

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2023

OR

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

For the transition period from _____ to _____

Commission File Number 001-39138

JASPER THERAPEUTICS, INC.
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

2200 Bridge Pkwy Suite #102
Redwood City, CA

(Address of Principal Executive Offices)

84-2984849

(I.R.S. Employer
Identification Number)

94065

(Zip Code)

(650) 549-1400

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Voting Common Stock, par value \$0.0001 per share	JSPR	The Nasdaq Stock Market LLC
Redeemable Warrants, each whole warrant exercisable for one share of Voting Common Stock at an exercise price of \$11.50	JSPRW	The Nasdaq Stock Market LLC

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

As of August 7, 2023, the number of shares of the issuer's common stock outstanding was 110,800,413 shares of voting common stock, \$0.0001 par value per share, and no shares of non-voting common stock, \$0.0001 par value per share.

JASPER THERAPEUTICS, INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
JUNE 30, 2023

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements (Unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets as of June 30, 2023 and December 31, 2022</u>	1
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2023 and 2022</u>	2
<u>Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2023 and 2022</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2023 and 2022</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4</u> <u>Controls and Procedures</u>	37
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	38
<u>Item 1A.</u> <u>Risk Factors</u>	38
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	47
<u>Item 4</u> <u>Mine Safety Disclosures</u>	47
<u>Item 5.</u> <u>Other Information</u>	47
<u>Item 6</u> <u>Exhibits</u>	48
<u>SIGNATURES</u>	49

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

JASPER THERAPEUTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	June 30,	December 31,
	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 115,812	\$ 38,250
Other receivables	—	663
Prepaid expenses and other current assets	2,755	2,818
Total current assets	118,567	41,731
Property and equipment, net	3,056	3,568
Operating lease right-of-use assets	1,685	1,886
Restricted cash	417	417
Other non-current assets	445	759
Total assets	\$ 124,170	\$ 48,361
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,581	\$ 1,768
Current portion of operating lease liabilities	917	865
Accrued expenses and other current liabilities	6,474	4,432
Total current liabilities	8,972	7,065
Non-current portion of operating lease liabilities	2,317	2,786
Common stock warrant liability	—	150
Earnout liability	362	18
Other non-current liabilities	2,314	2,353
Total liabilities	13,965	12,372
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock: \$0.0001 par value — 10,000,000 shares authorized at June 30, 2023 and December 31, 2022; none issued and outstanding at June 30, 2023 and December 31, 2022	—	—
Common stock: \$0.0001 par value — 492,000,000 shares authorized at June 30, 2023 and December 31, 2022; 110,800,413 and 38,045,677 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	11	4
Additional paid-in capital	245,669	141,120
Accumulated deficit	(135,475)	(105,135)
Total stockholders' equity	110,205	35,989
Total liabilities and stockholders' equity	\$ 124,170	\$ 48,361

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

JASPER THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating expenses				
Research and development	\$ 13,297	\$ 8,135	\$ 23,102	\$ 16,323
General and administrative	4,530	3,828	8,672	8,418
Total operating expenses	<u>17,827</u>	<u>11,963</u>	<u>31,774</u>	<u>24,741</u>
Loss from operations	(17,827)	(11,963)	(31,774)	(24,741)
Interest income	1,436	92	2,532	94
Change in fair value of earnout liability	420	625	(344)	5,218
Change in fair value of common stock warrant liability	—	845	(575)	6,895
Other expense, net	(109)	(3)	(179)	(77)
Total other income, net	<u>1,747</u>	<u>1,559</u>	<u>1,434</u>	<u>12,130</u>
Net loss and comprehensive loss	<u>\$ (16,080)</u>	<u>\$ (10,404)</u>	<u>\$ (30,340)</u>	<u>\$ (12,611)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.15)</u>	<u>\$ (0.29)</u>	<u>\$ (0.31)</u>	<u>\$ (0.35)</u>
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	<u>109,213,669</u>	<u>36,397,822</u>	<u>98,605,265</u>	<u>36,353,509</u>

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

JASPER THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of January 1, 2023	38,045,677	\$ 4	\$ 141,120	\$ (105,135)	\$ 35,989
Issuance of common stock upon exercise of stock options	44,413	—	32	—	32
Issuance of common stock through underwritten offering, net of discounts and commissions and issuance costs of \$6.6 million	69,000,000	7	96,923	—	96,930
Issuance of common stock through ATM offering, net of commissions and offering costs of \$0.1 million	2,337,496	—	4,509	—	4,509
Reclassification of common stock warrants from liability to equity (Note 7)	—	—	725	—	725
Settlement of restricted stock units	625	—	-	—	—
Vesting of founders' restricted stock	—	—	6	—	6
Stock-based compensation expense	—	—	1,267	—	1,267
Net loss	—	—	—	(14,260)	(14,260)
Balance as of March 31, 2023	109,428,211	11	244,582	(119,395)	125,198
Issuance of common stock upon exercise of stock options	451,403	—	320	—	320
Issuance of common stock pursuant to Employee Stock Purchase Plan	65,001	—	36	—	36
Settlement of restricted stock units	1,308,731	—	—	—	—
Shares withheld for taxes	(452,933)	—	(661)	—	(661)
Vesting of founders' restricted stock	—	—	1	—	1
Stock-based compensation expense	—	—	1,391	—	1,391
Net loss	—	—	—	(16,080)	(16,080)
Balance as of June 30, 2023	110,800,413	\$ 11	\$ 245,669	\$ (135,475)	\$ 110,205

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of January 1, 2022	37,855,114	\$ 4	\$ 136,964	\$ (67,450)	\$ 69,518
Issuance of common stock upon exercise of stock options	19,073	—	13	—	13
Issuance of common stock upon exercise of common stock warrants	20	—	—	—	—
Vesting of founders' restricted stock	—	—	3	—	3
Stock-based compensation expense	—	—	778	—	778
Net loss	—	—	—	(2,207)	(2,207)
Balance as of March 31, 2022	37,874,207	4	137,758	(69,657)	68,105
Issuance of common stock upon exercise of stock options	17,138	—	13	—	13
Settlement of restricted stock units	89,972	—	—	—	—
Vesting of founders' restricted stock	—	—	2	—	2
Stock-based compensation expense	—	—	1,065	—	1,065
Net loss	—	—	—	(10,404)	(10,404)
Balance as of June 30, 2022	37,981,317	\$ 4	\$ 138,838	\$ (80,061)	\$ 58,781

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

JASPER THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities		
Net loss	\$ (30,340)	\$ (12,611)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization expense	549	434
Non-cash lease expense	201	151
Stock-based compensation expense	2,658	1,843
Change in fair value of common stock warrant liability	575	(6,895)
Change in fair value of earnout liability	344	(5,218)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	63	658
Other receivables	663	—
Other non-current assets	314	68
Accounts payable	(187)	(977)
Accrued expenses and other current liabilities	2,002	(911)
Operating lease liability	(417)	(222)
Other non-current liabilities	(32)	111
Net cash used in operating activities	<u>(23,607)</u>	<u>(23,569)</u>
Cash flows used in investing activities		
Purchases of property and equipment	(37)	(272)
Net cash used in investing activities	<u>(37)</u>	<u>(272)</u>
Cash flows from financing activities		
Proceeds from issuance of common stock through ATM and underwritten offerings, net	101,479	—
Proceeds from issuance of common stock pursuant to Employee Stock Purchase Plan	36	—
Taxes withheld and paid related to net share settlement of equity awards	(661)	—
Proceeds from exercise of common stock options	352	26
Net cash provided by financing activities	<u>101,206</u>	<u>26</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	77,562	(23,815)
Cash, cash equivalents and restricted cash at beginning of the period	38,667	85,046
Cash, cash equivalents and restricted cash at end of the period	<u>\$ 116,229</u>	<u>\$ 61,231</u>
Supplemental and non-cash items reconciliations:		
Reclassification of common stock warrant liability to equity	\$ 725	\$ —
Unpaid offerings issuance costs included in accrued expenses and other current liabilities	\$ 40	\$ —
Vesting of founders' restricted stock	\$ 7	\$ 5
Right-of-use asset obtained in exchange for lease liabilities	\$ —	\$ 1,074
Accounts payable and accrued expenses for purchases of property and equipment	\$ —	\$ 211
Non-cash leasehold improvements	\$ —	\$ 281

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

JASPER THERAPEUTICS, INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Description of Business

Jasper Therapeutics, Inc. and its consolidated subsidiary (collectively, “Jasper” or the “Company”), is a clinical-stage biotechnology company dedicated to enabling cures through therapeutics targeting mast and hematopoietic stem cells. The Company is focused on the development and commercialization of safer and more effective therapeutic agents for diseases such as Chronic Spontaneous Urticaria, Lower to Intermediate Risk Myelodysplastic Syndrome and novel conditioning regimens for stem cell transplantation and ex-vivo gene therapy, a technique in which genetic manipulation of cells is performed outside of the body prior to transplantation. The Company is headquartered in Redwood City, California.

On September 24, 2021 (the “Closing Date”), the Company consummated the previously announced business combination (the “Business Combination” or “Reverse Recapitalization” for accounting purposes) pursuant to the terms of the Business Combination Agreement, dated as of May 5, 2021 (the “BCA”), by and among Amplitude Healthcare Acquisition Corporation (“AMHC”), Ample Merger Sub, Inc., a then-wholly-owned subsidiary of AMHC (“Merger Sub”), and the pre-Business Combination Jasper Therapeutics, Inc. (now named Jasper Tx Corp.) (“Old Jasper”). Pursuant to the terms of the BCA, on the Closing Date, (i) Merger Sub merged with and into Old Jasper, with Old Jasper as the surviving company in the Business Combination, and, after giving effect to such Business Combination, Old Jasper became a wholly owned subsidiary of AMHC and changed its name to “Jasper Tx Corp.”, and (ii) AMHC changed its name to “Jasper Therapeutics, Inc.”.

Liquidity and Going Concern

The Company has incurred significant losses and negative cash flows from operations since its inception. During the three and six months ended June 30, 2023, the Company incurred net losses of \$16.1 million and \$30.3 million, respectively. During the three and six months ended June 30, 2022, the Company incurred net losses of \$10.4 million and \$12.6 million, respectively. During each of the six months ended June 30, 2023 and 2022, the Company had negative operating cash flows of \$23.6 million. As of June 30, 2023 and December 31, 2022, the Company had an accumulated deficit of \$135.5 million and \$105.1 million, respectively. The Company expects to continue to incur substantial losses, and its ability to achieve and sustain profitability will depend on the successful development, approval, and commercialization of product candidates and on the achievement of sufficient revenues to support the Company’s cost structure.

As of June 30, 2023, the Company had cash and cash equivalents of \$115.8 million. The Company’s management expects that the existing cash and cash equivalents will be sufficient to fund the Company’s operating plans for at least twelve months from the issuance date of these condensed consolidated financial statements. The Company will need to raise additional financing to continue its products’ development for the foreseeable future, and expects to continue doing so until it becomes profitable. The Company’s management plans to monitor expenses and raise additional capital through a combination of public and private equity, debt financings, strategic alliances, and licensing arrangements. The Company’s ability to access capital when needed is not assured and, if capital is not available to the Company when, and in the amounts needed, the Company may be required to significantly curtail, delay or discontinue one or more of its research or development programs or the commercialization of any product candidate, or be unable to expand its operations or otherwise capitalize on the Company’s business opportunities, as desired, which could materially harm the Company’s business, financial condition and results of operations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements and accompanying notes are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting.

The accompanying condensed financial statements are consolidated and include the accounts of Jasper Therapeutics, Inc. and its wholly-owned subsidiary, Jasper Tx Corp. All intercompany transactions and balances have been eliminated upon consolidation.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2022 included in the Company's Annual Report on the Form 10-K filed with the SEC on March 8, 2023. The information as of December 31, 2022, included in the condensed consolidated balance sheets was derived from the Company's audited financial statements. These unaudited interim condensed consolidated financial statements have been prepared on the same basis as the Company's annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary for a fair statement of the Company's consolidated financial statements. The results of operations for the three and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or for any other interim period or for any other future year.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Significant estimates and assumptions made in the accompanying condensed consolidated financial statements include but are not limited to the determination of the accrued research and development expenses, valuation of earnout liability and the measurement of stock-based compensation expense. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors and adjusts those estimates and assumptions when facts and circumstances dictate. Actual results could materially differ from those estimates.

Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash and restricted cash reported within the condensed consolidated balance sheets that sum to the total amount shown in the condensed consolidated statements of cash flows (in thousands):

	June 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 115,812	\$ 38,250
Restricted cash	417	417
Total cash, cash equivalents and restricted cash	\$ 116,229	\$ 38,667

Cash and cash equivalents consist of a checking account and investments in money market funds with an original maturity of three months or less at the time of purchase. Restricted cash relates to the letter of credit secured in conjunction with the operating lease (Note 8). Cash balances are held at financial institutions and account balances may exceed federally insured limits. To date, the Company has not experienced any losses on its cash, cash equivalents and marketable securities' balances and periodically evaluates the creditworthiness of its financial institutions.

On March 10, 2023, Silicon Valley Bank ("SVB") was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation ("FDIC") as receiver. On March 12, 2023 the FDIC transferred all deposits, both insured and uninsured, and substantially all assets from the former SVB to a newly created, full-service FDIC-operated "bridge bank", Silicon Valley Bridge Bank, N.A. ("SVBB") and the FDIC, Treasury Department, and Federal Reserve announced that all deposits will be fully protected, whether or not they had been insured by the FDIC. On March 27, 2023, First-Citizens Bank & Trust Company assumed all of SVBB's customer deposits and certain other liabilities and acquired substantially all of SVBB's loans and certain other assets from the FDIC. As of June 30, 2023, the Company had \$1.0 million of cash and cash equivalents and \$3.2 million of marketable securities at SVBB. As of the date of the issuance of these condensed consolidated financial statements, the Company has full access to and control over all its cash, cash equivalents and marketable securities.

Segment Reporting

The Company has determined it operates as a single operating and reportable segment. The Company's chief operating decision maker, its Chief Executive Officer, manages the Company's operations on a consolidated basis for the purposes of allocating resources. All long-lived assets are located in the United States.

New Accounting Pronouncements Not Yet Adopted

In June 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions, which (1) clarifies the guidance in Topic 820 on the fair value measurement of an equity security that is subject to contractual restrictions that prohibit the sale of an equity security and (2) requires specific disclosures related to such an equity security. This guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The Company does not expect the adoption of this ASU to have a significant impact on the Company's condensed consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU were effective for all entities as of March 12, 2020 through December 31, 2022; however, in December 2022, the FASB issued ASU No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, which extended the sunset date from December 31, 2022 to December 31, 2024. An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic, the amendments must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. The Company is currently evaluating the effect of ASU No. 2020-04 on its condensed consolidated financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 – Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities 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 related assets or liabilities; and
- Level 3 – Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

The fair value of Level 1 securities is determined using quoted prices in active markets for identical assets. As of December 31, 2022, Level 1 securities consisted of highly liquid money market funds and common stock warrant liability. In addition, restricted cash collateralized by money market funds is a financial asset measured at fair value and is a Level 1 financial instrument under the fair value hierarchy. As of June 30, 2023, Level 1 securities included money market funds. As a result of the warrant liability being reclassified to equity during the six months ended June 30, 2023, the common stock warrants are no longer securities that are measured at fair value at period end (see Note 7).

Financial assets and liabilities are considered Level 2 when their fair values are determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data, such as pricing for similar securities, recently executed transactions, cash flow models with yield curves, and benchmark securities. In addition, Level 2 financial instruments are valued using comparisons to like-kind financial instruments and models that use readily observable market data as their basis. The Company had no financial instruments classified at Level 2 as of June 30, 2023 and December 31, 2022.

Financial assets and liabilities are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies, or similar techniques and at least one significant model assumption or input is unobservable. Level 3 liabilities that are measured at fair value on a recurring basis included the earnout liability, which was recognized in connection with the Business Combination in September 2021 (Note 7).

During the periods presented, the Company has not changed the manner in which it values liabilities that are measured at estimated fair value using Level 3 inputs. There were no transfers within the hierarchy during the three and six months ended June 30, 2023 and 2022.

The following tables set forth the fair value of the Company's financial assets and liabilities measured on a recurring basis by level within the fair value hierarchy (in thousands):

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Money market funds	\$ 114,812	\$ —	\$ —	\$ 114,812
Total fair value of assets	<u>\$ 114,812</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 114,812</u>
Financial liabilities				
Earnout liability	\$ —	\$ —	\$ 362	\$ 362
Total fair value of financial liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 362</u>	<u>\$ 362</u>

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Money market funds	\$ 37,250	\$ —	\$ —	\$ 37,250
Total fair value of assets	<u>\$ 37,250</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 37,250</u>
Financial liabilities				
Common stock warrant liability	\$ 150	\$ —	\$ —	\$ 150
Earnout liability	—	—	18	18
Total fair value of financial liabilities	<u>\$ 150</u>	<u>\$ —</u>	<u>\$ 18</u>	<u>\$ 168</u>

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities (in thousands):

	Earnout Liability
Fair Value as of January 1, 2023	\$ 18
Change in the fair value included in other expense	764
Fair Value as of March 31, 2023	<u>782</u>
Change in the fair value included in other income	(420)
Fair Value as of June 30, 2023	<u>\$ 362</u>
Fair Value as of January 1, 2022	\$ 5,743
Change in the fair value included in other income	(4,593)
Fair Value as of March 31, 2022	<u>1,150</u>
Change in the fair value included in other income	(625)
Fair Value as of June 30, 2022	<u>\$ 525</u>

The estimated fair value of the earnout liability is determined using a Monte Carlo simulation model, which uses a distribution of potential outcomes on a monthly basis over the earnout period prioritizing the most reliable information available. The assumptions utilized in the calculation are based on the achievement of certain stock price milestones, including the Company's current common stock price, expected volatility, risk-free rate and expected term. The estimates of fair value are uncertain and changes in any of the estimated inputs used as of the date of this report could have resulted in significant adjustments to the fair value.

The following table presents quantitative information about the inputs and valuation methodologies used for the Company's fair value measurement classified in Level 3 of the fair value hierarchy at June 30, 2023:

	Fair value (in thousands)	Valuation methodology	Significant unobservable input	
Earnout liability	\$ 362	Monte Carlo Simulation	Common stock price	\$ 1.37
			Expected term (in years)	1.24
			Expected volatility	139.0%
			Risk-free interest rate	5.14%

The following table presents quantitative information about the inputs and valuation methodologies used for the Company's fair value measurement classified in Level 3 of the fair value hierarchy at December 31, 2022:

	Fair value (in thousands)	Valuation methodology	Significant unobservable input
Earnout liability	\$ 18	Monte Carlo Simulation	Common stock price \$ 0.48
			Expected term (in years) 1.73
			Expected volatility 105.0%
			Risk-free interest rate 4.40%

NOTE 4. CONDENSED CONSOLIDATED BALANCE SHEET COMPONENTS

Prepaid expenses and other current assets

The following table summarizes the details of prepaid expenses and other current assets as of the dates set forth below (in thousands):

	June 30, 2023	December 31, 2022
Research and development prepaid expenses	\$ 1,168	\$ 842
Prepaid insurance	604	1,362
Payroll tax credit receivable	277	250
Other receivables	53	118
Other prepaid expenses and current assets	653	246
Total	<u>\$ 2,755</u>	<u>\$ 2,818</u>

Property and equipment, net

The following table summarizes the details of property and equipment, net as of the dates set forth below (in thousands):

	June 30, 2023	December 31, 2022
Leasehold improvements	\$ 2,477	\$ 2,477
Lab equipment	1,743	1,706
Office furniture & fixtures	502	502
Computer equipment	145	145
Capitalized software	90	90
Property and equipment, gross	4,957	4,920
Less: accumulated depreciation and amortization	(1,901)	(1,352)
Property and equipment, net	<u>\$ 3,056</u>	<u>\$ 3,568</u>

Depreciation and amortization expense was \$0.3 million and \$0.2 million for the three months ended June 30, 2023 and 2022, respectively, and \$0.5 million and \$0.4 million for the six months ended June 30, 2023 and 2022, respectively.

Accrued expenses and other current liabilities

The following table summarizes the details of accrued expenses and other current liabilities as of the dates set forth below (in thousands):

	June 30, 2023	December 31, 2022
Research and development accrued expenses	\$ 5,157	\$ 2,651
Accrued employee and related compensation expenses	928	1,587
Other	389	194
Total	\$ 6,474	\$ 4,432

Other non-current liabilities

The following table summarizes the details of other non-current liabilities as of the dates set forth below (in thousands):

	June 30, 2023	December 31, 2022
CIRM grant liability	\$ 2,264	\$ 2,264
Restricted stock liability	2	9
Other non-current liabilities	48	80
Total	\$ 2,314	\$ 2,353

NOTE 5. CIRM GRANT

In November 2020, California Institute for Regenerative Medicine (“CIRM”) awarded the Company \$2.3 million in support of the research project related to a monoclonal antibody that depletes blood stem cells and enables chemotherapy-free transplants. The award was payable to the Company upon achievement of milestones over the next three years that were primarily based on patients’ enrollment to the Company’s clinical trials. CIRM may permanently cease disbursements if milestones are not met within four months of the scheduled completion date. Additionally, if CIRM determines, in its sole discretion, that the Company has not complied with the terms and conditions of the grant, CIRM may suspend or permanently cease disbursements. Funds received under this grant may only be used for allowable project costs specifically identified with the CIRM-funded project. Such costs can include but are not limited to salary for personnel, itemized supplies, consultants, and itemized clinical study costs. Under the terms of the grant, both CIRM and the Company will co-fund the research project and the amount of the Company’s co-funding requirement is predetermined as a part of the award. Under the terms of the CIRM grant, the Company is obligated to pay royalties and licensing fees based on 0.1% of net sales of CIRM-funded product candidates or CIRM-funded technology per \$1.0 million of CIRM grant. As an alternative to revenue sharing, the Company has the option to convert the award to a loan. In the event the Company exercises its right to convert the award to a loan, it would be obligated to repay the loan within ten business days of making such election. Repayment amounts vary dependent on when the award is converted to a loan, ranging from 60% of the award granted to amounts received plus interest at the rate of the three-month LIBOR rate plus 25% per annum. Since the Company may be required to repay some or all of the amounts awarded by CIRM, the Company accounted for this award as a liability. Given the uncertainty in amounts due upon repayment, the Company has recorded amounts received without any discount or interest recorded, and upon determination of amounts that would become due, the Company will adjust accordingly. In the absence of explicit US GAAP guidance on contributions received by business entities from government entities, the Company has applied to the CIRM grant the recognition and measurement guidance in Accounting Standards Codification Topic 958-605 by analogy. The Company has received an aggregate of \$2.3 million from CIRM through June 30, 2023, of which \$0.7 million was received during the six months ended June 30, 2023. As of June 30, 2023, \$50,000 is available for future distribution to the Company under the grant upon the achievement of a future milestone.

NOTE 6. SIGNIFICANT AGREEMENTS

Amgen License Agreement

In November 2019, the Company entered into a worldwide exclusive license agreement with Amgen, Inc. (“Amgen”) for briquilimab (formerly known as AMG-191 and JSP191) that also includes translational science and materials from Stanford University (the “Amgen License Agreement”). The Company was assigned and accepted Amgen’s rights and obligations, effective November 21, 2019, for the Investigator Sponsored Research Agreement (the “ISRA”), entered into in June 2013, between Amgen and The Board of Trustees of the Leland Stanford Junior University (“Stanford”) and the Quality Agreement between Amgen and Stanford, effective as of October 7, 2015. Under the ISRA, the Company received an option to negotiate a definitive license with Stanford for rights to certain Stanford intellectual property related to the study of briquilimab in exchange for an option exercise fee of \$1.0 million, payable over a two-year period (the “Option”). The Company exercised the Option on June 2, 2020. As a result, the Company has worldwide exclusive rights to develop and commercialize briquilimab.

The Amgen License Agreement terminates on a country-by-country basis on the 10th anniversary of the date on which the exploitation of the licensed products is no longer covered by a valid claim under a licensed patent in such country. On a country-by-country basis, upon the expiration of the term in each country with respect to the licensed products, the licenses to the Company by Amgen become fully paid and non-exclusive. The Company and Amgen have the right to terminate the agreement for a material breach as specified in the agreement.

Stanford License Agreement

In March 2021, the Company entered into the Stanford License Agreement. In July 2023, the Company entered into an amendment to the Stanford License Agreement to modify certain milestones thereunder. The Company received a worldwide, exclusive license with a right to sublicense for briquilimab in the field of depleting endogenous blood stem cells in patients for whom hematopoietic cell transplantation is indicated. Stanford transferred to the Company certain know-how and patents related to briquilimab (together, the “Licensed Technology”). Under the terms of this agreement, the Company will use commercially reasonable efforts to develop, manufacture, and sell licensed product and to develop markets for a licensed product. In addition, the Company will use commercially reasonable efforts to meet the milestones as specified in the agreement over the six years from execution of the Stanford License Agreement and must notify Stanford in writing as each milestone is met.

The Company will pay annual license maintenance fees, beginning on the first anniversary of the effective date of the agreement and ending upon the first commercial sale of a product, method, or service in the licensed field of use, as follows: \$25,000 for each first and second year, \$35,000 for each third and fourth year, and \$50,000 at each anniversary thereafter ending upon the first commercial sale. The Company is also obligated to pay late-stage clinical development milestones and first commercial sales milestone payments of up to \$9.0 million in total. The Company will also pay low single-digit royalties on net sales of licensed products, if approved. The Company paid a \$25,000 license maintenance fee in each of March 2023 and 2022, which was recognized as research and development expense in the condensed statements of operations and comprehensive loss for the six months ended June 30, 2023 and 2022.

The Stanford License Agreement expires on a country-by-country basis on the last-to-expire valid claim of a licensed patent in such country. The Company may terminate the agreement by giving Stanford written notice at least 12 months in advance of the effective date of termination. The Company may also terminate the agreement solely with respect to any particular patent application or patent by giving Stanford written notice at least 60 days in advance of the effective date of termination. Stanford may terminate the agreement after 90 days from a written notice by Stanford, specifying a problem, including a delinquency on any report required pursuant to agreement or any payment, missing a milestone or for a material breach, unless the Company remediates the problem in that 90-day period.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

Common Stock Warrants

The warrants to purchase shares of the Company's common stock (the "Common Stock Warrants") assumed in the Business Combination are traded on the Nasdaq Capital Market and may only be exercised for a whole number of shares. The Common Stock Warrants became exercisable on October 24, 2021 and will expire on September 24, 2026, unless early redeemed or if the Company extends the exercise period.

As long as the Company continued to have shares of non-voting common stock outstanding, the Common Stock Warrants did not meet the equity classification guidance and were accounted for as liabilities at fair value. In January, 2023, a holder converted all its 911,022 outstanding shares of non-voting common stock into shares of voting common stock and thereafter the Company no longer had any outstanding shares of non-voting common stock. As of June 30, 2023, the outstanding Common Stock Warrants for 4,999,863 shares of common stock met equity classification criteria and were reclassified to equity at the fair value of \$0.7 million at the conversion date.

The Company recognized a loss of zero and \$0.6 million for the three and six months ended June 30, 2023, respectively, and a gain of \$0.8 million and \$6.9 million for the three and six months ended June 30, 2022, respectively, classified within change in fair value of common stock warrant liability in the condensed consolidated statements of operations and comprehensive loss. The Common Stock Warrants' fair value was \$0.2 million as of December 31, 2022.

Contingent Earnout Liability

Upon the closing of the Business Combination and pursuant to the Sponsor Support Agreement, the Sponsor agreed to place the Earnout Shares into escrow, which will be released as follows: (a) 250,000 Earnout Shares will be released if, during the period from and after September 24, 2021 until September 24, 2024 (the "Earnout Period"), over any twenty trading days within any thirty day consecutive trading day period, the volume-weighted average price of the Company's common stock (the "Applicable VWAP") is greater than or equal to \$11.50, (b) 500,000 Earnout Shares will be released if, during the Earnout Period, the Applicable VWAP is greater than or equal to \$15.00, and (c) 300,000 Earnout Shares will be released if, during the Earnout Period, the Applicable VWAP is greater than or equal to \$18.00 (the "triggering events").

The Earnout Shares placed in escrow are legally issued and outstanding shares that participate in voting and dividends. The Earnout Shares (along with related escrowed dividends, if any) will be forfeited and not released from escrow at the end of the Earnout Period unless the triggering events described above are achieved during the Earnout Period. Upon the closing of the Business Combination, the contingent obligation to release the Earnout Shares was accounted for as a liability classified financial instrument upon their initial recognition because the triggering events that determine the number of shares required to be released from escrow include events that were not solely indexed to the common stock of the Company. The earnout liability is remeasured each reporting period with changes in fair value recognized in earnings.

The estimated fair value of the earnout liability was \$0.4 million and less than \$0.1 million as of June 30, 2023 and December 31, 2022, respectively, based on a Monte Carlo simulation model. Assumptions used in the valuations are described in Note 3. No triggering event occurred as of June 30, 2023. The Company recognized a gain of \$0.4 million and a loss of \$0.3 million for the three and six months ended June 30, 2023, respectively, and a gain of \$0.6 million and \$5.2 million for the three and six months ended June 30, 2022, respectively, classified within change in fair value of earnout liability in the condensed consolidated statements of operations and comprehensive loss.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Operating Leases

In August 2020, the Company leased 7,781 square feet and in January 2022, the Company leased an additional 5,611 square feet of laboratory and office space in Redwood City, California. The Company's operating lease will expire in August 2026. In March 2022, the Company entered into an agreement for 5,144 square feet of temporary office space in Redwood City, California, for use while the extra space leased in January 2022 was under construction. The Company paid \$26,000 monthly for the temporary office space rent through July 2022.

In conjunction with signing the lease, the Company secured a letter of credit in favor of the lessor in the amount of \$0.4 million. The funds related to this letter of credit are presented as restricted cash on the Company's condensed consolidated balance sheets. The lease agreement includes an escalation clause for increased base rent and a renewal provision allowing the Company to extend this lease for an additional 60 months at the prevailing rental rate, which the Company is not reasonably certain to exercise. In addition to base rent, the Company pays its share of operating expenses and taxes.

To complete certain leasehold improvements, the lessor agreed to provide the Company a tenant improvement allowance of \$1.5 million as well as an option to take an additional allowance of \$0.4 million to be repaid over the lease term at an interest rate of 9% per annum, which the Company exercised. The Company recognized the full \$1.9 million in leasehold improvements covered by these allowances during the 2021 and 2022 fiscal years. In accordance with the lease agreement, the lessor managed and supervised the construction of the improvements. In exchange for these services, the Company paid the lessor a fee equal to 5% of total construction costs. As of June 30, 2023 and December 31, 2022, the leasehold improvements constructed are presented under property and equipment on the Company's condensed consolidated balance sheets and will be depreciated on a straight-line basis over the remaining lease term.

In addition to the construction management and supervision fee noted above, the Company pays variable costs related to its share of operating expenses and taxes. These variable costs are recorded as lease expense as incurred and presented as operating expenses in the condensed consolidated statements of operations and comprehensive loss.

The components of lease costs, which were included in the Company's condensed statements of operations and comprehensive loss, are as follows (in thousands):

	Six Months Ended June 30,	
	2023	2022
Lease cost		
Operating lease cost	\$ 336	\$ 286
Short-term lease cost	1	123
Total lease cost	<u>\$ 337</u>	<u>\$ 409</u>

Supplemental information related to the Company's operating leases is as follows:

	Six Months Ended June 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities (in thousands)	\$ 553	\$ 351
Weighted average remaining lease term (years)	3.11	4.12
Weighted average discount rate	8.00%	8.00%

The following table summarizes a maturity analysis of the Company's operating lease liabilities showing the aggregate lease payments as of June 30, 2023 (in thousands):

Year ending December 31,	Amount
2023 (remainder of the year)	\$ 566
2024	1,153
2025	1,187
2026	740
Total undiscounted lease payments	3,646
Less imputed interest	(412)
Total discounted lease payments	3,234
Less current portion of lease liability	(917)
Noncurrent portion of lease liability	\$ 2,317

Stanford Sponsored Research Agreement

In September 2020, the Company entered into a sponsored research agreement with Stanford for a research program related to the treatment of Fanconi Anemia patients in Bone Marrow Failure requiring allogeneic transplant with non-sibling donors at Stanford Lucile Packard Children's Hospital (the "Research Project") using briquilimab. Stanford will perform the Research Project and is fully responsible for costs and operations related to the Research Project. In addition, Stanford owns the entire right, title, and interest, in and to all technology developed using Stanford facilities and by Stanford personnel through the performance of the Research Project under this agreement (the "Fanconi Anemia Research Project IP"). Under this agreement, Stanford granted the Company an exclusive option to license Stanford's rights in the Fanconi Anemia Research Project IP (the "Fanconi Anemia Option") in the field of commercialization of briquilimab. There is no license granted or other intellectual property transferred under this agreement until the Fanconi Anemia Option is exercised. As of June 30, 2023, the Company has not yet exercised the Fanconi Anemia Option.

As consideration for the services performed by Stanford under this sponsored research agreement, the Company agreed to pay Stanford a total of \$0.9 million over approximately 3 years upon the achievement of development and clinical milestones, including FDA filings and patients' enrollment. The first milestone in the amount of \$0.3 million was achieved in 2020. The second milestone in the amount of \$0.3 million was achieved in February 2022 and recognized as a research and development expense in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2022. The third milestone in the amount of \$0.3 million was based on the progress of the clinical trials and was achieved in July 2023.

License Agreements

In March 2021, the Company entered into the Stanford License Agreement (Note 6), which was amended in July 2023, pursuant to which the Company is required to pay annual license maintenance fees, clinical development and commercial sales milestones and low single-digit royalties on net sales of licensed products. All products were in development as of June 30, 2023, and no royalties were due as of such date. The Company paid a \$25,000 license maintenance fee in each of March 2023 and 2022 and recognized this as a research and development expense in the condensed statements of operations and comprehensive loss for each of the six months ended June 30, 2023 and 2022. No expenses were recognized for each of the three months ended June 30, 2023 and 2022.

Legal Proceedings

The Company, from time to time, may be party to litigation arising in the ordinary course of business. The Company was not subject to any material legal proceedings during the six months ended June 30, 2023 and the year ended December 31, 2022, and, to the best of its knowledge, no material legal proceedings are currently pending.

Guarantees and Indemnifications

In the normal course of business, the Company enters into agreements that contain a variety of representations and provide for general indemnification. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. As of June 30, 2023 and December 31, 2022, the Company does not have any material indemnification claims that are probable or reasonably possible and consequently has not recorded related liabilities.

NOTE 9. COMMON STOCK

The Company is authorized to issue 490,000,000 shares of voting common stock, 2,000,000 shares of non-voting common stock, and 10,000,000 shares of undesignated preferred stock. There were 110,800,413 shares of voting common stock, no shares of non-voting common stock and no shares of preferred stock issued and outstanding as of June 30, 2023.

As of June 30, 2023 and December 31, 2022, the Company had shares of its common stock reserved for future issuance as follows:

	June 30, 2023	December 31, 2022
Outstanding and issued common stock options	9,345,537	6,169,180
Common stock warrants	4,999,863	4,999,863
Outstanding restricted stock units	1,179,771	2,617,445
Shares available for grant under 2021 Employee Stock Purchase Plan	1,184,572	869,117
Shares available for grant under 2021 Equity Incentive Plan	855,464	1,383,661
Shares available for grant under 2022 Inducement Equity Incentive Plan	2,301,841	1,295,672
Total shares of common stock reserved	<u>19,867,048</u>	<u>17,334,938</u>

Shelf Registration Statement and Public Offering

In October 2022, the Company filed a shelf registration statement on Form S-3 (the "Prior S-3") with the SEC. The Company could sell from time to time up to \$150.0 million of common stock, preferred stock, debt securities, warrants, rights, units or depositary shares comprised of any combination of these securities, for the Company's own account in one or more offerings under the Prior S-3. In April 2023, the Company filed a new shelf registration statement on Form S-3 ("New S-3") with the SEC, which was declared effective on May 5, 2023 and superseded the Prior S-3. The Company can sell from time to time up to \$250.0 million of common stock, preferred stock, debt securities, warrants, rights, units or depositary shares comprised of any combination of these securities, for the Company's own account in one or more offerings under the New S-3. The terms of any offering under the New S-3 will be established at the time of such offering and will be described in a prospectus supplement to the New S-3 filed with the SEC prior to the completion of any such offering.

In January 2023, the Company entered into an underwriting agreement with Credit Suisse Securities (USA) LLC, William Blair & Company, L.L.C. and Oppenheimer & Co. Inc., as the representatives of the several underwriters named therein (the "Underwriters"), relating to an underwritten public offering (the "Offering"). In January 2023, the Company sold 69,000,000 shares of common stock, including 9,000,000 shares issued as a result of the exercise of the Underwriters' option to purchase 9,000,000 shares, and received net proceeds of \$96.9 million.

ATM Offering

In November 2022, the Company entered into a Controlled Equity OfferingSM Sales Agreement with Cantor Fitzgerald & Co. (the “Agent”) pursuant to which the Company may offer and sell through or to the Agent, as sales agent or principal, shares of the Company’s common stock from time to time (the “ATM Offering”). On November 10, 2022, the Company filed with the SEC a prospectus supplement under the Prior S-3 in connection with the ATM Offering, pursuant to which the Company could offer and sell shares of common stock having an aggregate offering price of up to \$15.5 million. In January 2023, the Company issued and sold an aggregate of 2,337,496 shares of common stock for net proceeds of \$4.5 million.

On May 5, 2023, the Company filed with the SEC a prospectus under the New S-3 in connection with the ATM Offering, pursuant to which the Company can now offer and sell shares of common stock having an aggregate offering price of up to \$75.0 million.

Approximately \$175.0 million remained available and unallocated under the New S-3 and \$75.0 million remained available under the ATM Offering.

NOTE 10. STOCK-BASED COMPENSATION

On September 23, 2021, the 2021 Equity Incentive Plan (“2021 Plan”) and the 2021 Employee Stock Purchase Plan (“ESPP”) became effective. The 2021 Plan and ESPP provide for annual automatic increases in the number of shares reserved under each plan on January 1 of each year, beginning on January 1, 2022 and through January 1, 2031. The number of shares available for issuance under the 2021 Plan will increase annually in an amount equal to the least of (i) 2,750,000 shares, (ii) a number of shares equal to 4% of the total number of shares of all classes of common stock of the Company outstanding on the last day of the immediately preceding fiscal year, or (iii) such lesser number of shares determined by the Company’s Board of Directors (“Board”) no later than the last day of the immediately preceding fiscal year. The number of shares of common stock available for issuance under the ESPP will increase annually in an amount equal to the least of (i) 550,000 shares of common stock, (ii) a number of shares of common stock equal to 1% of the total number of shares of all classes of common stock of the Company on the last day of the immediately preceding fiscal year, or (iii) such number of shares determined by the Board. As of June 30, 2023, 6,453,566 shares were reserved for issuance under the 2021 Plan, of which 855,464 shares were available for future grant and 5,598,102 shares were subject to outstanding options and restricted stock units (“RSUs”), including performance-based awards. As of June 30, 2023, 124,435 shares have been issued under the ESPP and 1,184,572 shares were reserved and available for future issuance.

On March 14, 2022, the Compensation Committee of the Board adopted the 2022 Inducement Equity Incentive Plan (the “2022 Inducement Plan”) under which the Company may grant equity awards to new employees. The only persons eligible to receive grants under the 2022 Inducement Plan are individuals who satisfy the standards for inducement grants under Nasdaq guidance. As of June 30, 2023, 5,500,000 shares were reserved for issuance under the 2022 Inducement Plan, of which 2,301,841 shares were available for future grant and 3,198,159 shares were subject to outstanding stock options. Subsequent to June 30, 2023, pursuant to the 2022 Inducement Plan, the Company awarded options to purchase an aggregate of 555,000 shares to new employees as inducements material to entering into employment with the Company.

Under the 2021 Plan, the Company can grant incentive stock options, nonstatutory stock options, restricted stock awards, stock appreciation rights, restricted stock units, performance awards and other awards to employees, directors and consultants. Under the 2022 Inducement Plan, the Company can grant nonstatutory stock options, restricted stock awards, stock appreciation rights, RSUs, performance awards and other awards, but only to an individual, as a material inducement to such individual to enter into employment with the Company or an affiliate of the Company, who (i) has not previously been an employee or director of the Company or (ii) is rehired following a bona fide period of non-employment with the Company. Under the ESPP, the Company can grant purchase rights to employees to purchase shares of common stock at a purchase price which is equal to 85% of the fair market value of common stock on the offering date or on the exercise date, whichever is lower.

Stock options under the 2021 Plan and the 2022 Inducement Plan may be granted for periods of up to 10 years and at prices no less than 100% of the fair market value of the shares on the date of grant, provided, however, that the exercise price of an ISO (which cannot be granted pursuant to the 2022 Inducement Plan) granted to a 10% stockholder may not be less than 110% of the fair market value of the shares. Stock options granted to employees and non-employees generally vest ratably over four years.

Stock Option Activity

The following table summarizes the stock option activity, including performance-based stock options, under the 2021 Plan, the 2022 Inducement Plan and the Company's 2019 Equity Incentive Plan (the "2019 Plan") for the six months ended June 30, 2023:

	Options Outstanding		Weighted - Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
	Number of Shares	Weighted Average Exercise Price		
Balance, January 1, 2023	6,169,180	\$ 2.25	7.80	\$ —
Options granted	4,375,696	\$ 1.76		
Options exercised	(495,816)	\$ 0.71		
Options cancelled/forfeited	(703,523)	\$ 1.65		
Balance, June 30, 2023	<u>9,345,537</u>	<u>\$ 2.15</u>	8.75	\$ 1,132
Vested and expected to vest, June 30, 2023	<u>9,345,537</u>	<u>\$ 2.15</u>	8.75	\$ 1,132
Exercisable, June 30, 2023	<u>2,786,521</u>	<u>\$ 1.95</u>	7.50	\$ 1,007

The aggregate intrinsic value represents the difference between the estimated fair value of the underlying common stock and the exercise price of outstanding, in-the-money options. The total intrinsic value of the options exercised during each of the three and six months ended June 30, 2023 was \$0.4 million and during the three and six months ended June 30, 2022 was less than \$0.1 million and \$0.1 million, respectively.

The total fair value of options that vested during the six months ended June 30, 2023 and 2022 was \$2.1 million and \$0.8 million, respectively. The weighted-average grant date fair value of options granted during the six months ended June 30, 2023 and 2022 was \$1.44 and \$1.91 per share, respectively.

Unamortized stock-based compensation for granted options as of June 30, 2023 was \$10.5 million, which is expected to be recognized over a weighted-average period of 3.0 years, including \$0.1 million related to performance-based stock options, which is expected to be recognized over a weighted-average period of 0.4 years.

Performance-based stock options

The following table summarizes the performance-based stock options activity under the 2021 Plan and the 2019 Plan, which are included in the stock option activity table above, for the six months ended June 30, 2023:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance, January 1, 2023	463,959	\$ 1.42	8.06	\$ —
Options granted	50,000	\$ 1.92		
Options cancelled/forfeited	(16,650)	\$ 1.92		
Balance, June 30, 2023	<u>497,309</u>	<u>\$ 1.45</u>	7.70	\$ 202
Vested and expected to vest, June 30, 2023	<u>497,309</u>	<u>\$ 1.45</u>	7.70	\$ 202
Exercisable, June 30, 2023	<u>313,959</u>	<u>\$ 0.78</u>	6.96	\$ 202

Restricted Stock Units (“RSUs”)

The following table provides a summary of RSUs activity under the 2021 Plan during the six months ended June 30, 2023:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock units at January 1, 2023	2,617,445	\$ 0.79
Granted	50,000	\$ 1.50
Vested	(1,309,356)	\$ 0.79
Forfeited	(178,318)	\$ 0.79
Unvested restricted stock units at June 30, 2023	1,179,771	\$ 0.82
Vested and unreleased	—	\$ —
Outstanding restricted stock units at June 30, 2023	1,179,771	\$ 0.82

The total fair value of RSUs that vested during the six months ended June 30, 2023 was \$1.0 million. Unamortized stock-based compensation for restricted stock units as of June 30, 2023 was \$0.5 million, which is expected to be recognized over a weighted-average period of 0.3 years.

Employee Stock Purchase Plan

The Company issued 65,001 shares of common stock under the ESPP and recognized less than \$0.1 million compensation expense related to the ESPP during each of the three and six months ended June 30, 2023. Unamortized stock-based compensation for shares issuable under the ESPP as of June 30, 2023 was \$0.1 million, which is expected to be recognized over a weighted-average period of 0.4 years. The Company recorded less than \$0.1 million in accrued expenses and other current liabilities related to contributions withheld as of June 30, 2023.

Stock-Based Compensation Expense

The following table presents stock-based compensation expenses related to options and RSUs granted to employees and non-employees, ESPP awards and restricted common stock shares issued to founders (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
General and administrative	\$ 900	\$ 480	\$ 1,699	\$ 1,036
Research and development	491	585	959	807
Total	\$ 1,391	\$ 1,065	\$ 2,658	\$ 1,843

The Company recognized stock-based compensation expense related to performance-based options and RSUs of \$0.1 million during each of the three and six months ended June 30, 2023 and less than \$0.1 million during each of the three and six months ended June 30, 2022.

Valuation of Stock Options

The grant date fair value of stock options was estimated using a Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Expected term (in years)	5.44-6.08	2.68-6.07	5.25-6.08	1.00-6.08
Expected volatility	103.31%-108.98%	83.30%-85.19%	103.31%-108.98%	63.41%-88.27%
Risk-free interest rate	3.49% - 4.05%	2.72% - 2.84%	3.45% - 4.25%	1.40% - 2.84%
Expected dividend yield	—	—	—	—

Valuation of ESPP Awards

The grant date fair value of ESPP awards was estimated using a Black-Scholes option-pricing model with the following assumptions:

	Three and Six Months Ended June 30,	
	2023	2022
Expected term (in years)	0.50	0.50
Expected volatility	266.24%	75.60%
Risk-free interest rate	5.39%	1.81%
Expected dividend yield	—	—

NOTE 11. NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net loss attributable to common stockholders	\$ (16,080)	\$ (10,404)	\$ (30,340)	\$ (12,611)
Denominator:				
Weighted average common shares outstanding	110,341,633	37,886,129	99,775,393	37,877,390
Less: Weighted-average unvested restricted shares	(77,964)	(438,307)	(120,128)	(473,881)
Less: Shares subject to earnout	(1,050,000)	(1,050,000)	(1,050,000)	(1,050,000)
Weighted average shares used to compute basic and diluted net loss per share	109,213,669	36,397,822	98,605,265	36,353,509
Net loss per share attributable to common stockholders – basic and diluted	\$ (0.15)	\$ (0.29)	\$ (0.31)	\$ (0.35)

The potential shares of common stock that were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have had an antidilutive effect were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Outstanding and issued common stock options	9,345,537	6,023,166	9,345,537	6,023,166
Common stock warrants	4,999,863	4,999,863	4,999,863	4,999,863
Unvested restricted common stock	58,829	400,036	58,829	400,036
Outstanding restricted stock units	1,179,771	5,000	1,179,771	5,000
Total	15,584,000	11,428,065	15,584,000	11,428,065

NOTE 12. RELATED PARTIES

The Company entered into consulting agreements with two founders, one of whom is also a member of the Board, and each of whom also received founders' common stock shares for services and assigned patents. The Company recorded \$0.1 million for the founders' advisory and consulting services performed for each of the three months ended June 30, 2023 and 2022. The Company recorded \$0.1 million and \$0.3 million for the founders' advisory and consulting services performed for the six months ended June 30, 2023 and 2022, respectively. These expenses were recorded as research and development expenses in the condensed consolidated statements of operations and comprehensive loss. Also, the Company's licensed technology from Stanford (see Note 6) was created in the Stanford laboratory of Professor Judith Shizuru, one of the Company's founders and a member of the Board.

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

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q (this “Quarterly Report”) and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the Securities and Exchange Commission on March 8, 2023. Certain of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report, including information with respect to plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the section entitled “Risk Factors”, in Part I - Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 8, 2023, as updated by the factors described under the heading “Risk Factors” in Part II - Item 1A of this Quarterly Report on Form 10-Q, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. You should carefully read the section entitled “Risk Factors” to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements. Please also see “Cautionary Note Regarding Forward-Looking Statements” below. The events and circumstances reflected in our forward-looking statements may not be achieved or may not occur, and actual results could differ materially from those described in or implied by the forward-looking statements contained in the following discussion and analysis. As a result of these risks, you should not place undue reliance on these forward-looking statements. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Throughout this Quarterly Report on Form 10-Q, unless the context otherwise requires, the terms “Jasper,” “we,” “us” and “our” in this Quarterly Report on Form 10-Q refer to Jasper Therapeutics, Inc. and its consolidated subsidiary.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q may constitute “forward-looking statements” for purposes of federal securities laws. Such statements can be identified by the fact that they do not relate strictly to historical or current facts. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intends,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “will,” “would” and similar expressions (including the negative of any of the foregoing) may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

Forward-looking statements in this Quarterly Report on Form 10-Q may include, for example, but are not limited to, statements about:

- our or our management team’s expectations, hopes, beliefs, intentions or strategies regarding the future;
- our ability to research, discover and develop additional product candidates;
- the success, cost and timing of our product development activities and clinical trials;
- the potential attributes and benefits of our product candidates;
- our ability to obtain and maintain regulatory approval for our product candidates;
- our ability to obtain funding for our operations;
- our projected financial information, anticipated growth rate and market opportunity;
- our ability to maintain the listing of our public securities on the Nasdaq Capital Market;

- our public securities’ potential liquidity and trading;
- our success in retaining or recruiting, or changes required in, officers, key employees or directors;
- our ability to grow and manage growth profitably;
- the implementation, market acceptance and success of our business model, developments and projections relating to our competitors and industry;
- our ability to obtain and maintain intellectual property protection and not infringe on the rights of others;
- our ability to identify, in-license or acquire additional technology; and
- our ability to maintain our existing license agreements and manufacturing arrangements.

These forward-looking statements are based on current expectations and beliefs concerning future developments and their potential effects. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the heading “*Risk Factors*” in Part I - Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 8, 2023, as updated by the factors described under the heading “*Risk Factors*” in Part II - Item 1A of this Quarterly Report on Form 10-Q. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. Some of these risks and uncertainties may in the future be amplified, and there may be additional risks that we consider immaterial or which are unknown. It is not possible to predict or identify all such risks. Readers are cautioned not to place undue reliance on forward-looking statements because of the risks and uncertainties related to them and to the risk factors. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Overview

We are a clinical-stage biotechnology company dedicated to enabling cures through therapeutics targeting mast and hemopoietic stem cells. We are focused on the development and commercialization of safer and more effective therapeutic agents for diseases such as Chronic Spontaneous Urticaria (“CSU”), Lower to Intermediate Risk Myelodysplastic Syndrome (“LR-MDS”) and novel conditioning regimens for stem cell transplantation and ex-vivo gene therapy, a technique in which genetic manipulation of cells is performed outside of the body prior to transplantation.

Our drug development pipeline includes multiple product candidates designed to target mast and/or hematopoietic stem cells. Our lead product candidate, briquilimab (formerly known as JSP191), is in clinical development as a novel therapeutic antibody that targets mast and stem cells in various diseases and as a conditioning agent to clear hematopoietic stem cells from bone marrow in patients prior to undergoing allogeneic stem cell therapy or stem cell gene therapy. We are also developing engineered hematopoietic stem cells product candidates reprogrammed using mRNA delivery (“mRNA stem cell platform”) and gene editing that have a competitive advantage over endogenous hematopoietic stem cells (“HSCs”) because they may permit higher levels of engraftment without the need for toxic conditioning. We also plan to continue to expand our pipeline to include other novel mast and stem cell therapies based on immune modulation, graft engineering or cell and gene therapies. Our goal is to expand the use of therapeutic agents targeting mast and stem cells as well as to expand curative stem cell transplants and gene therapies for all patients, including children and the elderly.

Our lead product candidate, briquilimab, is a monoclonal antibody designed to block stem cell factor (“SCF”) from binding to and signaling through the CD117 receptor on mast and stem cells. The SCF/CD117 pathway is a survival signal for mast and stem cells and we believe that blocking this pathway may lead to depletion of these cells from skin and bone marrow environments. Currently, we are developing briquilimab as chronic therapy for CSU and LR-MDS. We are also developing briquilimab as a one-time conditioning therapy in various stem cell transplant settings such as severe combined immunodeficiency (“SCID”) for which we are currently conducting a Phase 1/2 clinical trial in patients who have failed a previous stem cell transplant. Briquilimab is also being studied by our academic and institutional partners, Stanford University and National Institutes of Health, in other transplant settings, including Fanconi Anemia, sickle cell disease (“SCD”), chronic granulomatous disease and GATA-2 Type myelodysplastic syndromes (“MDS”).

We intend to become a fully integrated discovery, development and commercial company in the field of mast and stem cell therapeutics. We are developing our product candidates to be used individually or, in some cases, in combination with one another. For example, we believe our pipeline could be tailored to the patient-specific disease so that a patient may receive more than one of our therapies as part of his or her individual allogeneic or gene-edited stem cell therapy. Our goal is to advance our product candidates through regulatory approval and bring them to the commercial market based on the data from our clinical trials and communications with regulatory agencies and payor communities. We expect to continue to advance our pipeline and innovate through our research platform.

We have an exclusive license agreement with Amgen Inc. (“Amgen”) for the development and commercialization of the briquilimab monoclonal antibody in all indications and territories worldwide. We also have an exclusive license agreement with Stanford for the right to use briquilimab in the clearance of stem cells prior to the transplantation of HSCs. We also entirely own the intellectual property for our mRNA stem cell platform, which has been internally developed.

Since our inception, we have devoted substantially all of our resources to performing research and development, enabling manufacturing activities in support of our product development efforts, hiring personnel, acquiring and developing our technology and product candidates, performing business planning, establishing our intellectual property portfolio, raising capital and providing general and administrative support for these activities. We do not have any products approved for sale and have not generated any revenue from product sales. We expect to continue to incur significant and increasing expenses and substantial losses for the foreseeable future as we continue our development of and seek regulatory approvals for our product candidates and commercialize any approved products, seek to expand our product pipeline and invest in our organization. We expect to incur increased expenses associated with operating as a public company, including significant legal, audit, accounting, regulatory, tax-related, director and officer insurance, investor relations and other expenses.

We have incurred significant losses and negative cash flows from operations since our inception. During the six months ended June 30, 2023 and 2022, we incurred net losses of \$30.3 million and \$12.6 million, respectively. We generated negative operating cash flows of \$23.6 million during each of the six months ended June 30, 2023 and 2022. As of June 30, 2023, we had an accumulated deficit of \$135.5 million.

We had cash and cash equivalents of \$115.8 million as of June 30, 2023. Management expects that our existing cash and cash equivalents will be sufficient to fund our operating plan for at least twelve months from the date of filing of this Quarterly Report. We expect to continue to incur substantial losses for the foreseeable future, and our transition to profitability will depend upon successful development, approval and commercialization of our product candidates and upon achievement of sufficient revenues to support our cost structure. We do not expect to generate any revenue from commercial product sales unless and until we successfully complete development and obtain regulatory approval for one or more of our product candidates. We may never achieve profitability, and unless we do and until then, we will need to continue to raise additional capital.

Our management plans to monitor expenses and raise additional capital through a combination of public and private equity, debt financings, strategic alliances, and licensing arrangements. Our ability to access capital when needed is not assured and, if capital is not available to us when, and in the amounts, needed, we may be required to significantly curtail, delay or discontinue one or more of our research or development programs or the commercialization of any product candidate, or be unable to expand our operations or otherwise capitalize on our business opportunities, as desired, which could materially harm our business, financial condition and results of operations.

We expect our expenses will increase substantially in connection with our ongoing and planned activities, as we:

- advance product candidates through preclinical studies and clinical trials;
- procure the manufacture of supplies for our preclinical studies and clinical trials;
- acquire, discover, validate, and develop additional product candidates;
- attract, hire and retain additional personnel;
- operate as a public company;
- implement operational, financial and management systems;
- pursue regulatory approval for any product candidates that successfully complete clinical trials;
- establish a sales, marketing, and distribution infrastructure to commercialize any product candidate for which we may obtain marketing approval and related commercial manufacturing build-out; and
- obtain, maintain, expand, and protect our portfolio of intellectual property rights.

We do not currently own or operate any manufacturing facility. We rely on contract manufacturing organizations (“CMOs”) to produce our drug candidates in accordance with the FDA’s current good manufacturing practices (“cGMP”) regulations for use in our clinical studies. The manufacture of pharmaceuticals is subject to extensive cGMP regulations, which impose various procedural and documentation requirements and govern all areas of record keeping, production processes and controls, personnel and quality control. Under our license agreement with Amgen, we have received a substantial amount of drug product to support initiation of our planned clinical trials of briquilimab. In November 2019, we entered into development and manufacturing agreements with Lonza Sales AG (“Lonza”) relating to the manufacturing of briquilimab and product quality testing. The facility of Lonza in Slough, United Kingdom is responsible for production and testing of drug substance. The facility of Lonza in Stein, Switzerland is responsible for production and testing of drug product. Labelling, packaging and storage of finished drug product is provided by PCI Pharma Services, in San Diego, California. Our agreement with Lonza includes certain limitations on our ability to enter into supply arrangements with any other supplier without Lonza’s consent. In addition, Lonza has the right to increase the prices it charges us for certain supplies depending on a number of factors, some of which are outside of our control.

We do not currently have sales and marketing infrastructure to support commercial launch of our product candidates, if approved. We may build such capabilities in North America prior to potential launch of briquilimab. Outside of North America, we may rely on licensing, co-sale and co-promotion agreements with strategic partners for the commercialization of our product candidates. If we build a commercial infrastructure to support marketing in North America, such commercial infrastructure could be expected to include a targeted sales force supported by sales management, internal sales support, an internal marketing group and distribution support. To develop the appropriate commercial infrastructure internally, we would have to invest financial and management resources, some of which would have to be deployed prior to any confirmation that briquilimab will be approved.

Because of the numerous risks and uncertainties associated with product development, we are unable to predict the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. Even if we are able to generate revenue from the sale of our product candidates, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and may be forced to reduce our operations.

Business Impact of the Geopolitical Events

We are unable to predict the effect that geopolitical events, including the conflict in Ukraine, global inflation and rising interest rates, may have on our operations. To the extent that geopolitical events adversely affect our business prospects, financial condition, and results of operations, they may also have the effect of exacerbating many of the other risks described or referenced in the section titled “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 8, 2023, as updated by the risks described in the section of this Quarterly Form 10-Q titled “Risk Factors,” such as those relating to the supply of materials for our product candidates, and the timing and possible disruptions of our ongoing and future preclinical studies and clinical trials, and our access to the financial markets.

Amgen License Agreement

In November 2019, we entered into a worldwide exclusive license agreement with Amgen for briquilimab (formerly known as AMG-191 and JSP191) that also includes translational science and materials from Stanford University. We were assigned and accepted Amgen's rights and obligations, effective November 21, 2019, for the Investigator Sponsored Research Agreement (the "ISRA"), entered into in June 2013, between Amgen and The Board of Trustees of the Leland Stanford Junior University ("Stanford") and Quality Agreement between Amgen and Stanford, effective as of October 7, 2015. Under the ISRA, we received an option to negotiate a definitive license with Stanford for rights to certain Stanford intellectual property related to the study of briquilimab in exchange for an option exercise fee of \$1.0 million, payable over a two-year period (the "Option"). We exercised the Option to Stanford docket S06-265 "Antibody-based clearance of endogenous stem cell niches prior to transplantation of bone marrow or hematopoietic stem cells (c-kit)" granted by Stanford under the ISRA on June 2, 2020. As a result, we have worldwide exclusive rights to develop and commercialize briquilimab. The issued U.S. patents would be expected to expire in 2027, absent any applicable patent term extensions.

Stanford License Agreement

In March 2021, we entered into an exclusive license agreement with respect to the use of briquilimab from the Stanford Office of Technology Licensing to license U.S. Patent Application Serial Number 60/856,435, filed Nov. 3, 2006, and U.S. Patent Application Serial Number 12/447,634 (publication number US 2010/0226927 A1) and know-how for the purpose of depleting endogenous blood stem cells in patients for whom hematopoietic cell transplantation is indicated. In July 2023, we entered into an amendment to this exclusive license agreement to modify certain milestones thereunder.

Collaboration and Clinical Trial Agreements

Collaboration with Stanford University

Effective September 2020, we entered into a sponsored research agreement with Stanford, pursuant to which Stanford will execute a Phase 1/2 clinical trial utilizing briquilimab to treat Fanconi Anemia patients in Bone Marrow Failure requiring allogeneic transplant with non-sibling donors at Stanford Lucile Packard Children's Hospital. As consideration for the services performed by Stanford under this agreement, we will pay Stanford a total of \$0.9 million over approximately three years upon the achievement of the first development and clinical milestone, including FDA filings and patients' enrollment. The first \$0.3 million milestone was achieved in 2020 and paid by us in February 2021. The second \$0.3 million milestone was achieved in February 2022 and paid by us in March 2022. The third milestone was based on the progress of the clinical trials and was achieved in July, 2023.

Other Collaboration and Clinical Trial Agreements

We have a clinical trial agreement with the National Cancer Institute ("NCI") for the clinical development of briquilimab for the treatment of GATA2 deficiency, whereby NCI will perform the preclinical studies and submit an investigational new drug application ("IND") for this indication to the FDA, and we will provide materials to use in such studies.

We have also entered into clinical trial agreements with the National Heart, Lung, and Blood Institute ("NHLBI") and the National Institute of Allergy and Infectious Diseases ("NIAID"), pursuant to which NHLBI and NIAID will serve as the IND sponsors of a Phase 1/2 clinical trial to evaluate briquilimab as a targeted, non-toxic conditioning regimen prior to allogeneic transplant for SCD and for chronic granulomatous disease, respectively. Each party incurs its own costs under these agreements.

Components of Results of Operations

Operating Expenses

Research and Development

The largest component of our total operating expenses since our inception has been research and development activities, including the preclinical and clinical development of our product candidates. Research and development expenses consist primarily of compensation and benefits for research and development employees, including stock-based compensation; expenses incurred under agreements with clinical research organizations (“CROs”) and investigative sites that conduct preclinical and clinical studies; the costs of acquiring and manufacturing clinical study materials and other supplies with CMOs; payments under licensing and research and development agreements; other outside services and consulting costs; and facilities, information technology and overhead expenses. Research and development costs are expensed as incurred.

External research and development costs include:

- costs incurred under agreements with third-party CROs, CMOs and other third parties that conduct preclinical and clinical activities on our behalf and manufacture our product candidates;
- costs associated with acquiring technology and intellectual property licenses that have no alternative future uses;
- consulting fees associated with our research and development activities; and
- other costs associated with our research and development programs, including laboratory materials and supplies.

Internal research and development costs include:

- employee-related costs, including salaries, benefits and stock-based compensation expense for our research and development personnel; and
- other expenses and allocated overheads incurred in connection with our research and development programs.

We expect our research and development expenses to increase substantially for the foreseeable future as we advance our product candidates into and through preclinical studies and clinical trials, pursue regulatory approval of our product candidates and expand our pipeline of product candidates. The process of conducting the necessary preclinical and clinical research to obtain regulatory approval is costly and time-consuming. The actual probability of success for our product candidates may be affected by a variety of factors, including the safety and efficacy of our product candidates, early clinical data, investment in our clinical programs, competition, manufacturing capability and commercial viability. We may never succeed in achieving regulatory approval for any of our product candidates. As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of our research and development projects or if, when and to what extent we will generate revenue from the commercialization and sale of our product candidates, if approved.

Our future research and development costs may vary significantly based on factors, such as:

- the scope, rate of progress, expense and results of our discovery and preclinical development activities;
- the costs and timing of our chemistry, manufacturing and controls activities, including fulfilling cGMP-related standards and compliance, and identifying and qualifying suppliers;
- per patient clinical trial costs;

- the number of trials required for approval;
- the number of sites included in our clinical trials;
- the countries in which the trials are conducted;
- delays in adding a sufficient number of trial sites and recruiting suitable patients to participate in our clinical trials;
- the number of patients that participate in the trials;
- the number of doses that patients receive;
- patient drop-out or discontinuation rates;
- potential additional safety monitoring requested by regulatory agencies;
- the duration of patient participation in the trials and follow up;
- the cost and timing of manufacturing our product candidates;
- the phase of development of our product candidates;
- the efficacy and safety profile of our product candidates;
- the timing, receipt, and terms of any approvals from applicable regulatory authorities, including the FDA and non-U.S. regulators;
- maintaining a continued acceptable safety profile of our product candidates following approval, if any, of our product candidates;
- significant and changing government regulation and regulatory guidance;
- changes in the standard of care on which a clinical development plan was based, which may require new or additional trials;
- the extent to which we establish additional strategic collaborations or other arrangements; and
- the impact of any business interruptions to our operations or to those of the third parties with whom we work.

General and Administrative

General and administrative expenses consist primarily of personnel costs and expenses, including salaries, employee benefits, stock-based compensation for our executive and other administrative personnel; legal services, including relating to intellectual property and corporate matters; accounting, auditing, consulting and tax services; insurance; and facility and other allocated costs not otherwise included in research and development expenses. We expect our general and administrative expenses to increase substantially for the foreseeable future as we anticipate an increase in our personnel headcount to support expansion of research and development activities, as well as to support our operations generally. We also expect to continue to incur significant expenses associated with being a public company, including costs related to accounting, audit, legal, regulatory, and tax-related services associated with maintaining compliance with applicable Nasdaq and SEC requirements; additional director and officer insurance costs; and investor and public relations costs.

Other (Expense) Income, Net

Other (expense) income, net includes changes in the fair value of common stock warrant liability and earnout liability, foreign currency transactions gains and losses, and interest income. These financial instruments were classified as liabilities in our consolidated balance sheets and re-measured at each reporting period end until they are exercised, reclassified into equity, settled or have expired.

Results of Operations

Three Months Ended June 30, 2023 and 2022

The following table summarizes our results of operations for the three months ended June 30, 2023 and 2022 (in thousands, except percentages):

	Three Months Ended June 30,		Change \$	Change %
	2023	2022		
Operating expenses				
Research and development	\$ 13,297	\$ 8,135	\$ 5,162	63
General and administrative	4,530	3,828	702	18
Total operating expenses	<u>17,827</u>	<u>11,963</u>	<u>5,864</u>	<u>49</u>
Loss from operations	(17,827)	(11,963)	(5,864)	49
Interest income	1,436	92	1,344	*
Change in fair value of earnout liability	420	625	(205)	(33)
Change in fair value of common stock warrant liability	—	845	(845)	(100)
Other expense, net	(109)	(3)	(106)	*
Total other income, net	<u>1,747</u>	<u>1,559</u>	<u>188</u>	<u>12</u>
Net loss and comprehensive loss	<u>\$ (16,080)</u>	<u>\$ (10,404)</u>	<u>\$ (5,676)</u>	<u>55</u>

* not meaningful

Research and Development Expenses

The following table summarizes our research and development expenses for the three months ended June 30, 2023 and 2022 (in thousands, except percentages):

	Three Months Ended June 30,		Change \$	Change %
	2023	2022		
External costs:				
CRO, CMO and other third-party preclinical studies and clinical trials	\$ 7,672	\$ 2,087	\$ 5,585	268
Consulting costs	1,213	1,224	(11)	(1)
Other research and development costs, including laboratory materials and supplies	531	981	(450)	(46)
Internal costs:				
Personnel-related costs	2,643	2,426	217	9
Facilities and overhead costs	<u>1,238</u>	<u>1,417</u>	<u>(179)</u>	<u>(13)</u>
Total research and development expense:	<u>\$ 13,297</u>	<u>\$ 8,135</u>	<u>\$ 5,162</u>	<u>63</u>

Research and development expenses increased by \$5.2 million, from \$8.1 million for the three months ended June 30, 2022 to \$13.3 million for the three months ended June 30, 2023.

External CRO, CMO and other third-party preclinical studies and clinical trials expenses increased by \$5.6 million, from \$2.1 million for the three months ended June 30, 2022 to \$7.7 million for the three months ended June 30, 2023. The increase is primarily due to a \$4.6 million increase in manufacturing costs, a \$1.0 million increase in CRO expenses and a \$0.1 million increase in other third-party research and development expenses, partially offset by a \$0.1 million decrease in expenses related to pre-clinical studies. Expenses related to professional consulting services decreased by less than \$0.1 million. Other external research and development costs decreased by \$0.5 million from \$1.0 million for the three months ended June 30, 2022 to \$0.5 million for the three months ended June 30, 2023 due to a decrease in purchases of laboratory materials and supplies and other miscellaneous costs.

Our external costs by program for the three months ended June 30, 2023 and 2022 were as follows (in thousands):

	Three Months Ended June 30,	
	2023	2022
Briquilimab platform	\$ 6,276	\$ 2,009
MDS/AML clinical trials	1,665	1,040
Chronic urticaria	652	-
SCID clinical trial	551	519
Other	272	724
Total external costs	<u>\$ 9,416</u>	<u>\$ 4,292</u>

Personnel-related costs, including employee payroll and related expenses, increased by \$0.2 million, from \$2.4 million for the three months ended June 30, 2022 to \$2.6 million for the three months ended June 30, 2023, due to an increase in headcount in our research and development organization in the 2023 period compared to the 2022 period. Employee stock-based compensation expenses related to awards granted to our employees and consultants were \$0.5 million and \$0.6 million for the three months ended June 30, 2023 and 2022, respectively. Facilities and overheads decreased by \$0.2 million in the three months ended June 30, 2023 compared to the 2022 period and include common facilities, human resources and information technology related expenses allocated to research and development.

General and Administrative Expenses

General and administrative expenses increased by \$0.7 million, from \$3.8 million for the three months ended June 30, 2022 to \$4.5 million for the three months ended June 30, 2023. Employee payroll and related expenses increased by \$0.8 million, from \$1.1 million for the three months ended June 30, 2022 to \$1.9 million for the three months ended June 30, 2023, as a result of higher stock-based compensation and continued hiring of executives and administrative employees. Stock-based compensation expenses related to our employees and directors were \$0.9 million and \$0.5 million for the three months ended June 30, 2023 and 2022, respectively. Expenses related to professional consulting services and other general and administrative expenses decreased by \$0.3 million, from \$2.2 million for the three months ended June 30, 2022 to \$1.9 million for the three months ended June 30, 2023 due to decreased spending on consulting, recruiting, legal and insurance services, partially offset by increased other miscellaneous expenses, as we continued expanding our operations to support our business strategy and product development.

Total Other Income, Net

Total other income, net increased by \$0.2 million, from \$1.6 million net income for the three months ended June 30, 2022 to \$1.7 million net income for the three months ended June 30, 2023.

We recognized \$0.8 million of other income related to the decrease in the fair value of common stock warrants for the three months ended June 30, 2022. These warrants are publicly traded, were classified as liabilities and are remeasured at fair value, which is the closing market price of a warrant, at the end of each reporting period until January 2023. In January 2023, a holder converted all its outstanding shares of non-voting common stock into shares of voting common stock, and we no longer have any outstanding shares of non-voting common stock. As such, the outstanding warrants met equity classification criteria, were reclassified to equity and are no longer remeasured at fair value at the end of each reporting period.

Upon the closing of the Business Combination on September 24, 2021, we recognized earnout liability related to the Sponsor Earnout Shares placed in escrow. These shares will be released from escrow upon achieving agreed upon common stock price targets within the specified period. This liability is recorded at fair value using a Monte Carlo simulation model and is re-measured at each period end until shares are released or forfeited. The significant inputs used in the Monte Carlo model include the expected volatility of our common stock and the expected term when shares will be released. We recognized \$0.4 million of other income and \$0.6 million of other income related to the decrease in the fair value of the earnout liability for the three months ended June 30, 2023 and 2022, respectively, mainly due to the decrease in our common stock price during each respective period.

Interest income increased by \$1.3 million, from \$0.1 million for the three months ended June 30, 2022 to \$1.4 million for the three months ended June 30, 2023, due to higher cash balances invested in cash in money market funds in the 2023 period and higher interest rates.

Other expense, net include foreign currency transactions gains and losses which increased by \$0.1 million from less than \$0.1 million net loss for the three months ended June 30, 2022 to \$0.1 million net loss for the three months ended June 30, 2023.

Six Months Ended June 30, 2023 and 2022

The following table summarizes our results of operations for the six months ended June 30, 2023 and 2022 (in thousands, except percentages):

	Six Months Ended		Change	Change
	June 30,			
	2023	2022		
Operating expenses				
Research and development	\$ 23,102	\$ 16,323	\$ 6,779	42
General and administrative	8,672	8,418	254	3
Total operating expenses	<u>31,774</u>	<u>24,741</u>	<u>7,033</u>	<u>28</u>
Loss from operations	(31,774)	(24,741)	(7,033)	28
Interest income	2,532	94	2,438	*
Change in fair value of earnout liability	(344)	5,218	(5,562)	(107)
Change in fair value of common stock warrant liability	(575)	6,895	(7,470)	(108)
Other expense, net	(179)	(77)	(102)	132
Total other income, net	<u>1,434</u>	<u>12,130</u>	<u>(10,696)</u>	<u>(88)</u>
Net loss and comprehensive loss	<u>\$ (30,340)</u>	<u>\$ (12,611)</u>	<u>\$ (17,729)</u>	<u>141</u>

* not meaningful

Research and Development Expenses

The following table summarizes our research and development expenses for the six months ended June 30, 2023 and 2022 (in thousands, except percentages):

	Six Months Ended June 30,		Change \$	Change %
	2023	2022		
External costs:				
CRO, CMO and other third-party preclinical studies and clinical trials	\$ 12,432	\$ 5,505	\$ 6,927	126
Consulting costs	2,245	2,151	94	4
Other research and development costs, including laboratory materials and supplies	1,214	1,695	(481)	(28)
Internal costs:				
Personnel-related costs	4,955	4,412	543	12
Facilities and overhead costs	2,256	2,560	(304)	(12)
Total research and development expense:	\$ 23,102	\$ 16,323	\$ 6,779	42

Research and development expenses increased by \$6.8 million, from \$16.3 million for the six months ended June 30, 2022 to \$23.1 million for the six months ended June 30, 2023, mainly due to progression in the clinical trials, product development activities and hiring additional personnel.

External CRO, CMO and other third-party preclinical studies and clinical trials expenses increased by \$6.9 million, from \$5.5 million for the six months ended June 30, 2022 to \$12.4 million for the six months ended June 30, 2023. The increase is primarily due to a \$6.2 million increase in manufacturing costs, a \$0.5 million increase in CRO expenses and a \$0.3 million increase in expenses related to pre-clinical studies, partially offset by a \$0.1 million decrease in other third-party research and development expenses. Expenses related to professional consulting services increased by \$0.1 million. Other external research and development costs decreased by \$0.5 million, from \$1.7 million for the six months ended June 30, 2022 to \$1.2 million for the six months ended June 30, 2023 due to decreases in purchases of laboratory materials and supplies and other miscellaneous costs.

Our external costs by program for the six months ended June 30, 2023 and 2022 were as follows (in thousands):

	Six Months Ended June 30,	
	2023	2022
Briquilimab platform	\$ 10,753	\$ 4,600
MDS/AML clinical trials	2,534	1,988
SCID clinical trial	1,032	1,351
Chronic urticaria	767	-
Other	805	1,412
Total external costs	\$ 15,891	\$ 9,351

Personnel-related costs increased by \$0.6 million, from \$4.4 million for the six months ended June 30, 2022 to \$5.0 million for the six months ended June 30, 2023, as we continue hiring employees in our research and development organization. Stock-based compensation expenses were \$1.0 million and \$0.8 million for the six months ended June 30, 2023 and 2022, respectively. Facilities and allocated overheads decreased by \$0.3 million in the 2023 period compared to the 2022 period and include common facilities, human resources and information technology related expenses allocated to research and development.

General and Administrative Expenses

General and administrative expenses increased by \$0.3 million, from \$8.4 million for the six months ended June 30, 2022 to \$8.7 million for the six months ended June 30, 2023. Employee payroll and related expenses increased by \$1.1 million, from \$2.5 million for the six months ended June 30, 2022 to \$3.6 million for the six months ended June 30, 2023, as a result of continued hiring of executives and administrative employees. Stock-based compensation expenses were \$1.7 million and \$1.0 million for the six months ended June 30, 2023 and 2022, respectively. Expenses related to professional services decreased by \$1.3 million, from \$4.7 million for the six months ended June 30, 2022 to \$3.4 million for the six months ended June 30, 2023, due to decreased spending on consulting, recruiting, legal and insurance services, partially offset by increased other miscellaneous expenses, as we continued expanding our operations to support our business strategy and product development.

Total Other Income, Net

Other income, net decreased by \$10.7 million, from \$12.1 million net income for the six months ended June 30, 2022 to \$1.4 million net income for the six months ended June 30, 2023.

We recognized \$0.6 million other expense and \$6.9 million of other income related to the change in fair value of common stock warrants for the six months ended June 30, 2023 and 2022, respectively. These warrants are publicly traded, were classified as liabilities and are remeasured at fair value, which is the closing market price of a warrant, at the end of each reporting period until January 2023. In January 2023, a holder converted all its outstanding shares of non-voting common stock into shares of voting common stock, and we no longer have any outstanding shares of non-voting common stock. As such, the outstanding warrants met equity classification criteria, were reclassified to equity and are no longer remeasured at fair value at the end of each reporting period.

Upon the closing of the Business Combination on September 24, 2021, we recognized earnout liability related to the Sponsor Earnout Shares placed in escrow. These shares will be released from escrow upon achieving agreed upon common stock price targets within the specified period. This liability is recorded at fair value using a Monte Carlo simulation model and is re-measured at each period end until shares are released or forfeited. The significant inputs used in the Monte Carlo model include the expected volatility of our common stock and the expected term when shares will be released. We recognized \$0.3 million of other expense and \$5.2 million of other income related to the change in the fair value of the earnout liability for the six months ended June 30, 2023 and 2022, respectively, mainly due to the increase and the decrease, respectively, in our common stock price during the respective period.

Interest income increased by \$2.4 million, from \$0.1 million for the six months ended June 30, 2022 to \$2.5 million for the six months ended June 30, 2023, primarily due to higher cash balances invested in money market funds and higher interest rates.

Other expense, net is composed of foreign currency transactions gains and losses, which increased by \$0.1 million, from \$0.1 million net loss for the six months ended June 30, 2022 to \$0.2 million net loss for the six months ended June 30, 2023.

Liquidity and Capital Resources

As of June 30, 2023, we had \$115.8 million of cash and cash equivalents.

In order to assist in funding our future operations, including our planned clinical trials, on April 28, 2023, we filed a universal shelf registration statement on Form S-3 with the SEC, which was declared effective on May 5, 2023 and will expire on May 5, 2026 (the "S-3"), which allows us to, from time to time, offer up to \$250.0 million of securities, including any combination of common stock, preferred stock, debt securities, warrants, rights, units and depository shares. We believe that the S-3 will provide us with the flexibility to raise additional capital to finance our operations as needed. From time to time, we may offer securities under the S-3 in response to market conditions or other circumstances if we believe such a plan of financing is in the best interests of our stockholders. The terms of any offering under the S-3 will be established at the time of such offering and will be described in a prospectus supplement to the S-3 filed with the SEC prior to the completion of any such offering.

On November 10, 2022, we entered into a Controlled Equity OfferingSM Sales Agreement (the “Sales Agreement”) with Cantor Fitzgerald & Co. (the “Agent”), pursuant to which we may offer and sell through or to the Agent, as sales agent or principal, shares of our voting common stock from time to time (the “ATM Offering”). The Agent will use commercially reasonable efforts consistent with its normal sales and trading practices to sell shares from time to time, based upon our instructions (including any price or size limits or other customary parameters or conditions we may impose). We will pay a commission equal to 3.0% of the aggregate gross proceeds of any shares sold through the Agent pursuant to the Sales Agreement. We are not obligated to sell any shares under the Sales Agreement. The Sales Agreement will continue until all shares available under the Sales Agreement have been sold unless it is terminated earlier. On May 5, 2023, we filed with the SEC a prospectus under the S-3 in connection with the ATM Offering, pursuant to which we may offer and sell shares of common stock having an aggregate offering price of up to \$75.0 million.

As of August 7, 2023, approximately \$75.0 million remains allocated and available under the ATM Offering and approximately \$175.0 million remains available and unallocated under the S-3.

Future Funding Requirements

Our primary uses of cash are to fund our operations, which consist primarily of research and development expenditures related to our programs and, to a lesser extent, general and administrative expenditures. We anticipate that we will continue to incur significant expenses for the foreseeable future as we continue to advance our product candidates, expand our corporate infrastructure, operate as a public company, further our research and development initiatives for our product candidates, scale our laboratory and manufacturing operations, and incur marketing costs associated with potential commercialization. We are subject to all the risks typically related to the development of new drug candidates, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business. We anticipate that we will need substantial additional funding in connection with our continuing operations.

We have incurred significant losses and negative cash flows from operations since our inception. As of June 30, 2023, we had an accumulated deficit of \$135.5 million. Based on our current operating plan, we have concluded that our existing cash and cash equivalents will be sufficient to fund our current operating plan for at least twelve months from the date of filing of this Quarterly Report on Form 10-Q. We have based these estimates on our current assumptions, which may require future adjustments based on our ongoing business decisions.

Our future financing requirements will depend on many factors, including:

- the timing, scope, progress, results and costs of research and development, preclinical and non-clinical studies and clinical trials for our current and future product candidates;
- the number, scope and duration of clinical trials required for regulatory approval of our current and future product candidates;
- the outcome, timing and costs of seeking and obtaining regulatory approvals from the FDA and comparable foreign regulatory authorities for our product candidates, including any requirement to conduct additional studies or generate additional data beyond that which we currently expect would be required to support a marketing application;
- the costs of manufacturing clinical and commercial supplies of our current and future product candidates;
- the costs and timing of future commercialization activities, including product manufacturing, marketing, sales and distribution, for any of our product candidates for which we receive marketing approval;

- any product liability or other lawsuits related to our product candidates;
- the revenue, if any, received from commercial sales of any product candidates for which we may receive marketing approval;
- our ability to establish a commercially viable pricing structure and obtain approval for coverage and adequate reimbursement from third-party and government payers;
- the costs to establish, maintain, expand, enforce and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with licensing, preparing, filing, prosecuting, defending and enforcing our patents or other intellectual property rights;
- expenses incurred to attract, hire and retain skilled personnel; and
- the costs of operating as a public company.

A change in the outcome of any of these or other variables could significantly change the costs and timing associated with the development of our product candidates. Furthermore, our operating plans may change in the future, and we may need additional funds to meet operational needs and capital requirements associated with such change.

Contractual Obligations and Commitments

We enter into contracts in the normal course of business with CROs for clinical trials, with CMOs for clinical supplies manufacturing and with other vendors for preclinical studies, supplies and other services and products for operating purposes. These contracts generally provide for termination on notice or may have a potential termination fee if a purchase order is cancelled within a specified time, and therefore are cancelable contracts. We do not expect any such contract terminations and do not have any non-cancellable obligations under these agreements as of June 30, 2023.

Leases

In August 2020 and January 2022, we leased approximately 13,400 square feet of space for our headquarters in Redwood City, California. The lease expires in August 2026. We have an option to extend the term for an additional five years to August 2031. In addition to base rent, we pay our share of operating expenses and taxes. As of June 30, 2023, our rent commitments under the lease agreement are \$1.1 million within the next 12 months from June 30, 2023, and \$2.5 million for the remainder of the lease term.

Stanford Sponsored Research Agreement

Effective September 2020, we entered into a sponsored research agreement with Stanford for a research program related to the treatment of Fanconi Anemia patients in Bone Marrow Failure requiring allogeneic transplant with non-sibling donors at Stanford Lucile Packard Children's Hospital using briquilimab. As consideration for the services performed by Stanford under this sponsored research agreement, we will pay Stanford a total of \$0.9 million over approximately 3 years upon the achievement of development and clinical milestones, including FDA filings and patients' enrollment. In February 2021, we paid \$0.3 million related to the achievement of the first milestone under this agreement. In February 2022, the second milestone was achieved, and we paid \$0.3 million in March 2022. The third milestone in the amount of \$0.3 million was based on the progress of the clinical trials and was achieved in July 2023.

Stanford License Agreement

In March 2021, we entered into the Stanford License Agreement, pursuant to which we are required to pay annual license maintenance fees, beginning on the first anniversary of the effective date of the agreement and ending upon the first commercial sale of a product, method, or service in the licensed field of use, as follows: \$25,000 for each first and second year, \$35,000 for each third and fourth year, and \$50,000 at each anniversary thereafter ending upon the first commercial sale. We are also obligated to pay late-stage clinical development milestones and first commercial sales milestone payments of up to \$9.0 million in total. We will also pay low single-digit royalties on net sales of licensed products. All products are in development as of June 30, 2023, and no such royalties were due as of such date and no milestones were achieved.

Cash Flows

The following table summarizes our sources and uses of cash for the periods presented (in thousands):

	Six Months Ended June 30,	
	2023	2022
Net cash used in operating activities	\$ (23,607)	\$ (23,569)
Net cash used in investing activities	(37)	(272)
Net cash provided by financing activities	101,206	26
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 77,562	\$ (23,815)

Cash Flows Used in Operating Activities

Net cash used in operating activities was \$23.6 million for each of the six months ended June 30, 2023 and 2022.

Cash used in operating activities in the six months ended June 30, 2023 was primarily due to our net loss for the period of \$30.3 million, adjusted by non-cash net loss of \$4.3 million and a net change of \$2.4 million in our net operating assets and liabilities. The non-cash amounts consisted of \$2.7 million related to stock-based compensation expense, \$0.9 million net loss related to the changes in fair value of common stock warrant liability and the earnout liability, \$0.5 million related to depreciation and amortization expense and \$0.2 million non-cash lease expense. The changes in our net operating assets and liabilities were primarily due to an increase of \$2.0 million in accrued expenses and other current liabilities, a decrease of \$0.7 million in other receivables and a decrease of \$0.3 million in other non-current assets, partially offset by a decrease of \$0.4 million in operating lease liability and a decrease of \$0.2 million in accounts payable.

Cash used in operating activities in the six months ended June 30, 2022 was primarily due to our net loss for the period of \$12.6 million, adjusted by non-cash net gain of \$9.7 million and a net change of \$1.3 million in our net operating assets and liabilities. The non-cash amounts consisted of \$12.1 million net gain related to the changes in fair value of common stock warrant liability and the earnout liability, reduced by non-cash expenses, which included \$1.8 million related to stock-based compensation expense, \$0.4 million related to depreciation and amortization expense and \$0.2 million non-cash lease expense. The changes in our net operating assets and liabilities were primarily due to a decrease of \$1.0 million in accounts payable due to the timing of payments to our vendors, a decrease of \$0.9 million in accrued expenses and other current liabilities and a decrease of \$0.2 million in operating lease liability, partially offset by a decrease of \$0.7 million in prepaid expenses, an increase of \$0.1 million in other non-current liabilities and other current assets and a decrease of \$0.1 million in other non-current assets.

Cash Flows Used in Investing Activities

Cash used in investing activities was less than \$0.1 million and \$0.3 million for the six months ended June 2023 and 2022, respectively, which primarily consisted of purchases of the lab equipment and leasehold improvements.

Cash Flows from Financing Activities

Cash provided by financing activities for the six months ended June 30, 2023 was \$101.2 million, which consisted primarily of net proceeds from the issuance and sale of shares of common stock in an underwritten public offering and the ATM Offering of \$101.5 million, cash received from the exercise of stock options of \$0.4 million and cash received from the issuance of common stock upon Employee Stock Purchase Plan purchase of less than \$0.1 million, partially offset by taxes withheld and paid related to net settlement of equity awards of \$0.7 million.

Cash provided by financing activities for the six months ended June 30, 2022 was less than \$0.1 million, which consisted of cash received from the exercise of stock options.

Critical Accounting Policies and Significant Judgments and Estimates

Our critical accounting policies are disclosed in Note 2 of the notes to the consolidated financial statements included in Part II, Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 8, 2023. Since the date of such financial statements, there have been no material changes to our significant accounting policies.

Recently Issued Accounting Pronouncements

See Note 2 to the condensed consolidated financial statements for more information regarding recently issued accounting pronouncements.

JOBS Act

The Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”) exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a U.S. Securities Act of 1933, as amended, registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. We have opted to take advantage of the exemption for complying with new or revised accounting standards within the same time periods as private companies, which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of our consolidated financial statements with another public company that is neither an emerging growth company nor an emerging growth company that has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

We will remain an emerging growth company until the earlier of: (i) the last day of the fiscal year (a) following November 22, 2024, (b) in which we have total annual gross revenue of at least \$1.235 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common equity that is held by non-affiliates exceeds \$700 million as of the last business day of its most recently completed second fiscal quarter; and (ii) the date on which we have issued more than \$1.00 billion in non-convertible debt securities during the prior three-year period. References herein to “emerging growth company” have the meaning associated with it in the JOBS Act.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We had cash and cash equivalents of \$115.8 million as of June 30, 2023, which consisted of checking account and money market funds. Historical fluctuations in interest rates have not been significant for us, and we believe a hypothetical 10% change in interest rates during any of the periods presented would not have had a material effect on our consolidated financial statements included in Part I, Item 1 of this Quarterly Report. We had no outstanding debt as of June 30, 2023. To minimize risk in the future, we intend to maintain our portfolio of cash equivalents in institutional market funds that are composed of U.S. Treasury and U.S. Treasury-backed repurchase agreements or short-term U.S. Treasury securities.

Foreign Currency Exchange Risk

All of our employees are currently located in the United States; however, we do utilize certain vendors outside of the United States for our manufacturing of drug substances and clinical supplies. As such, our expenses are denominated in both U.S. dollars and foreign currencies. Therefore, our operations are and will continue to be subject to fluctuations in foreign currency exchange rates. To date, foreign currency transaction gains and losses have not been material to our consolidated financial statements, and we have not had a formal hedging program with respect to foreign currency. We believe a hypothetical 10% change in exchange rates during any of the periods presented would not have a material effect on our consolidated financial statements included in Part I, Item 1 of this Quarterly Report.

Effects of Inflation

Inflation generally affects us by increasing our cost of labor and in the future our clinical trial costs. We believe that inflation has not had a material effect on our interim condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. As required by Rule 13a-15(b) or Rule 15d-15(b) promulgated by the Securities and Exchange Commission under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q at the reasonable assurance level.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2023 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

We are not currently party to, and none of our property is currently the subject of, any material legal proceedings.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. Before making an investment decision, you should carefully consider the risks described herein, as well as the risks and uncertainties discussed above under “Cautionary Note Regarding Forward-Looking Statements”, before deciding whether to invest in our common stock. Our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 8, 2023, in Part I—Item 1A, Risk Factors, describes important risk factors that could cause our business, financial condition, results of operations and growth prospects to differ materially from those indicated or suggested by forward-looking statements made in this Quarterly Report on Form 10-Q or presented elsewhere by management from time to time. Except as set forth below, there have been no material changes in the risk factors that appear in Part I - Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 8, 2023. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business.

Risks Related to Our Financial Position and Need for Additional Capital

We have incurred significant net losses and negative operating cash flows since our inception. We expect to incur net losses for the foreseeable future and may never achieve or maintain profitability.

We are a clinical-stage biotechnology company dedicated to enabling cures through therapeutics targeting mast and hematopoietic stem cells and have a limited operating history. Investment in biopharmaceutical product development is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate effect or an acceptable safety profile, gain regulatory approval and become commercially viable. We have no products approved for commercial sale and have not generated any revenue from product sales to date, and we continue to incur significant research and development and other expenses related to our ongoing operations. As a result, we are not profitable and have incurred losses and negative operating cash flows in each period since our inception. For the six months ended June 30, 2023 and 2022, we reported net losses of \$30.3 million and \$12.6 million, respectively. For each of the six months ended June 30, 2023 and 2022, we reported negative operating cash flows of \$23.6 million. As of June 30, 2023, we had an accumulated deficit of \$135.5 million. We have devoted all of our efforts to organizing and staffing our company, business and scientific planning, raising capital, acquiring and developing technology, identifying potential product candidates, undertaking research and preclinical studies of potential product candidates, developing manufacturing capabilities and evaluating a clinical path for our pipeline programs. We expect to continue to incur significant expenses and increasing operating losses for the foreseeable future, and we expect these losses to increase as we continue our research and development of, and seek regulatory approvals for, our product candidates.

The net losses we incur may fluctuate significantly from quarter to quarter. We anticipate that our expenses will increase substantially if and as we:

- continue the clinical development of briquilimab in chronic diseases such as Chronic Spontaneous Urticaria (“CSU”), Lower to Intermediate Risk Myelodysplastic Syndrome (“LR-MDS”) and other indications;
- continue the open label Phase 1/2 clinical trial for briquilimab for Severe Combined Immunodeficiency (“SCID”), and the open label Phase 1 clinical trial for briquilimab in patients with myelodysplastic syndrome (“MDS”) or acute myeloid leukemia (“AML”);

- continue our current research programs and development of other potential product candidates from our current research programs;
- seek to identify additional product candidates and research programs;
- initiate preclinical testing and clinical trials for any other product candidates we identify and develop;
- maintain, expand, enforce, defend and protect our intellectual property portfolio, and provide reimbursement of third-party expenses related to our patent portfolio;
- seek marketing approvals for any product candidates that successfully complete clinical trials;
- ultimately establish a sales, marketing and distribution infrastructure to commercialize any product candidates for which we may obtain marketing approval;
- adapt our regulatory compliance efforts to incorporate requirements applicable to any approved product candidates;
- further develop our genome engineering capabilities;
- hire additional research and development and clinical personnel;
- hire commercial personnel and advance market access and reimbursement strategies;
- add operational, financial and management information systems and personnel, including personnel to support our product development;
- acquire or in-license product candidates, intellectual property and technologies;
- develop or in-license manufacturing and distribution technologies;
- should we decide to do so and receive approval for any of our product candidates, build and maintain, or purchase and validate, commercial-scale manufacturing facilities designed to comply with current Good Manufacturing Practices (“cGMP”) requirements; and
- incur additional legal, accounting and other expenses in operating as a public company.

As a company, we have not completed clinical development of any product candidate and expect that it will be several years, if ever, before we have a product candidate ready for commercialization. To become and remain profitable, we must develop and, either directly or through collaborators, eventually commercialize a product or products with significant market potential. This will require us to be successful in a range of challenging activities, including identifying product candidates, completing preclinical testing and clinical trials of product candidates, obtaining marketing approval for these product candidates, manufacturing, marketing and selling those products for which we may obtain marketing approval and satisfying any post-marketing requirements.

We may never succeed in these activities and, even if we do, may never generate revenues that are significant or large enough to achieve profitability. Our product candidates and research programs are currently only in the early stages of development. Because of the numerous risks and uncertainties associated with developing product candidates, we are unable to predict the extent of any future losses or when we will become profitable, if at all. If we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would decrease the value of our company and could impair our ability to raise capital, maintain our research and development efforts, expand our business or continue our operations. A decline in the value of our company could also cause you to lose all or part of your investment.

We will need substantial additional funding, which may not be available on acceptable terms, or at all. If we are unable to raise capital when needed, we would be forced to delay, reduce or eliminate our research and product development programs or future commercialization efforts.

We expect to spend substantial amounts of cash to conduct further research and development and preclinical testing and clinical trials of our product candidates, to seek regulatory approvals for our product candidates and to launch and commercialize any product candidates for which we receive regulatory approval. Furthermore, we expect to incur additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in order to maintain 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 product development programs or future commercialization efforts. As of June 30, 2023, our cash and cash equivalents were \$115.8 million and we had an accumulated deficit of \$135.5 million. Although we raised total net proceeds of \$101.5 million in January 2023 in connection with the issuance and sale of 69,000,000 shares of our common stock in an underwritten public offering and the issuance and sale of 2,337,496 shares pursuant to the ATM Prospectus Supplement (as defined below), we will need to raise additional financing to continue our products' development for the foreseeable future, and will continue to need to do so until we become profitable. Our future financing requirements will depend on many factors, including:

- the initiation, progress, timing, costs and results of preclinical studies and clinical trials for our product candidates;
- the costs of continuing to build our technology platform, including in-licensing additional genome engineering technologies for use in developing our product candidates;
- the costs of developing, acquiring or in-licensing additional targeted therapies to use in combination with briquilimab and other product candidates we may develop;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property and proprietary rights and defending intellectual property-related claims in the United States and internationally;
- the number and characteristics of product candidates that we develop or may in-license;
- our ability to establish and maintain collaborations on favorable terms, if at all;
- the achievement of milestones or occurrence of other developments that trigger payments under any collaboration agreements we enter into;
- the outcome, timing and cost of meeting regulatory requirements established by the U.S. Food and Drug Administration (the "FDA"), the European Medical Agency (the "EMA") and other comparable foreign regulatory authorities;
- the cost and timing of completion of commercial-scale outsourced manufacturing activities;
- the cost of establishing sales, marketing and distribution capabilities for any product candidates for which we may receive regulatory approval in regions where we choose to commercialize our products on our own; and
- the costs of operating as a public company.

Conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, even if we successfully develop product candidates and those are approved, we may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we do not expect to be commercially available for several years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives.

We currently have an effective universal shelf registration statement on Form S-3, which we filed with the SEC on April 28, 2023, and which was declared effective on May 5, 2023 and will expire on May 5, 2026 (the “Shelf Registration Statement”). Pursuant to the Shelf Registration Statement, we may offer from time to time up to an aggregate of \$250.0 million of securities, including any combination of common stock, preferred stock, debt securities, warrants, rights, units and depositary shares. On November 10, 2022, we entered into a Controlled Equity OfferingSM Sales Agreement with Cantor Fitzgerald & Co. (the “Agent”), pursuant to which we may offer and sell through or to the Agent, as sales agent or principal, shares of common stock from time to time (the “ATM Offering”). On May 5, 2023, we filed with the SEC under the Shelf Registration Statement a prospectus in connection with the ATM Offering (the “ATM Prospectus”), pursuant to which we may offer pursuant to the ATM Offering shares of our common stock having an aggregate offering price of up to \$75.0 million. No securities were sold pursuant to the Shelf Registration Statement and the ATM Prospectus as of August 7, 2023.

As of August 7, 2023, approximately \$75.0 million remains allocated and available under the ATM Prospectus and approximately \$175.0 million remains available and unallocated under the Shelf Registration Statement.

If we raise additional capital by issuing equity securities, the percentage ownership of our existing stockholders may be reduced, and accordingly these stockholders may experience substantial dilution. We may also issue equity securities that provide for rights, preferences and privileges senior to those of our common stock. Given our need for cash and that equity issuances are the most common type of fundraising for similarly situated companies, the risk of dilution is particularly significant for our stockholders.

Any additional fundraising efforts may divert our management from our day-to-day activities, which may adversely affect our ability to develop and commercialize product candidates. We cannot be certain that additional funding will be available on acceptable terms, or at all. We have no committed source of additional capital and, if we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we may have to significantly delay, scale back or discontinue the development or commercialization of product candidates or other research and development initiatives. Our license agreements and any future collaboration agreements may also be terminated if we are unable to meet the payment or other obligations under the agreements. We could be required to seek collaborators for product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available or relinquish or license on unfavorable terms our rights to product candidates in markets where we otherwise would seek to pursue development or commercialization ourselves.

Our management believes that our existing cash and cash equivalents as of June 30, 2023 will be sufficient to fund our operating plan for at least twelve months from the date of filing of this Quarterly Report on Form 10-Q. However, we will need to raise additional financing to continue our products’ development for the foreseeable future, and will continue to need to do so until we become profitable. If we are unable to obtain funding when and as needed on a timely basis, we may be required to significantly curtail, delay or discontinue one or more of our research or development programs or the commercialization of any product candidate, or be unable to expand our operations or otherwise capitalize on our business opportunities, as desired, which could materially affect our business, financial condition and results of operations. Any of the above events could significantly harm our business, prospects, financial condition and results of operations and cause the price of our common stock to decline.

As a result of our history of losses and negative cash flows from operations, we will need to raise additional financing to continue our products’ development.

Our history of operating losses and negative cash flows from operations combined with our anticipated use of cash to fund operations raised substantial doubt about our ability to continue as a going concern beyond the 12-month period reported by us and our auditors in prior periods. While management believes that our existing cash and cash equivalents as of June 30, 2023 will be sufficient to fund our operating plan for at least twelve months from the issuance date of our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, we will need to raise additional financing to continue our products’ development for the foreseeable future, and will continue to need to do so until we become profitable. Our future viability as an ongoing business is dependent on our ability to generate cash from our operating activities or to raise additional capital to finance our operations.

The perception that we might be unable to continue as a going concern may also make it more difficult to obtain financing for the continuation of our operations on terms that are favorable to us, or at all, and could result in the loss of confidence by investors and employees. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. If we are unable to continue as a going concern, we may have to liquidate our assets and may receive less than the value at which those assets are carried on our consolidated financial statements, and it is likely that our investors will lose all or a part of their investment.

Risks Related to Discovery, Development, Manufacturing and Commercialization

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we focus on research programs and product candidates that we identify for specific indications among many potential options. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. For example, on January 10, 2023, we announced, as part of an overall portfolio prioritization, that we will focus on the development of our lead product candidate, briquilimab (formerly known as JSP191), in chronic mast and stem cell diseases as well as a conditioning agent for stem cell transplant in rare diseases. This portfolio includes a new program as a therapeutic for patients with CSU, along with our existing programs for briquilimab as a therapeutic for patients with LR-MDS and as a conditioning agent for stem cell transplant in patients with sickle cell disease, Fanconi anemia or severe combined immunodeficiency. Our resource allocation decisions may cause us to fail to capitalize on viable commercial medicines or profitable market opportunities. Our projections of both the number of people who have these diseases, as well as the subset of people with these diseases who have the potential to benefit from treatment with our product candidates, are based on estimates. If any of our estimates are inaccurate, the market opportunities for any of our product candidates could be significantly diminished and have an adverse material impact on our business. Additionally, the potentially addressable patient population for our product candidates may be limited, or may not be amenable to treatment with our product candidates. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable product candidates. If we do not accurately evaluate the commercial potential or target market for a particular product candidate (including briquilimab), we may relinquish valuable rights to that product candidate through collaboration, licensing, or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate. Any such event could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to Employee Matters, Managing Growth and Information Technology

Adverse developments affecting the financial services industry, such as actual events or concerns involving liquidity, defaults or non-performance by financial institutions or transactional counterparties, could adversely affect our current and projected business operations and its financial condition and results of operations.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market-wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank (SVB) was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. Similarly, on March 12, 2023, Signature Bank and Silvergate Capital Corp. were each swept into receivership. Although a statement by the Department of the Treasury, the Federal Reserve and the FDIC stated all depositors of SVB would have access to all of their money after only one business day of closure, including funds held in uninsured deposit accounts, borrowers under credit agreements, letters of credit and certain other financial instruments with SVB, Signature Bank or any other financial institution that is placed into receivership by the FDIC may be unable to access undrawn amounts thereunder. If any of our lenders or counterparties to any such instruments were to be placed into receivership, we may be unable to access such funds. In addition, counterparties to SVB credit agreements and arrangements, and third parties such as beneficiaries of letters of credit (among others), may experience direct impacts from the closure of SVB and uncertainty remains over liquidity concerns in the broader financial services industry. Similar impacts have occurred in the past, such as during the 2008-2010 financial crisis.

Although we assess our banking relationships as we believe necessary or appropriate, our access to funding sources and other credit arrangements in amounts adequate to finance or capitalize our current and projected future business operations could be significantly impaired by factors that affect us, the financial institutions with which we have credit agreements or arrangements directly, or the financial services industry or economy in general. These factors could include, among others, events such as liquidity constraints or failures, the ability to perform obligations under various types of financial, credit or liquidity agreements or arrangements, disruptions or instability in the financial services industry or financial markets, or concerns or negative expectations about the prospects for companies in the financial services industry. These factors could involve financial institutions or financial services industry companies with which we have financial or business relationships, but could also include factors involving financial markets or the financial services industry generally.

The results of events or concerns that involve one or more of these factors could include a variety of material and adverse impacts on our current and projected business operations and our financial condition and results of operations. These could include, but may not be limited to, the following:

- delayed access to deposits or other financial assets or the uninsured loss of deposits or other financial assets;
- loss of access to revolving existing credit facilities or other working capital sources and/or the
- inability to refund, roll over or extend the maturity of, or enter into new credit facilities or other working capital resources;
- potential or actual breach of contractual obligations that require us to maintain letters or credit or other credit support arrangements;
- potential or actual breach of financial covenants in our credit agreements or credit arrangements;
- potential or actual cross-defaults in other credit agreements, credit arrangements or operating or financing agreements; or
- termination of cash management arrangements and/or delays in accessing or actual loss of funds subject to cash management arrangements.

Any decline in available funding or access to our cash and liquidity resources could, among other risks, adversely impact our ability to meet our operating expenses, financial obligations or fulfill our other obligations, result in breaches of our financial and/or contractual obligations or result in violations of federal or state wage and hour laws. Any of these impacts, or any other impacts resulting from the factors described above or other related or similar factors not described above, could have material adverse impacts on our liquidity and our current and/or projected business operations and financial condition and results of operations.

In addition, any further deterioration in the macroeconomic economy or financial services industry could lead to losses or defaults by our customers or suppliers, which in turn, could have a material adverse effect on our current and/or projected business operations and results of operations and financial condition. For example, a customer may fail to make payments when due, default under their agreements with us, become insolvent or declare bankruptcy, or a supplier may determine that it will no longer deal with us as a customer. In addition, a customer or supplier could be adversely affected by any of the liquidity or other risks that are described above as factors that could result in material adverse impacts on our company, including but not limited to delayed access or loss of access to uninsured deposits or loss of the ability to draw on existing credit facilities involving a troubled or failed financial institution. Any customer or supplier bankruptcy or insolvency, or the failure of any customer to make payments when due, or any breach or default by a customer or supplier, or the loss of any significant supplier relationships, could result in material losses to our company and may have material adverse impacts on our business.

Risks Related to Our Intellectual Property

Changes in U.S. patent law or the patent law of other countries or jurisdictions could diminish the value of patents in general, thereby impairing our ability to protect our products.

The U.S. has enacted and implemented wide-ranging patent reform legislation. The U.S. Supreme Court has ruled on several patent cases in recent years, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents, once obtained. Depending on actions by the U.S. Congress, the federal courts and the USPTO, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce patents that we have licensed or that we might obtain in the future. Similarly, changes in patent law and regulations in other countries or jurisdictions or changes in the governmental bodies that enforce them or changes in how the relevant governmental authority enforces patent laws or regulations may weaken our ability to obtain new patents or to enforce patents that we have licensed or that we may obtain in the future. For example, the complexity and uncertainty of European patent laws have also increased in recent years. In Europe, in June 2023, a new unitary patent system was introduced, which will significantly impact European patents, including those granted before the introduction of the system. Under the unitary patent system, after a European patent is granted, the patent proprietor can request unitary effect, thereby getting a European patent with unitary Effect (a “Unitary Patent”). Each Unitary Patent is subject to the jurisdiction of the Unitary Patent Court (“UPC”). As the UPC is a new court system, there is no precedent for the court, increasing the uncertainty of any litigation. Patents granted before the implementation of the UPC will have the option of opting out of the jurisdiction of the UPC and remaining as national patents in the UPC countries. Patents that remain under the jurisdiction of the UPC may be potentially vulnerable to a single UPC-based revocation challenge that, if successful, could invalidate the patent in all countries who are signatories to the UPC. We cannot predict with certainty the long-term effects of the new unitary patent system.

Risks Related to Ownership of Our Common Stock and Warrants

If our operations and performance do not meet the expectations of investors or securities analysts or for other reasons, the market price of our securities may decline, and the market price of our common stock may continue to be volatile.

Any of the factors listed below could have a negative impact on your investment in our securities, and our securities may trade at prices significantly below the price you paid for them. In such circumstances, the trading price of our securities may not recover and may experience a further decline.

Factors affecting the trading price of our securities may include:

- adverse regulatory decisions;
- any delay in our regulatory filings for our product candidates and any adverse development or perceived adverse development with respect to the applicable regulatory authority’s review of such filings, including without limitation the FDA’s issuance of a “refusal to file” letter or a request for additional information;
- the ongoing conflict between Ukraine and Russia and the global impact of restrictions and sanctions imposed on Russia and the impact thereof on the markets generally, including any adverse effects on macroeconomic conditions such as inflation;
- the commencement, enrollment or results of any future clinical trials we may conduct, or changes in the development status of our product candidates;

- adverse results from, delays in or termination of clinical trials;
- unanticipated serious safety concerns related to the use of our product candidates;
- lower than expected market acceptance of our product candidates following approval for commercialization;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- changes in the market valuations of similar companies;
- stock market price and volume fluctuations of comparable companies and, in particular, those that operate in the biopharmaceutical industry;
- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- investors' general perception of our business or management;
- recruitment or departure of key personnel;
- overall performance of the equity markets;
- disputes or other developments relating to intellectual property rights, including patents, litigation matters and our ability to obtain, maintain, defend, protect and enforce patent and other intellectual property rights for our technologies;
- significant lawsuits, including patent or stockholder litigation;
- proposed changes to healthcare laws in the U.S. or foreign jurisdictions, or speculation regarding such changes;
- general political and economic conditions; and
- other events or factors, many of which are beyond our control.

In addition, the stock market in general, Nasdaq and pharmaceutical companies in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. The trading price of our common stock is, and is likely to continue to be, volatile. For example, from January 3, 2022 to December 31, 2022, our closing stock price ranged from \$0.46 to \$8.01 per share and from January 3, 2023 to August 7, 2023, our closing stock price ranged from \$1.19 to \$2.74 per share. Broad market and industry factors may negatively affect the market price of our securities, regardless of our actual operating performance. As a result of this volatility, our stockholders may not be able to sell their common stock at or above the prices at which they purchased their shares. Moreover, in the past, stockholders have initiated class action lawsuits against pharmaceutical and biotechnology companies following periods of volatility in the market prices of these companies' stock. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources from our business.

Insiders have substantial control over us, which could limit your ability to affect the outcome of key transactions, including a change of control.

As of June 30, 2023, our directors and executive officers and their affiliates beneficially owned approximately 28.0% of the outstanding shares of our common stock. As a result, these stockholders, if they act together, will be able to influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or our assets. This concentration of ownership may have the effect of delaying or preventing a change in control of our company or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other stockholders. This significant concentration of ownership may also adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders.

Future sales, or the perception of future sales, by us or our stockholders in the public market, the issuance of rights to purchase our common stock, including pursuant to the Equity Incentive Plan and the ESPP, and future exercises of registration rights could result in the additional dilution of the percentage ownership of our stockholders and cause the market price for our common stock to decline.

The sale of shares of our common stock, convertible securities or other equity securities in the public market, or the perception that such sales could occur, could harm the prevailing market price of shares of our common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. In addition, if we sell shares of our common stock, convertible securities or other equity securities, investors may be materially diluted by subsequent sales. Such sales may also result in material dilution to our existing stockholders, and new investors could gain rights, preferences, and privileges senior to the holders of our common stock.

Pursuant to the Jasper Therapeutics, Inc. 2021 Equity Incentive Plan (the “Equity Incentive Plan”), which became effective on September 23, 2021, we are authorized to grant equity awards to our employees, directors and consultants. In addition, pursuant to the Jasper Therapeutics, Inc. 2021 Employee Stock Purchase Plan (the “ESPP”), which became effective on September 23, 2021, we are authorized to sell shares to our employees. As of August 7, 2023, 879,174 shares and 1,184,572 shares of our common stock are reserved for future issuance under the Equity Incentive Plan and the ESPP, respectively. In addition, the Equity Incentive Plan and ESPP provide for annual automatic increases in the number of shares reserved thereunder, in each case, on January 1 of each year through and including January 1, 2031. As a result of such annual increases, our stockholders may experience additional dilution, which could cause the price of our common stock to fall.

On March 14, 2022, the Compensation Committee of our Board of Directors (“Board”) adopted the 2022 Inducement Equity Incentive Plan (the “2022 Inducement Plan”). On June 2, 2023, the Compensation Committee of our Board approved an amendment and restatement of our 2022 Inducement Plan to increase the maximum number of shares of our voting common stock available for grant by 2,500,000 shares of common stock to an aggregate of 5,500,000 shares of common stock. As of August 7, 2023, 1,746,841 shares of our common stock are available for future issuance under the 2022 Inducement Plan. The 2022 Inducement Plan has not been and will not be approved by our stockholders. Under the 2022 Inducement Plan, we can grant nonstatutory stock options, restricted stock awards, stock appreciation rights, restricted stock units, performance awards and other awards, but only to an individual, as a material inducement to such individual to enter into employment with us or an affiliate of ours, who (i) has not previously been an employee or director of ours or (ii) is rehired following a bona fide period of non-employment with us.

As of June 30, 2023, options to purchase an aggregate of 9,345,537 shares of our common stock and restricted stock units with respect to an aggregate of 1,179,771 shares were outstanding, and we have granted additional options to purchase shares of our common stock after this date.

Pursuant to the Amended and Restated Registration Rights Agreement entered into in connection with the Business Combination, certain of our stockholders can demand that we register their registrable securities under certain circumstances and will each also have piggyback registration rights for these securities. In addition, we are required to file and maintain an effective registration statement under the Securities Act covering such securities and certain of our other securities. We filed a registration statement on October 18, 2021, which was first amended on March 29, 2022 and further amended on October 7, 2022, in order to satisfy the foregoing obligations and we have currently registered for resale an aggregate of 36,019,362 shares of our common stock, including up to 4,999,863 shares of our common stock issuable upon exercise of our outstanding warrants. The registration of these securities permits the public sale of such securities, subject to certain contractual restrictions on transfer imposed by the Amended and Restated Registration Rights Agreement and the Business Combination Agreement, which contractual restrictions on transfer terminated on March 23, 2022. The presence of these additional shares of our common stock trading in the public market may have an adverse effect on the market price of our securities.

In the future, we may also issue our securities in connection with investments or acquisitions. The amount of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then-outstanding shares of our common stock. Any issuance of additional securities in connection with investments or acquisitions may result in additional dilution to our stockholders.

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

Issuer Purchases of Equity Securities

During the three months ended June 30, 2023, we satisfied certain U.S. federal and state tax withholding obligations due upon the vesting of restricted stock unit awards by automatically withholding from the shares being issued in connection with such award a number of shares of our common stock with an aggregate fair market value on the date of vesting equal to the minimum tax withholding obligations. The following table sets forth information with respect to shares of our common stock withheld by us to satisfy certain tax withholding obligations during the quarter ended June 30, 2023:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
April 1, 2023 – April 30, 2023	452,933 ⁽¹⁾	\$ 1.46	-	-
May 1, 2023 – May 31, 2023	-	-	-	-
June 1, 2023 – June 30, 2023	-	-	-	-
Total	452,933	\$ 1.46	-	-

(1) Represents shares of our common stock withheld from employees to satisfy tax withholding obligations upon vesting of restricted stock unit awards.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Description	Registrant's Form	Date Filed with the SEC	Exhibit Number
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant.	8-K	9/29/2021	3.1
3.2	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation, dated June 8, 2023.	8-K	6/8/2023	3.1
3.3	Third Amended and Restated Bylaws of the Registrant.	8-K	2/17/2023	3.1
4.1	Form of Warrant Agreement, dated November 19, 2019, by and between the Registrant and Continental Stock Transfer & Trust Company, as warrant agent.	8-K	11/25/2019	4.1
4.2	Specimen Warrant Certificate.	S-1/A	11/6/2019	4.3
10.1#	Jasper Therapeutics, Inc. Amended and Restated 2022 Inducement Equity Incentive Plan.	8-K	6/8/2023	10.1
10.2*^	Amendment No. 2 to the Exclusive License Agreement, dated July 27, 2023, between Stanford University and Jasper Therapeutics, Inc.			
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.			
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.			
32.1**	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.			
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.			
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.			
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.			
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.			
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)			

Indicates a management contract or compensatory plan or arrangement.

^ Certain identified information has been omitted pursuant to Item 601(b)(10) of Regulation S-K because such information is both (i) not material and (ii) of the type that the Registrant treats as private or confidential. The Registrant hereby undertakes to furnish supplemental copies of the unredacted exhibit upon request by the SEC.

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

JASPER THERAPEUTICS, INC.

Date: August 11, 2023

By: /s/ Ronald Martell
Ronald Martell
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2023

By: /s/ Jeet Mahal
Jeet Mahal
Chief Operating Officer and
Chief Financial Officer
(Principal Accounting and Financial Officer)

*** Certain identified information has been omitted from this exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Registrant if publicly disclosed. Such omitted information is indicated by brackets (“[...***...]”) in this exhibit. ***

S06-265: DXL

AMENDMENT

7/27/2023

AMENDMENT № 1
TO THE
EXCLUSIVE LICENSE AGREEMENT EFFECTIVE THE 25th DAY OF MARCH 2021
BETWEEN
STANFORD UNIVERSITY
AND
JASPER THERAPEUTICS, INC.

Effective the 27th day of July, 2023, THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY (“Stanford”), an institution of higher education having powers under the laws of the State of California, and Jasper Therapeutics, Inc. (“Jasper”), a Delaware corporation having a principal place of business at 2200 Bridge Parkway, #103, Redwood City, California 94065, agree as follows:

1. BACKGROUND

Stanford and Jasper are parties to an Exclusive License Agreement effective the 25th day of March 2021 (“Agreement”) covering “Antibody-based clearance of endogenous stem cell niches prior to transplantation of bone marrow or hematopoietic stem cells (c-kit)” disclosed in Stanford docket S06-265.

Stanford and Jasper wish to further amend the Agreement in certain respects on the terms and conditions set forth below.

2. AMENDMENT

2.1 Appendix A of the Agreement is hereby deleted in its entirety and replaced with the following:

Appendix A – Milestones

1. By December 31, 2024, Jasper will [...***...].
2. By July 31, 2026, Jasper will [...***...].
3. By July 31, 2027, Jasper will [...***...].

3. OTHER TERMS

3.1 All other terms of the Agreement remain in full force and effect.

3.2 The parties to this document agree that a copy of the original signature (including an electronic copy) may be used for any and all purposes for which the original signature may have been used. The parties further waive any right to challenge the admissibility or authenticity of this document in a court of law based solely on the absence of an original signature.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment № 1 in duplicate originals by their duly authorized officers or representatives.

**THE BOARD OF TRUSTEES OF THE LELAND
STANFORD JUNIOR UNIVERSITY**

Signature: /s/ Sunita Rajdev

Name: Sunita Rajdev

Title: Director, Licensing and Strategic Alliances, Life
Sciences

Date: July 27, 2023

JASPER THERAPEUTICS, INC.

Signature: /s/ Jeet Mahal

Name: Jeet Mahal

Title: Chief Operating and Financial Officer

Date: July 27, 2023

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Ronald Martell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Jasper Therapeutics, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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.

/s/ Ronald Martell

Ronald Martell
President, Chief Executive Officer, and
Director
(Principal Executive Officer)

Dated: August 11, 2023

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeet Mahal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Jasper Therapeutics, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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.

/s/ Jeet Mahal

Jeet Mahal
Chief Operating Officer and Chief Financial
Officer
(Principal Financial Officer)

Dated: August 11, 2023

