
Money market funds	2,948	—	—	2,948
Total cash and cash equivalents	\$ 16,806	\$ —	\$ —	\$ 16,806
Marketable securities				
U.S. government securities	\$ —	\$ 49,440	\$ —	\$ 49,440
Non-U.S. government securities	—	2,997	—	2,997
Corporate debt securities	—	25,087	—	25,087
Commercial paper	—	45,480	—	45,480
Total marketable securities	\$ —	\$ 123,004	\$ —	\$ 123,004

(in thousands)	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 June 30, 2022, by contractual maturity, are as follows:

(in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 124,042	\$ 123,004
Due after one year through two years	—	—
Total marketable securities	\$ 124,042	\$ 123,004

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. In June 2019, the Company entered into a lease agreement for office space in Suzhou China, which expires in October 2022.

Components of lease cost are as follows:

(in thousands)	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Operating lease cost	\$ 151	\$ 305
Short-term cost	12	27
Total lease cost	\$ 163	\$ 332
Weighted-average remaining lease term		2.30
Weighted-average discount rate		6.00%

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

<i>(in thousands)</i>	Operating Leases	
2022	\$	333
2023		652
2024		559
2025 and thereafter		—
Total lease payments		1,544
Less: Imputed interest		(107)
Present value of lease liabilities		1,437
Less: Current portion of lease liabilities		(586)
Total lease liabilities, non-current	\$	851

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	\$	1,880

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 June 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:

	June 30, 2022	December 31, 2021
Options outstanding under incentive award plans	4,478,338	3,577,485
Unvested restricted stock units	97,330	—
Shares available for future grant under incentive award plans	1,393,902	1,138,622
Shares available for future grant under employee stock purchase plans	408,134	240,000
Total shares reserved	6,377,704	4,956,107

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 June 30, 2022, no cash dividends have been declared or paid by the Company.

Stock-Based Compensation Plans

The Company has two stock-based compensation plans, the 2017 Incentive Award Plan (the “2017 Plan”) and the 2021 Incentive Award Plan (the “2021 Plan”) which was adopted in February 2021. 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.

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 June 30, 2022, 1,393,902 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 June 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 June 30, 2022, there was \$0.2 million of unrecognized stock-based compensation expense related to unvested employee stock purchases. The unrecognized stock-based compensation expense is estimated to be recognized over a period of 0.92 years as of June 30, 2022. There were 84,558 shares purchased by employees under the ESPP during the period ended June 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 six months ended June 30, 2022:

	<u>Number of Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u> <i>(in years)</i>	<u>Aggregate Intrinsic Value</u> <i>(in thousands)</i>
Outstanding as of December 31, 2021	3,577,485	\$ 9.72	9.09	\$ 491
Granted	1,026,020	4.84		
Exercised	(10,000)	0.00		21
Forfeited	(115,167)	10.31		
Outstanding as of June 30, 2022	<u>4,478,338</u>	\$ 8.62	8.86	\$ 175
Exercisable, June 30, 2022	2,081,155	\$ 8.80	8.33	\$ 17
Vested and expected to vest, June 30, 2022	4,478,338	\$ 8.62	8.86	\$ 175

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 June 30, 2022, there was \$25.7 million of unrecognized stock-based compensation expense related to unvested stock options which is estimated to be recognized over a period of 2.61 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 six months ended June 30, 2022:

	Number of Shares	Grant-Date Fair Value
Unvested restricted stock units as of December 31, 2021	—	\$ —
Granted	111,200	3.24
Forfeited	(13,870)	3.44
Unvested restricted stock units as of June 30, 2022	<u>97,330</u>	<u>\$ 3.21</u>

As of June 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 3.57 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:

	Six Months Ended June 30,	
	2022	2021
Stock Option Plans		
Expected term (years)	5.97	6.00
Expected volatility	72.83%	70.56%
Risk-free interest rate	2.01%	0.88%
Fair value of underlying common stock	\$ 4.84	\$ 19.85
Weighted average grant-date fair value per share	\$ 3.16	\$ 12.32
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:

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Research and development expense	\$ 687	\$ 491	\$ 1,457	\$ 973
General and administrative expense	1,964	1,418	3,938	2,768
Total stock-based compensation expense	<u>\$ 2,651</u>	<u>\$ 1,909</u>	<u>\$ 5,395</u>	<u>\$ 3,741</u>

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 June 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 six months ended June 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 June 30, 2022, the Company has paid \$4.0 million to Lilly. No development milestones have been met as of June 30, 2022. The Company has not recorded any research and development expense during the three and six months ended June 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 June 30, 2022, the Company has paid \$2.2 million to Vintagence which includes a milestone payment of \$1.5 million in connection with the Company's IND filing for TERN-501 in December 2020. The Company has not recognized any research and development expense during the three and six months ended June 30, 2022 and 2021 related to this agreement.

In August 2022, the Company made a milestone payment of \$2.2 million to Vintagence in connection with the initiation of dosing in the Phase 2a DUET trial. The Company will recognize the research and development expense related to the payment during the third quarter of fiscal 2022.

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 June 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.

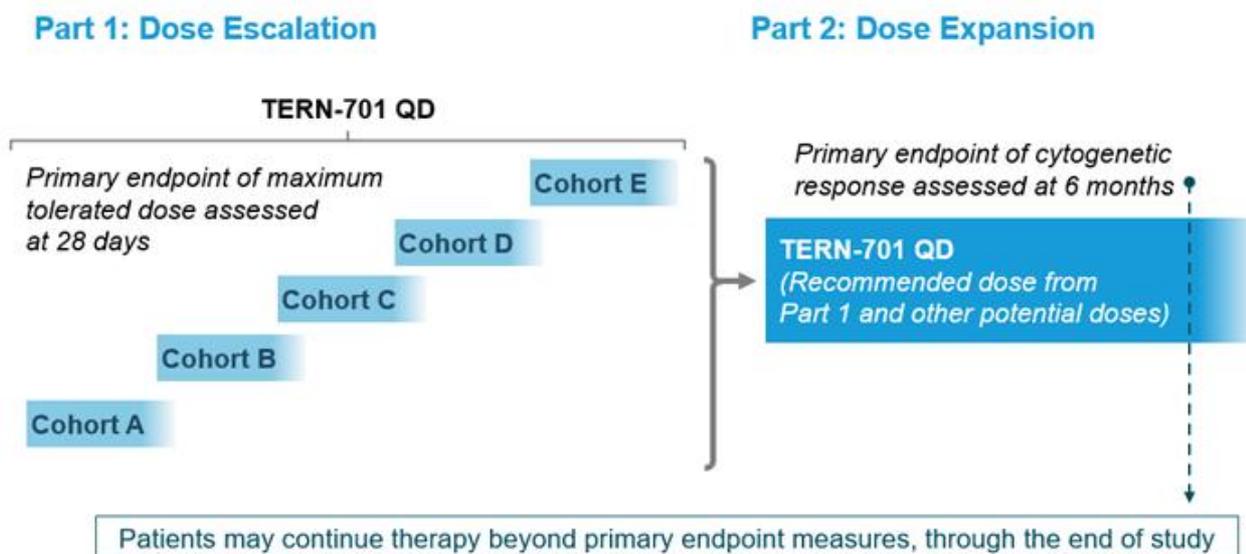
Our product pipeline currently consists of three product candidates – TERN-701, TERN-601 and TERN-501. TERN-701 is our allosteric BCR-ABL tyrosine kinase inhibitor (TKI) that is in clinical development in China for chronic myeloid leukemia (CML), a form of cancer that starts in bone marrow. TERN-601 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 data readouts from our three programs in CML, obesity and NASH.

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 and bosutinib. However, an unmet medical need remains due to (1) an increasing number of patients becoming refractory or intolerant to the current SOC, (2) mutations that are difficult for active-site TKIs to treat (e.g., T315i), or (3) safety warnings for active-site TKIs that overcome the T315i mutation.

Allosteric TKIs, which bind to the myristoyl-binding pocket, have the potential to address active-site TKI shortcomings, including off-target activity and limited efficacy against active site resistance mutations. TERN-701 aims to address limitations of the only FDA-approved allosteric BCR-ABL TKI (asciminib) with the goal of achieving improved tumor suppression through a combination of (1) potent activity against CML including a broad range of mutations, and (2) improved PK to enable potential once-daily dosing, and minimal food or fasting requirements. We out-licensed TERN-701 to Hansoh Pharmaceuticals for development in the greater China region, while retaining all worldwide development and commercialization rights outside of greater China. We plan to explore options for the development and commercialization of TERN-701 outside of China, including potential internal development and/or additional strategic partnerships.

TERN-701 is referred to by Hansoh Pharmaceuticals as HS-10382. 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:



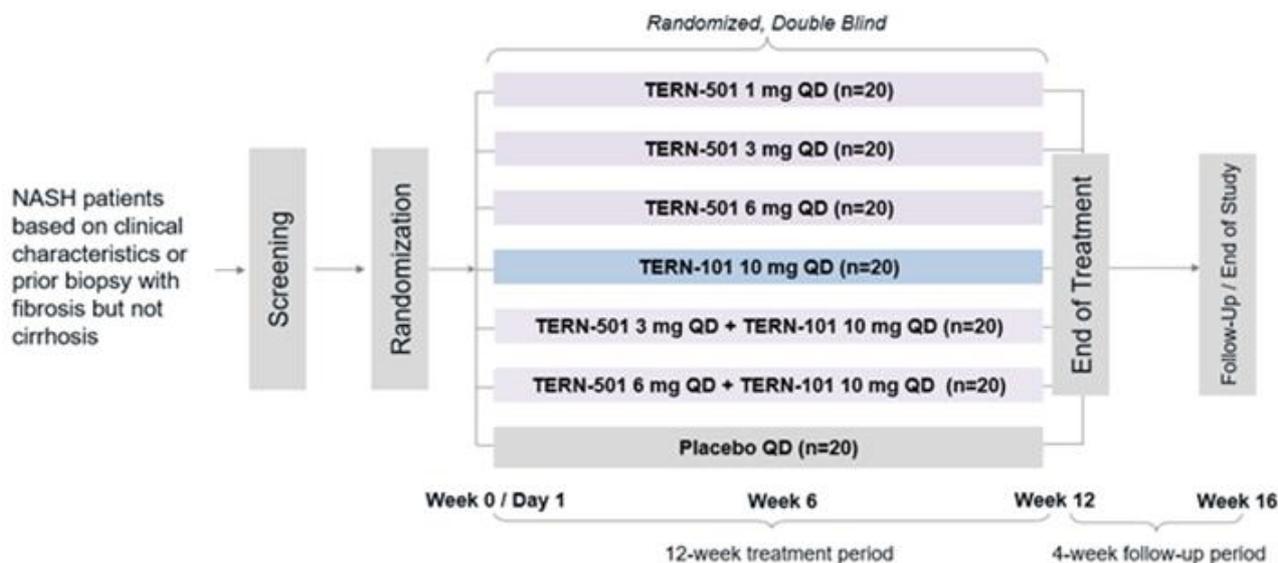
TERN-601: Oral, small-molecule glucagon-like peptide-1 (GLP-1) receptor agonist for obesity

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 or NASH treatment 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 a small molecule, orally administered GLP-1R agonist 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. We designated a lead development candidate for our GLP-1R agonist program as TERN-601 in the fourth quarter of 2021 and are conducting IND-enabling activities for TERN-601 with the goal of initiating a first-in-human clinical trial in 2023. 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 healthy volunteers assessing potential endpoints such as 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, with no treatment-emergent serious AEs and no discontinuations of study or study drug due to any AE. There were no cardiac safety signals, no incidence of diarrhea and no differences between TERN-501 groups and placebo in change from baseline in heart rate, blood pressure or other vital signs. Thyroid function test results were consistent with THR-β agonists currently in clinical development, and there were no findings of clinical hyper- or hypo-thyroidism. There were no differences between placebo and any TERN-501 dose group in liver function abnormalities or mean change from baseline in liver transaminases at Day 15 in the MAD cohorts. TERN-501 demonstrated a predictable pharmacokinetic profile with low variability: study drug plasma exposures were linear and approximately dose-proportional with no overlap between dose strengths. Significant effects on sex hormone binding globulin (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 ≥ 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 ≥ 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:



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. In May 2022, we announced the prioritization of our resources towards development activities related to GLP-1R agonist program, including TERN-601, and TERN-501 (including the ongoing Phase 2a DUET trial of TERN-501 as monotherapy and in combination with TERN-101), and supporting our partner's clinical development of TERN-701 for CML in China. We expect our cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements into 2025, including three proof-of-concept data readouts from our prioritized 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 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 six months ended June 30, 2022 and 2021:

<i>(in thousands)</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	2022	2021	Change
Results of Operations						
Operating expenses:						
Research and development	\$ 8,662	\$ 5,961	\$ 2,701	\$ 16,798	\$ 14,696	\$ 2,102
General and administrative	5,422	4,857	565	11,111	9,418	1,693
Total operating expenses	14,084	10,818	3,266	27,909	24,114	3,795
Loss from operations	(14,084)	(10,818)	(3,266)	(27,909)	(24,114)	(3,795)
Other income:						
Interest income	214	55	159	283	66	217
Other (expense) income, net	(54)	39	(93)	(50)	26	(76)
Total other income, net	160	94	66	233	92	141
Loss before income taxes	(13,924)	(10,724)	(3,200)	(27,676)	(24,022)	(3,654)
Income tax expense	(6)	(14)	8	(27)	(53)	26
Net loss	<u>\$ (13,930)</u>	<u>\$ (10,738)</u>	<u>\$ (3,192)</u>	<u>\$ (27,703)</u>	<u>\$ (24,075)</u>	<u>\$ (3,628)</u>

Revenue

To date, we have not generated, and do not expect to generate for the foreseeable future, any revenue from the sale of products. We may generate revenue from pre-specified clinical, regulatory and sales milestones as part of an exclusive option and license agreement for TERN-701 in greater China with Hansoh 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 June 30, 2022, compared to the same period in 2021, was due to a \$1.2 million increase in personnel-related expenses due to higher headcount, a \$1.4 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.

The increase in research and development expenses for the six months ended June 30, 2022, compared to the same period in 2021, was primarily due to a \$2.5 million increase in personnel-related expenses due to higher headcount and a \$0.1 million increase due to higher allocated facility-related and depreciation expenses to research and development expenses. These increases were partially offset by a \$0.6 million decrease related to our clinical program expenses primarily from the Phase 2a LIFT study.

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 June 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 and a \$0.1 million increase in expenses related to 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.

The increase in general and administrative expenses for the six months ended June 30, 2022, compared to the same period in 2021, was primarily due to a \$1.4 million increase in personnel-related expenses due to higher headcount and a \$0.4 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 June 30, 2022 was \$0.2 million, compared to \$0.1 million for the same period in 2021.

Interest income for the six months ended June 30, 2022 was \$0.3 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 June 30, 2022 was \$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 six months ended June 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 June 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 six months ended June 30, 2022 was less than \$0.1 million, compared to less than \$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 to continue to incur net operating losses for at least the next several years. In May 2022, we announced the prioritization of our resources towards development activities related to our GLP-1R agonist program, including TERN-601, and TERN-501 (including the planned Phase 2a clinical trial of TERN-501, and supporting our partner's clinical development of TERN-701 for CML in China. As a result, we expect our existing cash and cash equivalents to be sufficient to fund our operating expenses and capital expenditures into 2025, including key data readouts from our prioritized 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.

Sources of liquidity

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

Since our inception, we have not generated any revenue from product sales and we have incurred significant operating losses and negative cash flows from our operations. As of June 30, 2022, we had an accumulated deficit of \$209.8 million, a net loss of \$27.7 million, negative cash flows from operations of \$24.5 million, and cash, cash equivalents and marketable securities of \$139.8 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 June 30, 2022.

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 six months ended June 30, 2022 was \$24.5 million and consisted primarily of our net loss of \$27.7 million as well as a \$3.4 million decrease from changes in operating assets and liabilities. This was partially offset by non-cash adjustments of \$5.4 million of stock-based compensation, \$0.7 million of net amortization of marketable securities, \$0.3 million of depreciation and \$0.3 million in amortization of operating lease assets.

Net cash used in operating activities during the six months ended June 30, 2021 was \$23.1 million and consisted primarily of our net loss of \$24.1 million as well as a \$3.2 million decrease from changes in operating assets and liabilities. This was partially offset by non-cash expenses of \$3.7 million of stock-based compensation, \$0.3 million of depreciation and \$0.2 million of net amortization on marketable securities.

Investing activities

Net cash used in investing activities during the six months ended June 30, 2022 was \$6.5 million and consisted primarily of \$62.5 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 \$56.2 million.

Net cash used in investing activities during the six months ended June 30, 2021 was \$117.7 million and consisted primarily of a \$137.6 million purchase of investments. This was partially offset by proceeds from the sale and maturity of investments of \$19.9 million.

Financing activities

Net cash provided by financing activities during the six months ended June 30, 2022 was \$0.1 million and consisted of \$0.1 million of proceeds from the issuance of common stock under our employee stock purchase plan.

Net cash provided by financing activities during the six months ended June 30, 2021 was \$133.6 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 \$0.1 million of proceeds from stock option exercises, 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 June 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 June 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 June 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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	Amended and Restated Certificate of Incorporation.	8-K	2/9/2021	3.1	
3.2	Amended and Restated Bylaws.	8-K	2/9/2021	3.2	
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.

**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: August 8, 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: August 8, 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 June 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: August 8, 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 June 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: August 8, 2022

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