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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

or

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

For the transition period from _____ to _____

Commission File Number: 001-37718

F-STAR THERAPEUTICS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**52-2386345**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Eddeva B920 Babraham Research Campus Cambridge, United Kingdom	**CB22 3AT**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: +44-1223-497400

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

Title of Each Class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	**FSTX**	**The Nasdaq Stock Market (Nasdaq Capital Market)**

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

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

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

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

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

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

The number of shares of Registrant's Common Stock outstanding as of August 7, 2021 was 20,620,021.

F-star Therapeutics, Inc.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, projected costs, prospects, plans and objectives of management, are forward-looking statements. In some cases, you can identify forward-looking statements by terms including, but not limited to, "may," "likely," "will," "should," "would," "design," "expect," "seek," "plan," "anticipate," "could," "intend," "target," "project," "believe," "estimate," "predict," "potential" or "continue" or the negative of these terms or other similar expressions.

These forward-looking statements include, but are not limited to, statements about:

- our ongoing and planned preclinical studies and clinical trials;
- preclinical study data and clinical trial data and the timing of results of our ongoing clinical studies and/or trials;
- our plans to seek and enter into clinical trial collaborations and other broader collaborations;
- the direct and indirect impact of the COVID-19 pandemic on our business operations and financial condition, including manufacturing, research and development costs, clinical trials, regulatory processes and employee expenses; and
- our estimates regarding prospects, strategies, expenses, operating capital requirements, results of operations and needs for additional financing.

Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Factors that could cause actual results or events to differ materially from the forward-looking statements that we make include, but are not limited to, the following:

- We are very early in our development efforts and our product candidates may not be successful in later stage clinical trials. Results obtained in our preclinical studies and clinical trials to date are not necessarily indicative of results to be obtained in future clinical trials. As a result, our product candidates may never be approved as marketable therapeutics.
- We will need additional funding to complete the development of our product candidates and before we can expect to become profitable from the sales of our products, if approved. If we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product development programs or commercialization efforts.
- We rely, and expect to continue to rely, on third parties to conduct our clinical trials and to manufacture our product candidates for preclinical and clinical testing. These third parties may not perform satisfactorily, which could delay our product development activities.
- If we are unable to adequately protect our proprietary technology or obtain and maintain issued patents which are sufficient to protect our product candidates, others could compete against us more directly, which would have a material adverse impact on our business, results of operations, financial condition and prospects.
- We may not be able to retain key executives or to attract, retain and motivate key personnel. If we are unable to retain such key personnel, it could have a material adverse impact on our business and prospects.
- Business interruptions resulting from the coronavirus disease ("COVID-19") outbreak or similar public health crises could cause a disruption of the development of our product candidates and adversely impact our business.

You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. You should also read carefully the factors described in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission (the "SEC") on March 30, 2021, to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements. You are advised, however, to consult any further disclosures we make on related subjects in our subsequent Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, press releases, and our website. Any forward-looking statements that we make in this Quarterly Report on Form 10-Q speak only as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to update such statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

F-star Therapeutics, Inc.
Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Amounts)

	June 30, 2021 *Unaudited*	December 31 2020
Assets		
Current Assets:		
Cash and cash equivalents	$ 81,648	$ 18,526
Other receivables	72	—
Prepaid expenses and other current assets	3,439	3,976
Tax incentive receivable	160	3,563
Total current assets	85,319	26,065
Property and equipment, net	1,157	789
Right of use asset	3,758	2,782
Goodwill	15,009	14,926
In-process research and development	19,249	18,986
Other long-term assets	482	61
Total assets	$124,974	$ 63,609
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 2,427	$ 4,597
Accrued expenses and other current liabilities	6,300	9,461
Contingent value rights	314	2,080
Lease obligations, current	912	539
Deferred revenue	—	300
Total current liabilities	9,953	16,977
Long term Liabilities:		
Term debt	9,466	—
Lease obligations	3,197	2,622
Contingent value rights	2,789	440
Deferred tax liability	576	576
Total liabilities	25,981	20,615
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value; authorized, 10,000,000 shares at June 30, 2021 and December 31, 2020; no shares issued or outstanding at June 30, 2021 and December 31, 2020	—	—
Common Stock, $0.0001 par value; authorized 200,000,000 shares at June 30, 2021 and December 31, 2020; 20,586,562 and 9,100,117 shares issued and outstanding at June 30, 2021 and December 31, 2020	2	1
Additional paid-in capital	172,895	91,238
Accumulated other comprehensive loss	(1,218)	(1,077)
Accumulated deficit	(72,686)	(47,168)
Total stockholders' equity	98,993	42,994
Total liabilities and stockholders' equity	$124,974	$ 63,609

See accompanying notes to consolidated financial statements.

F-star Therapeutics, Inc.
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(In Thousands, Except Share and Per Share Amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
License revenue	$ —	$ 543	$ 2,917	$ 1,898
Operating expenses:				
Research and development	8,437	2,093	15,704	5,493
General and administrative	6,501	3,236	12,930	6,425
Total operating expenses	14,938	5,329	28,634	11,918
Loss from operations	(14,938)	(4,786)	(25,717)	(10,020)
Other non-operating (expense) income:				
Other income (expense)	(46)	(143)	972	(1,670)
Change in fair value of convertible debt	—	(1,498)	—	(1,884)
Change in fair value of contingent value rights	(583)	—	(583)	—
Loss before income taxes	(15,567)	(6,427)	(25,328)	(13,574)
Income tax expense	(82)	(35)	(190)	(47)
Net loss	$ (15,649)	$ (6,462)	$ (25,518)	$ (13,621)
Net loss attributable to common stockholders	$ (15,649)	$ (6,462)	$ (25,518)	$ (13,621)
Basic and diluted adjusted net loss per common shares	$ (0.92)	$ (3.53)	$ (1.95)	$ (7.44)
Weighted-average number of shares outstanding, basic and diluted	17,022,417	1,830,075	13,083,230	1,829,993
Other comprehensive loss:				
Net loss	$ (15,649)	$ (6,462)	$ (25,518)	$ (13,621)
Other comprehensive (loss) gain :				
Foreign currency translation	324	387	(141)	410
Total comprehensive loss	$ (15,325)	$ (6,075)	$ (25,659)	$ (13,211)

See accompanying notes to consolidated financial statements.

F-star Therapeutics, Inc.
Consolidated Statements of Cash Flows (Unaudited)
(In Thousands)

	For the Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	$ (25,518)	$ (13,621)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share based compensation expense	4,039	1,005
Foreign currency (gain) loss	(570)	1,478
Loss (gain) on disposal of tangible fixed assets	(9)	6
Depreciation	297	334
Non-cash interest	82	532
Amortization of debt issuance costs	15	—
Fair value adjustments	583	1,884
Operating right of use asset	494	337
Changes in operating assets and liabilities:		
Other receivables	(72)	—
Prepaid expenses and other current assets	593	905
Tax incentive receivable	3,493	5,909
Accounts payable	(2,231)	1,210
Accrued expenses and other current liabilities	(3,278)	(2,126)
Deferred revenue	(308)	(5)
Operating lease liability	(520)	(330)
Other long term asset	(423)	—
Net cash used in operating activities	(23,333)	(2,482)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(658)	(62)
Proceeds from sale of property, plant and equipment	15	—
Net cash used in investing activities	(643)	(62)
Cash flows from financing activities:		
Proceeds from issuance of convertible notes	—	500
Net proceeds from issuance of common stock	77,293	—
Net proceeds from term debt	9,845	—
Payment of debt issuance costs	(92)	—
Net cash provided by financing activities	87,046	500
Net increase (decrease) in cash and cash equivalents	63,070	(2,044)
Effect of exchange rate changes on cash	52	(201)
Cash and cash equivalents at beginning of period	18,526	4,901
Cash and cash equivalents at end of period	$ 81,648	$ 2,656
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$ 36	$ 14
Purchases of property and equipment included in accounts payable and accrued expenses	$ 182	$ —
Cash paid for interest	$ 115	$ —
Non-cash investing and financing activities:		
Additions to ROU assets obtained from new operating lease liabilities	$ 1,468	$ —
Issuance of warrants	$ 326	$ —

See accompanying notes to consolidated financial statements.

F-star Therapeutics, Inc.
Consolidated Statements of Stockholders' Equity
For the Three Months Ended June 30, 2021 and 2020
(Unaudited)
(In Thousands, Except Share Amounts)

	Stockholders' Equity					
	Common Shares					
For the Three Months Ended June 30, 2021	Number of Shares	Value	Capital in Excess of par Value	Accumulated Other Comprehensive Loss	Accumulated deficit	Total Stockholders' Equity
Balance at March 31, 2021	**9,100,320**	**$ 1**	**$ 93,418**	**$ (1,542)**	**$ (57,037)**	**$ 34,840**
Issuance of warrants in connection with term loan	—	**—**	326	—	—	326
Issuance of common stock in connection with at-the-market offering, net of issuance costs	979,843	**—**	9,115	**—**	**—**	9,115
Issuance of common stock in connection with public offering, net of issuance costs	10,439,347	**1**	68,177	—	—	68,178
Equity adjustment from foreign currency translation	**—**	**—**	**—**	324	**—**	324
Stock option exercises	67,052	—	—	—	—	—
Share-based compensation	**—**	**—**	1,859	**—**	**—**	1,859
Net loss	—	—	—	—	(15,649)	(15,649)
Balance at June 30, 2021	**20,586,562**	**$ 2**	**$ 172,895**	**$ (1,218)**	**$ (72,686)**	**$ 98,993**

	Stockholders' Equity							
	Seed preferred	Series A preferred	Common Shares					
For the Three Months Ended June 30, 2020	Number of shares	Number of shares	Number of Shares	Value	Capital in Excess of par Value	Accumulated Other Comprehensive Loss	Accumulated deficit	Total Stockholders' Equity
Balance at March 31, 2020	**103,611**	**1,441,418**	**4,145,611**	**$ 1**	**$ 32,252**	**$ (1,611)**	**$ (28,708)**	**$ 1,934**
Issuance of common stock for services rendered	**—**	**—**	4,252		**—**	**—**	**—**	**—**
Issuance of common stock in connection with at-the-market offering, net of issuance costs	**—**	**—**	162,274	**—**	**—**	**—**	**—**	**—**
Equity adjustment from foreign currency translation	**—**	**—**	**—**	**—**	**—**	387	**—**	387
Share-based compensation	**—**	**—**	**—**	**—**	471	**—**	**—**	471
Net loss	—	—	—	—	—	—	(6,462)	(6,462)
Balance at June 30, 2020	**103,611**	**1,441,418**	**4,312,137**	**$ 1**	**$ 32,723**	**$ (1,224)**	**$ (35,170)**	**$ (3,670)**

See accompanying notes to consolidated financial statements.

F-star Therapeutics, Inc.
Consolidated Statements of Stockholders' Equity
For the Six Months Ended June 30, 2021 and 2020
(Unaudited)
(In Thousands, Except Share Amounts)

	Stockholders' Equity					
	Common Shares					
For the Six Months Ended June 30, 2021	Number of Shares	Value	Capital in Excess of par Value	Accumulated Other Comprehensive Loss	Accumulated deficit	Total Stockholders' Equity
Balance at December 31, 2020	**9,100,117**	**$ 1**	**$ 91,238**	**$ (1,077)**	**$ (47,168)**	**$ 42,994**
Issuance of warrants in connection with term loan	—	**—**	326	—	—	326
Issuance of common stock in connection with at-the-market offering, net of issuance costs	979,843	**—**	9,115	—	—	9,115
Issuance of common stock in connection with public offering, net of issuance costs	10,439,347	**1**	68,177	—	—	68,178
Equity adjustment from foreign currency translation	—	**—**	—	(141)	—	(141)
Stock option exercises	67,255	**—**	—	—	—	—
Share-based compensation	—	**—**	4,039	—	—	4,039
Net loss	—	**—**	—	—	(25,518)	(25,518)
Balance at June 30, 2021	**20,586,562**	**$ 2**	**$ 172,895**	**$ (1,218)**	**$ (72,686)**	**$ 98,993**

	Stockholders' Equity							
	Seed preferred	Series A preferred	Common Shares					
For the Six Months Ended June 30, 2020	Number of shares	Number of shares	Number of Shares	Value	Capital in Excess of par Value	Accumulated Other Comprehensive Loss	Accumulated deficit	Total Stockholders' Equity
Balance at December 31, 2019	**103,611**	**1,441,418**	**4,128,441**	**$ 1**	**$ 31,718**	**$ (1,634)**	**$ (21,549)**	**$ 8,536**
Issuance of common stock for services rendered	—	—	10,972	—	—	—	—	**—**
Issuance of common stock in connection with at-the-market offering, net of issuance costs	—	—	172,724	—	—	—	—	—
Equity adjustment from foreign currency translation	—	—	—	—	—	410	—	410
Share-based compensation	—	—	—	—	1,005	—	—	1,005
Net loss	—	—	—	—	—	—	(13,621)	(13,621)
Balance at June 30, 2020	**103,611**	**1,441,418**	**4,312,137**	**$ 1**	**$ 32,723**	**$ (1,224)**	**$ (35,170)**	**$ (3,670)**

See accompanying notes to consolidated financial statements.

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

F-star Therapeutics, Inc. (collectively with its subsidiaries, "F-star" or the "Company") is a clinical-stage biopharmaceutical company dedicated to developing next generation immunotherapies to transform the lives of patients with cancer. F-star's goal is to offer patients better and more durable benefits than currently available immuno-oncology treatments by developing medicines that seek to block tumor immune evasion. Through its proprietary tetravalent, bispecific natural antibody ($mAb^{2™}$) format, F-star's mission is to generate highly differentiated medicines with monoclonal antibody-like manufacturability, good safety and tolerability. With four distinct binding sites in a natural human antibody format, F-star believes its proprietary technology will overcome many of the challenges facing current immuno-oncology therapies, due to the strong pharmacology enabled by tetravalent bispecific binding.

F-star's most advanced product candidate, FS118, is currently being evaluated in a proof-of-concept Phase 2 trial in PD-1/PD-L1 acquired resistance head and neck cancer patients. FS118 is a tetravalent mAb^2 bispecific antibody targeting two receptors, PD-L1 and LAG-3, both of which are established pivotal targets in immuno-oncology. F-star's second product candidate, FS120, aims to improve checkpoint inhibitor and chemotherapy outcomes and is a mAb^2 bispecific antibody that is designed to bind to and stimulate OX40 and CD137, two proteins found on the surface of T cells that both function to enhance T cell activity. F-star's third product candidate, FS222, aims to improve outcomes in low PD-L1 expressing tumors and is a mAb^2 bispecific antibody that is designed to target both the costimulatory CD137 and the inhibitory PD-L1 receptors, which are co-expressed in a number of tumor types. SB 11285. which F-star acquired pursuant to a business combination with Spring Bank Pharmaceuticals, Inc. ("Spring Bank"), is a next generation cyclic dinucleotide STimulator of INterferon Gene ("STING") agonist designed to improve checkpoint inhibition outcomes as an immunotherapeutic compound for the treatment of selected cancers. The product candidates FS120, FS222 and SB 11285 are all in Phase 1 clinical trials.

Share Exchange Agreement

On November 20, 2020, F-star Therapeutics, Inc., formerly known as Spring Bank Pharmaceuticals, Inc., completed a business combination (the "Transaction") with F-star Therapeutics Limited ("F-star Ltd") in accordance with the terms of the Share Exchange Agreement, dated July 29, 2020 (the "Exchange Agreement"), by and among the Company, F-star Ltd and certain holders of capital stock and convertible notes of F-star Ltd (each a "Seller", and collectively with holders of F-star Ltd securities who subsequently became parties to the Exchange Agreement, the "Sellers"). Pursuant to the Exchange Agreement, each ordinary share of F-star Ltd outstanding immediately prior to the closing of the Transaction (the "Closing") was exchanged by the Sellers that owned such F-star Ltd shares for a number of duly authorized, validly issued, fully paid and non-assessable shares of Company common stock pursuant to the exchange ratio formula set forth in the Exchange Agreement (the "Exchange Ratio"), rounded to the nearest whole share of Company common stock (after aggregating all fractional shares of Company common stock issuable to such Seller). Also, on November 20, 2020, in connection with, and prior to completion of, the Transaction, Spring Bank effected a 1-for-4 reverse stock split of its common stock (the "Reverse Stock Split") and, following the completion of the Transaction, changed its name to F-star Therapeutics, Inc. Following the completion of the Transaction, the business of the Company became the business conducted by F-star, which is a clinical-stage immuno-oncology company focused on cancer treatment through its proprietary tetravalent bispecific antibody programs. Unless otherwise noted, all references to share amounts in this report reflect the Reverse Stock Split.

Under the terms of the Exchange Agreement, at the Closing, Spring Bank issued an aggregate of 4,620,618 shares of its common stock to F-star Ltd stockholders, based on an Exchange Ratio of 0.1125 shares of Spring Bank common stock for each F-star Ltd ordinary share, stock option and restricted stock unit ("RSU") outstanding immediately prior to the Closing. The Exchange Ratio was determined through arms-length negotiations between Spring Bank and F-star Ltd pursuant to a formula set forth in the Exchange Agreement.

Pursuant to the Exchange Agreement, immediately prior to the Closing, certain investors in F-star Ltd purchased $15.0 million of F-star Ltd ordinary shares (the "Pre-Closing Financing"). These ordinary shares of F-star Ltd were then exchanged at the Closing for shares of the Company's common stock in the Transaction at the same Exchange Ratio.

Pursuant to the Exchange Agreement, all outstanding options to purchase Spring Bank common stock were accelerated immediately prior to the Closing, and each outstanding option with an exercise price greater than the closing price of Spring Bank common stock on the date of the Closing (the "Closing Date") was exercised in full, and all other outstanding options to purchase Company common stock were cancelled effective as of the Closing Date.

Immediately following the Reverse Stock Split and the Closing, there were approximately 4,449,559 shares of Spring Bank common stock outstanding. Following the Closing, the F-star Ltd stockholders beneficially owned approximately 53.7% of the combined Company's common stock and the existing stockholders of Spring Bank beneficially owned approximately 46.3% of the Company's common stock outstanding. Concurrently with the execution of the Exchange Agreement, certain officers and directors of Spring Bank and F-star Ltd and certain stockholders of F-star Ltd entered into lock-up agreements, pursuant to which they agreed to certain restrictions on transfers of any shares of the Company's common stock for the 180-day period following the Closing, other than the shares of the Company's common stock received in exchange for ordinary shares of F-star Ltd subscribed for in the Pre-Closing Financing and pursuant to certain other limited exceptions.

In addition, at the Closing, Spring Bank, F-star Ltd, a representative of the Spring Bank stockholders prior to the Closing, and Computershare Trust Company N.A., as the Rights Agent, entered into a STING Agonist Contingent Value Rights Agreement (the "STING Agonist CVR Agreement"). Pursuant to the Exchange Agreement and the STING Agonist CVR Agreement, each pre-Reverse Stock Split share of Company common stock held by stockholders as of the record date on November 19, 2020, immediately prior to the Closing, received a dividend of one contingent value right ("CVR") ("STING Agonist CVR"), payable on a pre-Reverse Stock Split basis, entitling such holders to receive, in connection with certain transactions involving the proprietary STING agonist compound designated as SB 11285 occurring on or prior to the STING Agonist CVR Expiration Date (as defined below) that resulted in aggregate Net Proceeds (as defined in the STING Agonist CVR Agreement) at least equal to the Target Payment Amount (as defined below), an aggregate amount equal to the greater of (i) 25% of the Net Proceeds received from all CVR Transactions (as defined in the STING Agonist CVR Agreement) and (ii) an aggregate amount equal to the product of $1.00 and the total number of shares of Company common stock outstanding as of such record date (not to exceed an aggregate amount of $18.0 million) (the "Target Payment Amount").

The CVR payment obligation expires on the later of 18 months following the Closing or the one-year anniversary of the date of the final database lock of the STING clinical trial (as defined in the STING Agonist CVR Agreement) (the "STING Agonist CVR Expiration Date"). The STING Agonist CVRs are not transferable, except in certain limited circumstances, are not certificated or evidenced by any instrument, do not accrue interest, and are not registered with the SEC or listed for trading on any exchange. Until the STING Agonist CVR Expiration Date, subject to certain exceptions, the Company is required to use commercially reasonable efforts to (a) complete the STING Trial and (b) pursue a CVR Transaction. The STING Agonist CVR Agreement became effective upon the Closing and, unless terminated earlier in accordance with its terms, will continue in effect until the STING Agonist CVR Expiration Date or all CVR payment amounts are paid pursuant to their terms.

At the Closing, Spring Bank, F-star Ltd, a representative of Spring Bank stockholders prior to the Closing, and Computershare Trust Company N.A., as the Rights Agent, also entered into a STING Antagonist Contingent Value Rights Agreement (the "STING Antagonist CVR Agreement"). Pursuant to the Exchange Agreement and the STING Antagonist CVR Agreement, each share of common stock held by Spring Bank stockholders as of November 19, 2020, immediately prior to the Closing, received a dividend of one CVR ("STING Antagonist CVR") entitling such holders to receive, in connection with the execution of a potential development agreement (the "Approved Development Agreement") and certain other transactions involving proprietary STING antagonist compound occurring on or prior to the STING Antagonist CVR Expiration Date (as defined below) equal to 80% of all net proceeds (as defined in the STING Antagonist CVR Agreement) received by the Company after the Closing pursuant to (i) the Approved Development Agreement, if any, and (ii) all CVR Transactions (as defined in the STING Antagonist CVR Agreement) entered into prior to the STING Antagonist CVR Expiration Date.

The CVR payment obligations expire on the seventh anniversary of the Closing (the "STING Antagonist CVR Expiration Date").

The STING Antagonist CVRs are not transferable, except in certain limited circumstances, are not certificated or evidenced by any instrument, do not accrue interest, and are not registered with the SEC or listed for trading on any exchange. Until the STING Antagonist CVR Expiration Date, subject to certain exceptions, the Company is required to use commercially reasonable efforts to (a) consummate the Approved Development Agreement, (b) to perform the terms of the Approved Development Agreement and (c) pursue CVR Transactions. The STING Antagonist CVR Agreement became effective upon the Closing and, unless terminated earlier in accordance with its terms, will continue in effect until the STING Antagonist CVR Expiration Date or all CVR payment amounts are paid pursuant to their terms. On July 8, 2021, the Company entered into a License Agreement with AstraZeneca plc ("AstraZeneca") under which AstraZeneca will receive global rights to research, develop and commercialize next generation Stimulator of Interferon Genes (STING) inhibitor compounds. Under the terms of the agreement, AstraZeneca is granted exclusive access to and will be responsible for all future research, development and commercialization of the STING inhibitor compounds. F-star is eligible to receive upfront and near-term payments of up to $12 million upon meeting certain milestones. In addition, F-star will be eligible for development and sales milestone payments of over $300 million, as well as single digit percentage royalty payments. Payments received by F-star are subject to a contingent value rights agreement (CVR 2), under which 80% will be payable to stockholders of F-star that were previously stockholders of Spring Bank prior to the business combination between F-star and Spring Bank.

The acquisition-date fair value of the CVR liability represents the future payments that are contingent upon the achievement of sale or licensing for the product candidates. The fair value of the contingent consideration acquired of $2.5 million as of December 31, 2020, and $3.1 million as of June 30, 2021, is based on the Company's probability-weighted discounted cash flow assessment that considers probability and timing of future payments. The fair value measurement is based on significant Level 3 unobservable inputs such as the probability of achieving a sale or licensing agreement, anticipated timelines, and discount rate. Changes in the fair value of the liability will be recognized in the consolidated statement of operations and comprehensive loss until settlement. For the three months ended June 30, 2021, the estimated fair value increased to $3.1 million which resulted in a $0.6 million charge on the Consolidated Statements of Operations and Comprehensive Loss.

All issued and outstanding F-star Ltd share options granted under F-star's three legacy equity incentive plans became exercisable in full immediately prior to the Closing. At the Closing, all issued share options and restricted stock units granted by F-star Ltd under the F-star Therapeutics Limited 2019 Equity Incentive Plan (the "2019 Plan") were replaced by options ("Replacement Options") and awards ("Replacement RSUs"), on the same terms (including vesting), for Company common stock, based on the Exchange Ratio.

The Company's common stock, which is listed on the Nasdaq Capital Market, traded through the close of business on Friday, November 20, 2020, under the ticker symbol "SBPH" and continued trading on the Nasdaq Capital Market, on a post-Reverse Stock Split adjusted basis, under the ticker symbol "FSTX" beginning on Monday, November 23, 2020. Commencing on November 23, 2020, the Company's common stock was represented by a new CUSIP number, 30315R 107.

The Transaction was accounted for as a business combination using the acquisition method of accounting under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), Topic 805, *Business Combinations* ("ASC 805"). The Transaction was accounted for as a reverse acquisition with F-star Ltd being deemed the acquiring company for accounting purposes. Under ASC 805, F-star Ltd, as the accounting acquirer, recorded the assets acquired and liabilities assumed of Spring Bank in the Transaction at their fair values as of the acquisition date (see Note 2 of the financial statements).

F-star Ltd was determined to be the accounting acquirer based on an analysis of the criteria outlined in ASC 805 and the facts and circumstances specific to the Transaction, including the fact that immediately following the Transaction: (1) F-star Ltd shareholders owned the majority of the voting rights of the combined company; (2) F-star Ltd. designated a majority (five of eight) of the initial members of the board of directors of the combined company; and (3) F-star Ltd. senior management held the key positions in senior management of the combined company. As a result, upon consummation of the Transaction, the historical financial statements of F-star Ltd became the historical financial statements of the combined organization.

Liquidity

On March 30, 2021, the Company entered into a Sales Agreement (the "2021 Sales Agreement") with SVB Leerink LLC ("SVB Leerink") with respect to an "at-the-market" offering as defined in Rule 415 of the Securities Act of 1933, as amended, under which the Company could offer and sell, from time to time in its sole discretion, shares of its common stock, par value $0.0001 per share, having an aggregate offering price of up to $50.0 million through SVB Leerink as its sales agent. As of May 6, 2021, the Company had issued and sold 979,843 shares of common stock for gross proceeds of $9.5 million, resulting in net proceeds of $9.1 million after deducting sales commissions and offering expenses. On May 6, 2021, the Company terminated the 2021 Sales Agreement.

On May 6, 2021, the Company entered into an underwriting agreement with SVB Leerink, as representative of the underwriters, relating to an underwritten public offering (the "Underwritten Public Offering") of 10.4 million shares of the Company's common stock, par value $0.0001 per share. The underwritten public offering resulted in gross proceeds of $73.1 million. The Company incurred $4.4 million in issuance costs and $0.5 million of professional fees associated with the underwritten public offering, resulting in net proceeds to the Company of $68.2 million.

On April 1, 2021, the Company, as borrower, entered into a Venture Loan and Security Agreement (the "Loan and Security Agreement") with Horizon Technology Finance Corporation ("Horizon"), as lender and collateral agent for itself. The Loan and Security Agreement provides for four separate and independent $2.5 million term loans ("Loan A", "Loan B", "Loan C", and "Loan D") (with each of Loan A, Loan B, Loan C and Loan D, individually a "Term Loan" and, collectively, the "Term Loans"), whereby, upon the satisfaction of all the conditions to the funding of the Term Loans, each Term Loan will be delivered by Horizon to the Company in the following manner: (i) Loan A was delivered by Horizon to the Company by April 1, 2021, (ii) Loan B was delivered by Horizon to the Company by April 1, 2021, (iii) Loan C was delivered by Horizon to the Company by June 30, 2021, and (iv) Loan D was delivered by Horizon to the Company by June 30, 2021. The Company may only use the proceeds of the Term Loans for working capital or general corporate purposes as contemplated by the Loan and Security Agreement. On April 1, 2021, the Company drew down $5 million. On June 22, 2021, the Company drew down another $5 million under this facility.

The Company has incurred significant losses and has an accumulated deficit of $72.7 million as of June 30, 2021. F-star expects to incur substantial losses in the foreseeable future as it conducts and expands its research and development activities and clinical trial activities. As of August 13, 2021, the date of issuance of the consolidated financial statements, the Company's cash and cash equivalents will be sufficient to fund its current operating plan and planned capital expenditures for at least the next 12 months.

The Company may continue to seek additional funding through public equity, private equity, debt financing, collaboration partnerships, or other sources. There are no assurances, however, that the Company will be successful in raising additional working capital, or if it is able to raise additional working capital, it may be unable to do so on commercially favorable terms. The Company's failure to raise future capital or enter into other such arrangements if and when needed would have a negative impact on its business, results of operations and financial condition and its ability to develop its product candidates.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

The accompanying interim financial statements as of June 30, 2021, and for the six and three months ended June 30, 2021 and 2020, and related interim information contained within the notes to the financial statements, are unaudited. In management's opinion, the unaudited interim consolidated financial statements have been prepared on the same basis as the Company's audited financial statements and include all adjustments (including normal recurring adjustments) necessary for the fair presentation of the Company's financial position as of June 30, 2021, results of operations for the three and six months ended June 30, 2021 and 2020, statement of stockholders' equity for the three and six months ended June 30, 2021 and 2020 and its cash flows for the six months ended June 30, 2021 and 2020. These interim financial statements should be read in conjunction with the Company's audited financial statements and accompanying notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The results for the three and six months ended June 30, 2021, are not necessarily indicative of the results expected for the full fiscal year or any interim period.

Principles of Consolidation

The Company's financial statements have been prepared in conformity with U.S. GAAP. Any reference in these notes to applicable guidance is meant to refer to the authoritative U.S. GAAP as found in the ASC and Accounting Standards Updates ("ASU") of the FASB. The accompanying consolidated financial statements include the accounts of F-star Therapeutics, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions between the consolidated companies have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting years. Significant estimates and assumptions reflected in these consolidated financial statements include, but are not limited to, the fair value of the assets and liabilities acquired in the transaction between Spring Bank and F-star Ltd fair value of the convertible loan containing embedded derivatives, the fair value of contingent value rights, the accrual for research and development expenses, revenue recognition, fair values of acquired intangible assets and impairment review of those assets, warrants, share based compensation expense, and income taxes. The Company bases its estimates on historical experience, known trends and other market-specific or other relevant factors that it believes to be reasonable under the circumstances. Estimates are periodically reviewed in light of reasonable changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates or assumptions.

Concentrations of credit risk and of significant suppliers

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains its cash and cash equivalents in financial institutions in amounts that could exceed government-insured limits. The Company does not believe it is subject to additional credit risks beyond those normally associated with commercial banking relationships.

The Company is dependent on contract research organizations to provide its clinical trials and third-party manufacturers to supply products for research and development activities in its programs. In particular, the Company relies and expects to continue to rely on a small number of manufacturers to supply its requirements for supplies and raw materials related to these programs. These programs could be adversely affected by a significant interruption in these manufacturing services or the availability of raw materials.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation expense is recognized using the straight-line method over the estimated useful lives of the respective assets as follows:

	Estimated Useful Economic Life
Leasehold property improvements, right of use assets	Lesser of lease term or useful life
Laboratory equipment	5 years
Furniture and office equipment	3 years

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use ("ROU") assets, and lease obligations in the Company's consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. This is the rate the Company would have to pay if borrowing on a collateralized basis over a similar term to each lease. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If the undiscounted cash flows are insufficient to recover the carrying value, an impairment loss is recorded for the difference between the carrying value and fair value of the asset. As of June 30, 2021, no such impairment has been recorded.

License and collaboration arrangements and revenue recognition

The Company's revenues are generated primarily through license and collaboration agreements with pharmaceutical and biotechnology companies. The terms of these arrangements may include (i) the grant of intellectual property rights (IP licenses) to therapeutic drug candidates against specified targets, developed using the Company's proprietary mAb^2 bispecific antibody platform, (ii) performing research and development services to optimize drug candidates, and (iii) the grant of options to obtain additional research and development services or licenses for additional targets, or to optimize product candidates, upon the payment of option fees.

The terms of these arrangements typically include payment to the Company of one or more of the following:
non-refundable, upfront license fees; payments for research and development services; fees upon the exercise of options to obtain additional services or licenses; payments based upon the achievement of defined collaboration objectives; future regulatory and sales-based milestone payments; and royalties on net sales of future products.

The Company has adopted FASB ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. To date, the Company has entered into License and Collaboration Agreements with Denali Therapeutics, Inc. ("Denali"), and Ares Trading S.A. ("Ares,"an affiliate of Merck KGaA, Darmstadt, Germany) which were determined to be within the scope of ASC 606.

Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In determining the appropriate amount of revenue to be recognized under ASC 606, the Company performs the following steps: (i) identification of the promised goods or services in the contract;
(ii) determination as to whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation. As part of the accounting for these arrangements, the Company must make significant judgments, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation.

Once a contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within the contract and determines those that are performance obligations. Arrangements that include rights to additional goods or services that are exercisable at a customer's discretion are generally considered options. The Company assesses if these options provide a material right to the customer and if so, they are considered performance obligations.

Performance obligations are promised goods or services in a contract to transfer a distinct good or service to the customer. The promised goods or services in the Company's contracts with customers primarily consist of license rights to the Company's intellectual property for research and development, research and development services, options to acquire additional research and development services, and options to obtain additional licenses, such as a commercialization license for a potential product candidate. Promised goods or services are considered distinct when: (i) the customer can benefit from the good or service on its own or together with other readily available resources; and (ii) the promised good or service is separately identifiable from other promises in the contract.

In assessing whether promised goods or services are distinct, the Company considers factors such as the stage of development of the underlying intellectual property, the capabilities of the customer to develop the intellectual property on their own and whether the required expertise is readily available. In addition, the Company considers whether the collaboration partner can benefit from a promise for its intended purpose without the receipt of the remaining promises, whether the value of the promise is dependent on the unsatisfied promises, whether there are other vendors that could provide the remaining promises, and whether it is separately identifiable from the remaining promises. The Company estimates the transaction price based on the amount of consideration the Company expects to receive for transferring the promised goods or services in the contract. The consideration may include both fixed consideration and variable consideration. At the inception of each arrangement that includes variable consideration, the Company evaluates the amount of the potential payments and the likelihood that the payments will be received. The Company utilizes either the most likely amount method or expected value method to estimate variable consideration to include in the transaction price based on which method better predicts the amount of consideration expected to be received. The amount included in the transaction price is constrained to the amount for which it is probable that a significant reversal of cumulative revenue recognized will not occur. At the end of each subsequent reporting period, the Company re-evaluates the estimated variable consideration included in the transaction price and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis in the period of adjustment.

After the transaction price is determined, it is allocated to the identified performance obligations based on the estimated standalone selling price. The Company must develop assumptions that require judgment to determine the standalone selling price for each performance obligation identified in the contract. The Company utilizes key assumptions to determine the standalone selling price, which may include other comparable transactions, pricing considered in negotiating the transaction, probabilities of technical and regulatory success and the estimated costs. Certain variable consideration is allocated specifically to one or more performance obligations in a contract when the terms of the variable consideration relate to the satisfaction of the performance obligation and the resulting amounts allocated to each performance obligation are consistent with the amounts the Company would expect to receive for each performance obligation.

The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) each performance obligation is satisfied at a point in time or over time, and if over time based on the use of an input method. The Company accounts for contract modifications as a separate contract if both of the following conditions are met:

(i) the scope of the contract increases because of the addition of promised goods or services that are distinct; and
(ii) the price of the contract increases by an amount of consideration that reflects standalone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

If a contract modification is deemed to not be a separate contract, then the transaction price is updated and allocated to the remaining performance obligations (both from the existing contract and the modification). Previously recognized revenue for goods and services that are not distinct from the modified goods or services is adjusted based upon an updated measure of progress for the partially satisfied performance obligations.

If a contract modification is deemed to be a separate contract, any revenue recognized under the original contract is not retrospectively adjusted and any performance obligations remaining under the original contract continue to be recognized under the terms of that contract.

The Company's collaboration revenue arrangements include the following:

Up-front License Fees: If a license is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from nonrefundable, up-front fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Milestone payments: The Company's collaboration agreements may include development and regulatory milestones. The Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. The Company evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the Company's control or the licensee's control, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. At the end of each reporting period, the Company re-evaluates the probability of achievement of such milestones and any related constraint, and if necessary, adjusts the estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect collaboration revenue and net loss in the period of adjustment.

Customer Options: The Company evaluates the customer options to obtain additional items (i.e., additional license rights) for material rights, or options to acquire additional goods or services for free or at a discount. Optional future services that reflect their standalone selling prices do not provide the customer with a material right and, therefore, are not considered performance obligations and are accounted for as separate contracts. If optional future services include a material right, they are accounted for as performance obligations. The Company determines an estimated standalone selling price of any material rights for the purpose of allocating the transaction price. The Company considers factors such as the identified discount and the probability that the customer will exercise the option. Amounts allocated to a material right are not recognized as revenue until, at the earliest, the option is exercised or expires.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on a level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company will recognize revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). To date, the Company has not recognized any revenue related to sales-based royalties or milestone payments based on the level of sales.

Research and Development Services: The promises under the Company's collaboration agreements may include research and development services to be performed by the Company on behalf of the partner. Payments or reimbursements resulting from the Company's research and development efforts are recognized as the services are performed and presented on a gross basis because the Company is the principal for such efforts.

Research and development costs

Research and development costs are expensed as incurred. Research and development expenses are comprised of costs incurred in performing research and development activities, including compensation expense, share-based compensation and benefits, facilities costs and laboratory supplies, depreciation, amortization and impairment expense, manufacturing expenses and external costs of outside vendors engaged to conduct preclinical development activities and clinical trials as well as the cost of licensing technology. Typically, upfront payments and milestone payments made for the licensing of technology are expensed as research and development in the period in which they are incurred, except for payments relating for intellectual property rights with future alternative use which will be expensed when the intellectual property is in use. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are recorded as prepaid expenses. The prepaid amounts are expensed as the related goods are delivered or the services are performed.

Warrants

The Company accounts for warrants within stockholders equity or as liabilities based on the characteristics and provisions of each instrument. The Company evaluates outstanding warrants in accordance with ASC 480, *Distinguishing Liabilities from Equity*, and ASC 815, *Derivatives and Hedging*. If none of the criteria in the evaluation in these standards are met, the warrants are classified as a component of stockholders' equity and initially recorded at their grant date fair value without subsequent remeasurement. Warrants that meet the criteria are classified as liabilities and remeasured to their fair value at the end of each reporting period.

Stock-Based Compensation

The Company accounts for share-based compensation in accordance with ASC 718, "Compensation – Stock Compensation"("ASC 718"). ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statements of operations and comprehensive loss.

The Company records the expense for option awards using a graded vesting method. The Company accounts for forfeitures as they occur. For share-based awards granted to non-employee consultants, the measurement date for non-employee awards is the date of grant. The compensation expense is then recognized over the requisite service period, which is the vesting period of the respective award.

The Company reviews stock award modifications when there is an exchange of original award for a new award. The Company calculates for the incremental fair value based on the difference between the fair value of the modified award and the fair value of the original award immediately before it was modified. The Company immediately recognizes the incremental value as compensation cost for vested awards and recognizes, on a prospective basis over the remaining requisite service period, the sum of the incremental compensation cost and any remaining unrecognized compensation cost for the original award on the modification date.

The fair value of stock options ("options") on the grant date is estimated using the Black-Scholes option-pricing model using the single-option approach. The Black-Scholes option pricing model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock, to determine the fair value of the award.

Historically, given the absence of an active market for the ordinary shares of F-star Ltd, the board of directors determined the estimated fair value of the Company's equity instruments based on input from management, which utilized the most recently available independent third-party valuation, and considered a number of objective and subjective factors, including external market conditions affecting the biotechnology industry sector. Each valuation methodology included estimates and assumptions that require judgment. These estimates and assumptions included a number of objective and subjective factors in determining the value of F-star Ltd ordinary shares at each grant date. The expected volatility for F-star Ltd was calculated based on reported volatility data for a representative group of publicly traded companies for which historical information was available. The historical volatility was calculated based on a period of time commensurate with the assumption used for the expected term. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected term assumption. F-star Ltd used the simplified method, under which the expected term is presumed to be the midpoint between the vesting date and the end of the contractual term. F-star Ltd utilized this method due to the lack of historical exercise data and the plain nature of its share-based awards. We expect to continue to utilize this methodology until such time as we have adequate historical data regarding the volatility of our traded stock price.

The Company uses the remaining contractual term for the expected life of non-employee awards. The expected dividend yield is assumed to be zero, as the Company has never paid dividends and has no current plans to pay any dividends.

The Company classifies share-based compensation expense in its consolidated statements of operations and comprehensive loss in the same manner in which the award recipient's payroll costs are classified or in which the award recipient's service payments are classified.

Fair value measurements of financial instruments

The Company's financial instruments consist of cash, accounts payable, CVRs and liability classified warrants. The carrying amounts of cash and accounts payable approximate their fair value due to the short-term nature of those financial instruments. The fair value of CVRs and the liability classified warrants are remeasured to fair value each reporting period.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820, *Fair Value Measurement* ("ASC 820"), establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or 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 a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy that distinguishes between the following:

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

To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, and other current assets, research and development incentives receivable, accounts payable and accrued liabilities and other current liabilities approximate their fair values, due to their short-term nature.

Net loss per share

The Company computes net loss per share in accordance with ASC Topic 260, *Earnings Per Share* ("ASC 260") and related guidance, which requires two calculations of net (loss) income attributable to the Company's shareholders per share to be disclosed: basic and diluted. Convertible preferred shares are considered participating securities and are included in the calculation of basic and diluted net (loss) income per share using the two-class method. In periods where the Company reports net losses, such losses are not allocated to the convertible preferred shares for the computation of basic or diluted net (loss) income.

Diluted net (loss) income per share is the same as basic net (loss) income per share for the periods in which the Company had a net loss because the inclusion of outstanding common stock equivalents would be anti-dilutive.

Income taxes

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements or in the Company's tax returns. Deferred tax assets and liabilities are determined on the basis of the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Changes in deferred tax assets and liabilities are recorded in the provision for income taxes. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent it believes, based upon the weight of available evidence, that it is more likely than not that all or a portion of the deferred tax assets will not be realized, a valuation allowance is established through a charge to income tax expense. Potential for recovery of deferred tax assets is evaluated by estimating the future taxable profits expected and considering prudent and feasible tax planning strategies.

The Company accounts for uncertainty the consolidated financial statements by applying a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the consolidated financial statements. The amount of the benefit that may be recognized is the largest amount that will more likely than not be realized upon ultimate settlement. Any provision for income taxes includes the effects of any resulting tax reserves, or unrecognized tax benefits, that are considered appropriate as well as the related net interest and penalties.

Research and development tax credits received in the United Kingdom are recorded as a reduction to research and development expenses. The U.K. research and development tax credit is payable to the Company after surrendering tax losses and is not dependent on current or future taxable income. As a result, it is not reflected as part of the income tax provision If, in the future, any UK research and development tax credits generated are utilized to offset a corporate income tax liability in the United Kingdom, that portion would be recorded as a benefit within the income tax provision and any refundable portion not dependent on taxable income would continue to be recorded as a reduction to research and development expenses.

Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. At each reporting date, the Company evaluates whether or not a potential loss amount or a potential loss range is probable and reasonably estimable under the provisions of the authoritative guidelines that address accounting for contingencies. The Company expenses costs as incurred in relation to such legal proceedings as general and administrative expense within the consolidated statements of operations and comprehensive loss.

Segment Information

Operating segments are identified as components of an enterprise about which separate and discrete financial information is available for evaluation by the chief operating decision maker, the Company's chief executive officer, in making decisions regarding resource allocation and assessing performance. The Company views its operations and manages its business in one operating segment and does not track expenses on a program-by-program basis.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 will change how companies account for credit losses for most financial assets and certain other instruments. For trade receivables, loans and held-to-maturity debt securities, companies will be required to recognize an allowance for credit losses rather than reducing the carrying value of the asset. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* to amend the effective date of ASU 2016-13, for entities eligible to be "smaller reporting companies," as defined by the SEC, to be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company has not elected to early adopt ASU No. 2016-13. The Company is currently evaluating the potential impact that the adoption of ASU 2016-13 will have on the Company's financial position and results of operations.

2. Business Combination

As described in Note 1, on November 20, 2020, F-star Ltd completed a business combination with Spring Bank. For accounting purposes, the purchase price was based on (i) the fair value of Spring Bank common stock as of the Transaction date of $21.5 million, which was determined based on the number of shares of common stock issued in connection with the Transaction, and (ii) the portion of the fair value attributable to in-the-money fully and partially vested stock options and warrants.

The purchase price is allocated to the fair value of assets and liabilities acquired as follows in the table below (in thousands, except shares of common stock and fair value per share):

Purchase Price Allocation	
Number of full common shares	4,449,559
Multiplied by fair value per share of common stock	$ 4.84
Purchase price	$ 21,536
Cash and cash equivalents	$ 9,779
Marketable securities	5,000
Prepaid expenses and other assets	935
Operating lease right of use asset	2,784
Intangible assets	4,720
Goodwill	10,451
Accounts payable, accrued expenses and other liabilities	(5,453)
Contingent value rights	(2,520)
Liability and equity based warrants	(422)
Deferred tax liability	(576)
Operating lease liability	(3,162)
Fair value of net assets acquired	$ 21,536

3. Net Loss Per Share

The following table summarizes the computation of basic and diluted net loss per share of the Company for such periods (in thousands, except share and per share data):

Net Loss Per Share	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Net loss	$ (15,649)	$ (6,462)	$ (25,518)	$ (13,621)
Weighted average number shares outstanding, basic and diluted	17,022,417	1,830,075	13,083,230	1,829,993
Net loss income per common, basic and diluted	$ (0.92)	$ (3.53)	$ (1.95)	$ (7.44)

Diluted net loss per share of common stock is the same as basic net loss per share of common stock for all periods presented.

The following table provides the potentially dilutive securities outstanding, prior to the use of the treasury stock method or if-converted method, have been excluded from the computation of diluted weighted-average shares outstanding, because such securities had an antidilutive impact due to the losses reported:

Potential Dilutive Shares

	For the Three and Six Months Ended June 30,	
	2021	2020
Convertible debt shares	—	182,758
Common stock warrants	128,479	—
Stock options and RSUs	1,313,522	257,259

4. Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following (in thousands):

Property, Plant and Equipment, net

	June 30, 2021	December 31 2020
Leasehold improvements	$ 209	$ 15
Laboratory equipment	2,252	1,788
Furniture and office equipment	166	169
	2,627	1,972
Less: Accumulated depreciation	1,470	1,183
	$1,157	$ 789

Depreciation expense for the six months ended June 30, 2021 and 2020 was $0.3 million and $0.3 million, respectively.

5. Fair Value Measurements

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values (in thousands):

	Fair Value Measurements as of June 30 2021 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent value rights	$ —	$ —	$ 3,103	$ 3,103
Warrants	—	—	11	11
	$ —	$ —	$ 3,114	$ 3,114

	Fair Value Measurements as of December 31, 2020 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent value rights	$ —	$ —	$ 2,520	$ 2,520
Warrants	—	—	37	37
	$ —	$ —	$ 2,557	$ 2,557

The following table reflects the change in the Company's Level 3 liabilities, which consists of warrants, for the six months ended June 30, 2021 (in thousands):

Change in Level 3 Liabilities		
	November 2016 Private Placement Warrants	Contingent Value Rights
Balance at December 31, 2020	$ 37	$ 2,520
Warrants exercised	(26)	—
Change in fair value of CVR	—	583
Balance at June 30, 2021	$ 11	$ 3,103

6. Accrued Expenses and other Current Liabilities

Accrued expenses as of June 30, 2021 and December 31, 2020, consisted of the following (in thousands):

	June 30, 2021	December 31 2020
Clinical Trial Costs	$2,304	$ 3,394
Severance	887	1,953
Compensation and Benefits	1,277	1,361
Professional Fees	1,518	1,593
Other	314	1,160
	$6,300	$ 9,461

7. Term Debt

On April 1, 2021, the Company, as borrower, entered into the Loan and Security Agreement with Horizon, as lender and collateral agent for itself. The Loan and Security Agreement provides for four separate and independent $2.5 million term loans (Loan A, Loan B, Loan C, and Loan D), whereby, upon the satisfaction of all the conditions to the funding of the Term Loans, each Term Loan will be delivered by Horizon to the Company in the following manner: (i) Loan A was delivered by Horizon to the Company by April 1, 2021, (ii) Loan B was delivered by Horizon to the Company by April 1, 2021, (iii) Loan C was delivered by Horizon to the Company by June 30, 2021, and (iv) Loan D was delivered by Horizon to the Company by June 30, 2021. The Company may only use the proceeds of the Term Loans for working capital or general corporate purposes as contemplated by the Loan and Security Agreement. On April 1, 2021, the Company drew down $5 million. On June 22, 2021, the Company drew down another $5 million under this facility. The Company incurred $0.3 million of debt issuance costs and issued $0.3 million of warrants.

The term note matures on the 48-month anniversary following the funding date therefore $5 million becomes due on April 1, 2025, and $5 million will become due on June 22, 2025. The principal balance the Term Loan bears a floating interest. The interest rate is calculated initially and, thereafter, each calendar month as the sum of (a) the per annum rate of interest from time to time published in The Wall Street Journal as contemplated by the Loan and Security Agreement, or any successor publication thereto, as the “prime rate” then in effect, plus (b) 6.25%; provided that, in the event such rate of interest is less than 3.25%, such rate shall be deemed to be 3.25% for purposes of calculating the interest rate. Interest is payable on a monthly basis based on each Term Loan principal amount outstanding the preceding month.

The Company may, at its option upon at least five business days’ written notice to Horizon, prepay all or any portion of the outstanding Term Loan by simultaneously paying to Horizon an amount equal to (i) any accrued and unpaid interest on the outstanding principal balance of the Term Loan so prepaid; plus (ii) an amount equal to (A) if such Term Loan is prepaid on or before the Loan Amortization Date (as defined in the Loan and Security Agreement) applicable to such Term Loan, three percent of the then outstanding principal balance of such Term Loan, (B) if such Term Loan is prepaid after the Loan Amortization Date applicable to such Term Loan, but on or before the date that is 12 months after such Loan Amortization Date, two percent of the then outstanding principal balance of such Term Loan, or (C) if such Term Loan is prepaid more than 12) months after the Loan Amortization Date applicable to such Term Loan, one percent of the then outstanding principal balance of such Term Loan; plus (iii) the outstanding principal balance of such Term Loan; plus (iv) all other sums, if any, that had become due and payable under the Loan and Security Agreement.

The Company's debt obligation consisted of the following (in thousands)

Term Debt	June 30, 2021	December 31, 2020
Term Loan A and B due April 2025	$ 5,000	$ —
Term Loan C and D due June 2025	5,000	—
Term debt	10,000	—
Less: Unamortized deferred issuance costs	(231)	—
Less: Warrant discount and interest	(303)	—
Total debt obligations- long term	$ 9,466	$ —

8. Stockholders' Equity

Common Stock

On March 30, 2021, the Company entered into the 2021 Sales Agreement with SVB Leerink with respect to an "at-the-market" ("ATM") offering program under which the Company could offer and sell, from time to time at its sole discretion, shares of its common stock, par value $0.0001 per share, having an aggregate offering price of up to $50.0 million (the "Placement Shares") through SVB Leerink as its sales agent.

Upon delivery of a placement notice in April 2021, and subject to the terms and conditions of the 2021 Sales Agreement, SVB Leerink began to sell the Placement Shares. Under the 2021 Sales Agreement, the Company agreed to pay SVB Leerink a commission equal to three percent of the gross sales proceeds of any Placement Shares, and also provided SVB Leerink with customary indemnification and contribution rights. For the three months ended June 30, 2021, the Company issued and sold 979,843 shares, for gross proceeds of $9.5 million, resulting in net proceeds of $9.2 million after deducting sales commissions. On May 6, 2021, the Company terminated the 2021 Sales Agreement.

On May 6, 2021, the Company entered into an underwriting agreement with SVB Leerink, as representative of the underwriters, relating to an underwritten public offering of 10.4 million shares of the Company's common stock, par value $0.0001 per share. The underwritten public offering resulted in gross proceeds of $73.1 million. The Company incurred $4.4 million in issuance costs and $0.5 million of professional fees associated with the underwritten public offering, resulting in net proceeds to the Company of $68.2 million.

Warrants

In connection with Spring Bank's initial public offering ("IPO") in 2016, there was an issuance of warrants to the sole book-running manager to purchase 7,087 shares of common stock. The warrants were exercisable at an exercise price of $60.00 per share and expired on May 5, 2021.

During 2016, Spring Bank entered into a definitive agreement with respect to the private placement of 411,184 shares of common stock and warrants to purchase 408,444 shares of common stock (the "November 2016 Private Placement Warrants") to a group of accredited investors. The November 2016 Private Placement Warrants are exercisable at an exercise price of $43.16 per share and expire on November 23, 2021. The Company evaluated the terms of these warrants and concluded that they are liability-classified. The Company must recognize any change in the value of the warrant liability each reporting period in the statement of operations and comprehensive loss. As of June 30, 2021, the fair value of the November 2016 Private Placement Warrants was approximately $11,000 and 388,451 warrants have been exercised to date. At June 30, 2021, there were 19,993 warrants outstanding.

During 2019, Spring Bank entered into a loan agreement with Pontifax Medison Finance (Israel) L.P. and Pontifax Medison Finance (Cayman) L.P., as lenders, and Pontifax Medison Finance GP, L.P., pursuant to which Spring Bank issued to the lenders warrants to purchase 62,500 shares of common stock (the "Pontifax Warrants"). The Pontifax Warrants are exercisable at $8.32 per share and expire on September 19, 2025. The Company evaluated the terms of the warrants and concluded that they should be equity-classified. At June 30, 2021, there were 62,500 warrants outstanding.

During 2019, Spring Bank issued warrants to a service provider to purchase 3,750 shares of common stock (the "September 2019 Warrants"). The September 2019 Warrants are exercisable at an exercise price of $16.84 per share and expire on September 19, 2021. The Company evaluated the terms of the warrants and concluded that they should be equity-classified. At June 30, 2021, there were 3,750 warrants outstanding.

In connection with the entry into the Loan and Security Agreement, (see Note 7), the Company has issued to Horizon warrants to purchase an aggregate number of shares of the Company's common stock in an amount equal to $100,000 divided by the exercise price for each respective warrant. If at any time the Company files a registration statement relating to an offering for its own account, or the account of others, of any of its equity securities, the Company has agreed to include such number of shares underlying the warrants in such registration statement as requested by the holder. The warrants, which are exercisable for an aggregate of 42,236 shares, will be exercisable for a period of seven years at a per-share exercise price of $9.47, which is equal to the 10-day average closing price prior to January 15, 2021, the date on which the term sheet relating to the Loan and Security Agreement was entered into, subject to certain adjustments as specified in the warrant. At June 30, 2021, there were 42,236 warrants outstanding.

A summary of the warrant activity for the six months ended June 30, 2021, is as follows:

	Warrants Outstanding
Outstanding at December 31, 2020	144,384
Exercises	(51,054)
Issued	42,236
Expired	(7,087)
Outstanding at June 30, 2021	128,479

9. Stock Option Plans

Incentive Plans

On June 14, 2019, as part of a group restructuring, the F-star Ltd board of directors and shareholders approved the 2019 Plan. The initial maximum number of ordinary shares that could be issued under the 2019 Plan was 2,327,736. This number consisted of 1,922,241 new ordinary shares and 405,495 new ordinary shares as replacements for grants under the previous F-star group entities' legacy share option schemes (the F-star Alpha Limited Share Option Scheme, the F-star Beta Share Option Scheme and the GmbH F-star EMI Share Option Scheme). In addition, the GmbH Employee Share Option Plan was transferred to F-star Ltd from GmbH. This plan grants the beneficiaries participation rights only, beneficiaries would receive a proportion of the exit proceeds realized by shareholders, but the plan does not grant the right to purchase shares. The transfer of the participation rights occurred at the same exchange ratio as used for the exchange of GmbH shares for shares issued by F-star Ltd.

Awards granted under the 2019 Plan generally vest over a four-year service period with 28% of the award vesting on the first anniversary of the commencement date and the balance vesting monthly over the remaining three years. Awards generally expire 10 years from the date of the grant. For certain senior members of management and directors, the board of directors approved an alternative vesting schedule.

As result of the Transaction, the share reserve automatically increased on January 1st of the year following the year in which the Nasdaq listing occurred, in an amount equal to 4% of the total number of shares outstanding as of December 31 of the preceding year. As a result, an additional 364,005 shares were added to the 2019 Plan effective January 1, 2021. As of June 30, 2021, there were 68,842 shares available for issuance under the 2019 Plan.

In conjunction with the Transaction, all issued and outstanding F-star Ltd share options granted under the three F-star Ltd legacy equity incentive plans became exercisable in full immediately prior to the Closing. At the Closing, all issued share options and RSUs granted by F-star Ltd under the 2019 Plan were replaced by the Replacement Options and Replacement RSUs on the same terms (including vesting), for Company common stock, based on the Exchange Ratio. The Company determined that the exchange of F-star Ltd awards for the Company awards would be accounted for as a modification of awards under ASC 718. The Company concluded that the modification would not affect the number of awards expected to vest or the service period over which compensation expense related to awards would be recognized, since the vesting schedule applicable to each Replacement Option would be the same as the vesting schedule applicable to the original option that it replaced. In addition, the Replacement RSUs and Replacement Options are subject to substantially the same terms and conditions as the original RSUs and original options, respectively, and did not provide holders of the Replacement Options or Replacement RSUs with any additional benefits that the holders did not have under their original options or original RSUs. In addition, the fair value of an award tranche immediately after modification was less than the fair value of that award tranche immediately before modification. Therefore, total compensation cost recognized for the Replacement RSUs, and Replacement Options equaled the grant-date fair value of the original awards, and the Company continues to recognize the grant date fair values of the modified awards over their respective service periods.

Amended and Restated 2015 Stock Incentive Plan

In March 2018, the Spring Bank board of directors approved Spring Bank's Amended and Restated 2015 Stock Incentive Plan (the "Amended and Restated 2015 Plan" and, together with the Spring Bank's 2014 Stock Incentive Plan (the "2014 Plan"), the "Stock Incentive Plans"). Upon receipt of stockholder approval at Spring Bank's 2018 annual meeting in June 2018, Spring Bank's 2015 Stock Incentive Plan was amended and restated in its entirety, increasing the authorized number of shares of common stock reserved for issuance by 800,000 shares. Pursuant to the Amended and Restated 2015 Plan, there are 1,666,863 shares authorized for issuance. In addition, to the extent any outstanding awards under the 2014 Plan expire, terminate, or are otherwise surrendered, cancelled or forfeited after the closing of Spring Bank's IPO, those shares are added to the authorized shares under the Amended and Restated 2015 Plan. The total number of shares authorized for issuance under both the 2014 Plan and the Amended and Restated 2015 Plan is 2,300,000.

Pursuant to the Exchange Agreement, all outstanding options to purchase Company common stock were accelerated immediately prior to the Closing and each outstanding option with an exercise price less than the trading price of the Company common stock as of the close of trading on the Closing Date was exercised in full and all other outstanding options to purchase Company common stock were cancelled effective as of the Closing Date. As of June 30, 2021, the Company had 98,831 shares available for issuance under the Amended and Restated 2015 Plan.

Stock option valuation

The fair value of stock option grants is estimated using the Black-Scholes option-pricing model with the following assumptions:

	Black-Scholes Option-Pricing	
	June 30, 2021	**December 31 2020**
Risk-free interest rate	0.78%	0.17% – 0.42%
Expected volatility	90.4%	82.8%-98.3%
Expected dividend yield	0%	0%
Expected life (in years)	5.1	5.1

Expected Term—The expected term represents management's best estimate for the options to be exercised by option holders.

Volatility—Since F-star Ltd did not have a trading history for its common stock, the expected volatility was derived from the historical stock volatilities of comparable peer public companies within its industry, whose businesses were considered to be comparable to that of F-star Ltd, over a period equivalent to the expected term of the share-based awards. After the Closing of the Transaction, the volatility of the Company's Common Stock is used to determine volatility of the share-based awards at grant date.

Risk-Free Interest Rate—The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant for zero-coupon U.S. Treasury notes with maturities approximately equal to the share-based awards' expected term.

Dividend Rate—The expected dividend is zero, as the Company has not paid, nor does it anticipate paying any dividends on its common stock in the foreseeable future.

Fair Value of Common Stock— Prior to the Transaction, F-star Ltd estimated fair value used three different methodologies: the income approach, the market approach, and cost approach. The income approach uses the estimated present value of economic benefits. The market approach exams observable market values for similar assets or securities. The cost approach uses the concept of replacement cost as an indicator of value and the notion that an investor would pay no more for an asset that what it would cost to replace the asset with one of equal utility. After the Closing of the Transaction, the fair value of the Company's Common Stock is used to estimate the fair value of the share-based awards at grant date. The following table summarizes stock option activity under the Company's stock option plans:

Stock Option Activity

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2020	533,559	$ 3.33	9.30	$ 8,494
Granted	617,886	7.77	9.66	994
Exercised	(3,670)	0.12	8.16	101
Forfeited and expired	(19,212)	2.27	9.15	257
Outstanding as of June 30, 2021	1,128,563	5.79	9.11	6,323
Options exercisable at June 30, 2021	150,671	8.35	7.37	1,739

The weighted average grant date fair value of options granted during the six months ended June 30, 2021, and the year ended December 31, 2020, was $6.16 and $14.45 per share, respectively. The total fair value of options vested during the six months ended June 30, 2021, and the year ended December 31, 2020, was $3.0 million and $2.0 million, respectively.

Restricted Stock Units

Time-Based Restricted Stock Units (RSU)

In February 2021, the Company issued 310,385 time-based RSUs to employees and directors under the Amended and Restated 2015 Plan. The weighted average grant date fair value of the time-based RSUs was $8.57 for the six months ended June 30, 2021. The vesting for the time-based RSUs occurs either immediately, after one year or after four years. For the three and six months ended June 30, 2021, the Company recognized approximately $0.5 million and $1.4 million in expenses related to the time-based RSUs.

The following table is a rollforward of all RSU activity under the Stock Incentive Plans for the six months ended June 30, 2021:

RSU Activity

	Restricted Stock Units	Weighted-Average Grant Date Fair Value
Total nonvested units at December 31, 2020	69,749	$ 11.73
Granted	310,385	8.57
Vested	(63,545)	8.57
Total nonvested units at June 30, 2021	316,589	$ 9.31

Share-based compensation

The Company recorded share-based compensation expense in the following expense categories for the six months ended June 30, 2021, and 2020 of its consolidated statements of operations and comprehensive loss (in thousands):

Share-Based Compensation

	For the Three Months Ended June 30,		For the Six Months ended June 30,	
	2021	2020	2021	2020
Research and development expenses	$ 531	$ 169	$ 944	$ 380
General and administrative expenses	1,328	302	3,095	625
	$ 1,859	$ 471	$ 4,039	$ 1,005

At June 30, 2021, there was $7.5 million of unrecognized stock-based compensation expense relating to stock options granted pursuant to the Stock Incentive Plans, which will be recognized over the weighted-average remaining vesting period of 3.0 years.

At June 30, 2021, there was $1.9 million of unrecognized stock-based compensation expense relating to the time-based RSUs granted pursuant to the Stock Incentive Plans, which will be recognized over the weighted-average remaining vesting period of 3.4 years.

10. Significant Agreements

License and Collaboration agreements

For the six months ended June 30, 2021 and 2020, the Company had License and Collaboration agreements ("LCAs") with Denali and Ares. The following table summarizes the revenue recognized in the Company's consolidated statements of operations and comprehensive loss from these arrangements, (in thousands):

Revenue by Collaboration Partner

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Ares	$ —	359	2,800	1,254
Denali	—	184	117	644
Total	$ —	$ 543	$ 2,917	$ 1,898

License and collaboration agreement with Denali Therapeutics, Inc.

Summary

In August 2016, Biotechnology, F-star Gamma Limited (a related party until May 30, 2018) ("F-star Gamma"), and GmbH entered into a license and collaboration agreement (the "Denali LCA") with Denali. The goal of the collaboration was the development of certain constant Fc domains of an antibody with non-native antigen binding activity ("Fcabs"), to enhance delivery of therapeutics across the blood brain barrier into the brain. The collaboration was designed to leverage F-star Gamma's modular antibody technology and Denali's expertise in the development of therapies for neurodegenerative diseases. In connection with the entry into the collaboration agreement, Denali also purchased from the F-star Gamma shareholders an option, which was referred to as the buy-out-option, to acquire all of the outstanding shares of F-star Gamma pursuant to a pre-negotiated share purchase agreement.

On May 30, 2018, Denali exercised this buy-out option and entered into a share purchase agreement (the "Purchase Agreement") with the shareholders of F-star Gamma and Shareholder Representative Services LLC, pursuant to which Denali acquired all of the outstanding shares of F-star Gamma (the "Acquisition").

As a result of the Acquisition, F-star Gamma has become a wholly owned subsidiary of Denali and Denali changed the entity's name to Denali BBB Holding Limited. In addition, Denali became a direct licensee of certain of F-star's intellectual property (by way of Denali's assumption of F-star Gamma's license agreement with Biotechnology (the "F-star Gamma License")). Denali made initial exercise payments to Biotechnology and the former shareholders of F-star Gamma under the Purchase Agreement and the F-star Gamma License, in the aggregate, of $18.0 million, less the net liabilities of F-star Gamma, which were approximately $0.2 million. $4.0 million was payable to the Company. In addition, Denali is required to make future contingent payments, to the Company and the former shareholders of F-star Gamma, with a maximum aggregate of $437.0 million upon the achievement of certain defined preclinical, clinical, regulatory, and commercial milestones. Of this total, a maximum of $91.4 million is payable to the Company. The total amount of the contingent payments varies, based on whether the Company delivers an Fcab that meets pre-defined criteria and whether the Fcab has been identified solely by the Company or solely by Denali or jointly by the Company and Denali.

Under the terms of the Denali LCA, Denali was granted the right to nominate up to three Fcab targets for approval ("Accepted Fcab Targets"), within the first three years of the date of the agreement. Upon entering into the Denali LCA, Denali had selected transferring receptor as the first Accepted Fcab Target and paid an upfront fee of $5.5 million to F-star Gamma, which included selection of the first Accepted Fcab Target. In May 2018, Denali exercised its right to nominate two additional Fcab targets and identified a second Accepted Fcab Target. Denali made a one-time payment to the F-star group for the two additional Accepted Fcab Targets of $6.0 million and extended the time period for its selection of the third Accepted Fcab Target until August 2020.

Under the terms of the Denali LCA, F-star Gamma was prohibited from developing, commercializing and manufacturing any antibody or other molecule that incorporated any Fcab directed to an Accepted Fcab Target, or any such Fcab as a standalone product, and from authorizing any third party to take any such action.

Revenue recognition

The Company has considered the performance obligations identified in the contracts and concluded that the grant of intellectual property rights is not distinct from the provision of R&D services, as the R&D services are expected to significantly modify the early-stage intellectual property. As a result, the grant of intellectual property rights and the provision of R&D services has been combined into a single performance obligation for this contract.

The initial transaction price for first Accepted Fcab Target was deemed to be $7.1 million consisting of $5.0 million for the grant of intellectual property rights and $2.1 million for R&D services, and $5.1 million for the second Accepted Fcab Target consisting of $3.0 million for the grant of intellectual property rights and $2.1 million for R&D services. During the year ended December 31, 2019, the transaction price for the first Accepted Fcab was increased to $6.6 million due to achievement of a $1.5 million milestone that on initial recognition of the Denali LCA was not included in the transaction price, as it was not deemed probable that a reversal would not occur in a future reporting period.

All performance obligations in respect of the first Accepted Fcab Target identified in the contract were deemed to have been fully satisfied during the year ended December 31, 2019.

All performance obligations in respect of the second Accepted Fcab Target identified in the Denali LCA were deemed to have been fully satisfied in February 2021 and as a result, no revenue was recognized in regard to this target for the three months ended June 30, 2021. In respect of the second Accepted Fcab Target, for the six months ended June 30, 2021 and 2020, the Company recognized $0.1 million and $0.6 million, respectively, and for the three months ended June 20, 2020, the Company recognized $0.2 million.

2019 License and collaboration agreement with Ares Trading S.A.

In June 2017, F-star Delta Ltd (“Delta”) entered into an LCA and an Option Agreement with Ares (the “Ares LCA”). The purpose of the Ares LCA was for the companies to collaborate on the development of tetravalent bispecific antibodies against five drug target pairs. The Option Agreement granted Ares a call option to acquire the entire issued share capital of Delta. Under the Ares LCA, Delta was obligated to use commercially reasonable efforts to perform research and development activities on the five selected target pairs, under mutually agreed research plans. The activities were governed by a joint steering committee formed by an equal number of representatives from both parties.

On May 14, 2019, the Ares LCA agreement with Ares was amended and restated to convert the existing purchase option over the entire share capital of Delta to an intellectual property licensing arrangement that included the exclusive grant of development and exploitation rights to one tetravalent bispecific antibody directed against immuno-oncology targets and the option to acquire the exclusive right to an additional antibody. As part of the amended Ares LCA, Delta gained exclusive rights to FS118, now F-star’s lead product candidate, which is currently in a proof-of-concept clinical trial. As discussed further below, this amended and restated Ares LCA was accounted for a separate contract, rather than a contract amendment.

For the exclusive rights granted in relation to the first molecule, an option fee of $11.1 million was paid by Ares to Delta. Following receipt of the option fee, Ares becomes responsible for the development of the molecule and development, regulatory and sales-based royalties become payable to Company upon achievement of specified events. Delta is eligible to receive $71.6 million in development milestones and $83.9 million in regulatory milestones.

For the second antibody included within the amended and restated agreement, Delta is obliged to perform research activities under plans agreed by both parties. Ares will pay for all R&D costs half-yearly in advance until the company delivers the data package specified in the research plan. Ares can then elect to pay a fee of $14.0 million to exercise their option to take an exclusive intellectual property license, which allows them to control the development and exploitation of the molecule. Following receipt of the option fee, Ares is responsible for the development of the molecule and development, regulatory and sales-based royalties become payable to Delta upon achievement of specified events. Delta is eligible to receive $48.7 million in development milestones and $61.6 million in regulatory milestones.

Development milestone payments are triggered upon achievement by each product candidate of a defined stage of clinical development and regulatory milestone payments are triggered upon approval to market a product candidate by the U.S. Food and Drug Administration or other global regulatory authorities. Sales-based milestones are payable based upon aggregate annual worldwide net sales in all indications of all licensed products. Delta is eligible to receive $168.0 million in sales-based milestones. In addition, to the extent that any product candidates covered by the exclusive licenses granted to Ares are commercialized, Delta will be entitled to receive a single digit royalty based on a percentage of net sales on a country-by-country basis.

On July 15, 2020, a deed of amendment (the “2020 Amendment”) was enacted in respect of the May 13, 2019, amendment to the Ares LCA. The 2020 Amendment had two main purposes (i) to grant additional options to acquire intellectual property rights for a further two molecules; and (ii) to allow Ares to exercise its option early to acquire intellectual property rights to the second molecule included in the agreement as well as to terminate the R&D services.

Revenue recognition

Management has considered the performance obligations identified in the Ares LCA and concluded that the option for the grant of intellectual property rights is not distinct from the provision of R&D services, as the R&D services are expected to significantly modify the early-stage intellectual property. As a result, the option for the grant of intellectual property rights and the provision of R&D services has been combined into a single performance obligation for all molecules under the original contract and each individual molecule included in the May 13, 2019, amendment to the Ares LCA. The Company recognizes revenue using the cost-to-cost method, which it believes best depicts the transfer of control of the services to the customer. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of actual costs incurred to the total estimated costs expected upon satisfying the identified performance obligation.

All performance obligations in the original Ares LCA were deemed to have been fully satisfied on termination of the Ares LCA on May 13, 2019, and no further revenue is expected to be recognized. The total transaction price for the Ares LCA, as amended, was initially determined to be $15.4 million, consisting of the upfront payment and research and development funding for the research term. Variable consideration to be paid to the company upon reaching certain milestones had been excluded from the calculation, as at the inception of the contract, it was not probable that a significant reversal of revenue recognized would not occur in a subsequent reporting period.

There were two components identified in the 2020 Amendment, each of which was accounted for as a separate performance obligation. The grant of the additional options to acquire intellectual property rights was deemed to be distinct, as the customer can benefit from it on its own, and it is independent of the delivery of other performance obligations in the Ares LCA. Additionally, as the amount of consideration reflects a standalone selling price, the Company determined that the second component is accounted for as a separate contract.

For the three and six months ended June 30, 2020, $0.4 million and $1.3 million was recognized in relation to the first antibody included in the 2020 Amendment.

The second component that allows the customer to exercise its option to acquire intellectual property rights early is considered to be a modification of the Ares LCA, as the option is not independent of the R&D services provided under the Ares LCA, and therefore the goods and services are not distinct. The Company updated the transaction price and measure of progress for the performance obligation relating to this molecule.

As a result of the 2020 Amendment, the maximum amount payable by Ares on the achievement of certain development and regulatory milestones in the aggregate was increased to $479.3 million, and the maximum amount payable on the achievement of certain commercial milestones was increased to $295.7 million.

During the three and six months ended June 30, 2021, Ares provided notice of its intention to exercise its option granted under the 2020 Amendment to acquire the intellectual property rights for an additional molecule. During the six months ended June 2021, $2.7 million was recognized at a point in time in respect of the option exercise.

Summary of Contract Assets and Liabilities

Up-front payments and fees are recorded as deferred revenue upon receipt or when due until such time as the Company satisfies its performance obligations under these arrangements. A contract asset is a conditional right to consideration in exchange for goods or services that the Company has transferred to a customer. Amounts are recorded as accounts receivable when the Company’s right to consideration is unconditional.

The following table presents changes in the balances of the Company's contract liabilities (in thousands):

	Deferred revenue balance at January 1, 2021	Additions	Revenue recognized	Impact of exchange rates	Deferred revenue balance at June 30, 2021
Deferred revenue					
Ares collaboration	$ 37	$ —	$ (37)	$ —	$ —
Denali collaboration	263	—	(117)	(146)	—
Total deferred revenue	**$ 300**	**$ —**	**$ (154)**	**$ (146)**	**$ —**

During the six months ended June 30, 2021, all revenue recognized by the Company as a result of changes in the contract liability balances in the respective periods was based on proportional performance.

11. Commitments and Contingencies

Lease Obligations

On January 27, 2021, the Company signed an operating lease for three years for its corporate headquarters in Cambridge, United Kingdom. The Company also has leases for the former Spring Bank headquarters and laboratory space in Hopkinton, Massachusetts, which are being subleased. The Company's leases have remaining lease terms of approximately 7.3 years for its former principal office and laboratory space, which includes an option to extend the lease for up to five years. The Company's former locations are being subleased through the remainder of the lease term.

Operating lease costs under the leases for the six months ended June 30, 2021, were approximately $0.6 million. Total operating lease costs for the three months ended June 30, 2021, were offset by an immaterial amount for sublease income.

The following table summarizes the Company's maturities of operating lease liabilities as of June 30, 2021 (in thousands):

Maturities of Operating Lease Liabilities	
Periods	
For the period July 1, 2021 to December 31, 2021	$ 417
2022	843
2023	854
2024	474
2025	486
Thereafter	1,444
Total lease payments	$4,518

Sublease

The Company subleasesthe former Spring Bank offices in Hopkinton, Massachusetts. Operating sublease income under operating lease agreements for the six months ended June 30, 2021, was an immaterial amount. This sublease has a remaining lease terms of 7.3 years. Future expected cash receipts from our sublease as of June 30, 2021, are as follows (in thousands):

Future Expected Cash Receipts From Sublease

Period	
For the period July 1, 2021 to December 31, 2021	$ 56
2022	462
2023	474
2024	486
2025	498
Thereafter	1,481
Total sublease receipts	$3,457

Service Agreements

As of June 30, 2021, the Company had contractual commitments of $1.9 million with a contract manufacturing organization (“CMO”) for activities that are ongoing or are scheduled to start between three and nine months of the date of the statement of financial position. Under the terms of the agreement with the CMO, the Company is committed to pay for some activities if those activities are cancelled up to three, six or nine months prior to the commencement date.

12. Subsequent events

On July 8, 2021, the Company entered into a License Agreement with AstraZeneca under which AstraZeneca will receive global rights to research, develop and commercialize next generation STING inhibitor compounds. Under the terms of the agreement, AstraZeneca is granted exclusive access to and will be responsible for all future research, development and commercialization of the STING inhibitor compounds. F-star is eligible to receive upfront and near-term payments of up to $12 million upon meeting certain milestones. In addition, F-star will be eligible for development and sales milestone payments of over $300 million, as well as single digit percentage royalty payments. Payments received by F-star are subject to a contingent value rights agreement (CVR 2), under which 80% will be payable to stockholders of F-star that were previously stockholders of Spring Bank prior to the business combination between F-star and Spring Bank. See Note 1 for a further description of this CVR.

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

The following information should be read in conjunction with the unaudited financial information and the notes thereto included in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes thereto for the year ended December 31, 2020, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our Annual Report on Form 10-K filed with the SEC on March 30, 2021.

Our actual results and the timing of certain events may differ materially from the results discussed, projected, anticipated, or indicated in any forward-looking statements due to various important factors, risks and uncertainties, including, but not limited to, those set forth under "Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q or under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 30, 2021, as may be updated by Part II, Item 1A, Risk Factors of our subsequently filed Quarterly Reports on Form 10-Q. We caution our readers that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those expressed or implied by the forward-looking statements contained in this Quarterly Report on Form 10-Q.

We caution readers not to place undue reliance on any forward-looking statements made by us, which speak only as of the date they are made. We disclaim any obligation, except as specifically required by law and the rules of the SEC, to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

Overview

F-star Therapeutics, Inc. (collectively with its subsidiaries, "F-star" or the "Company") is a clinical-stage biopharmaceutical company dedicated to developing next generation immunotherapies to transform the lives of patients with cancer. F-star's goal is to offer patients better and more durable benefits than currently available immuno-oncology treatments by developing medicines that seek to block tumor immune evasion. Through our proprietary tetravalent, bispecific natural antibody (mAb^{2}™) format, our mission is to generate highly differentiated medicines with monoclonal antibody-like manufacturability, good safety and tolerability. With four distinct binding sites in a natural human antibody format, we believe that our proprietary technology will overcome many of the challenges facing current immuno-oncology therapies, due to the strong pharmacology enabled by tetravalent bispecific binding.

F-star's most advanced product candidate, FS118, is currently being evaluated in a proof-of-concept Phase 2 trial in PD-1/PD-L1 acquired resistance head and neck cancer patients. FS118 is a tetravalent mAb^{2} bispecific antibody targeting two receptors, PD-L1 and LAG-3, both of which are established pivotal targets in immuno-oncology. Phase 1 data from 43 heavily pre-treated patients with advanced cancer, who have failed PD-1/PD-L1 therapy, showed that administration of FS118 was well-tolerated with no dose limiting toxicities up to 20 mg/kg. In addition, a disease control rate ("DCR"), defined as either a complete response, partial response or stable disease, of 49% was observed in 39 evaluable patients receiving dose levels of FS118 of 1mg/kg or greater. In acquired resistance patients, DCR was 59% (16 out of 27 patients) and long-term (greater than six months) disease control was observed in six of these patients. We expect to provide an update from the proof-of-concept Phase 2 trial in PD-1/PD-L1 acquired resistance head and neck cancer patients in mid-2022. Recent data from an external randomized phase 3 trial in patients with previously untreated, locally advanced or metastatic melanoma provides clinical validation for the combination of LAG-3 and PD-1 inhibition. This clinical benefit in targeting PD-1 and LAG-3 gives us reason to believe that FS118 has potential to benefit patients not only with acquired resistance, but also in preventing resistance in patients receiving PD-1 monotherapy. We intend to initiate clinical trials in checkpoint inhibitor (CPI) naïve patients in biomarker enriched non-small cell lung cancer ("NSCLC") and diffuse large B cell lymphoma ("DLBCL") populations in second half of 2021.

F-star's second product candidate, FS120, aims to improve checkpoint inhibitor and chemotherapy outcomes and is a mAb^{2} bispecific antibody that is designed to bind to and stimulate OX40 and CD137, two proteins found on the surface of T cells that both function to enhance T cell activity. F-star is developing FS120 alone and in combination with PD-1/PD-L1 therapy for the treatment of tumors where PD-1/PD-L1 products are approved, and which have co-expression of OX40 and CD137 in the tumor microenvironment. F-star initiated a Phase 1 clinical trial in patients with advanced cancers in the fourth quarter of 2020 and plans to provide an update on the accelerated dose titration phase of this study later this year. We have recently entered a clinical trial collaboration and supply agreement with MSD to evaluate the combination of FS120 and the PD-1 inhibitor, pembrolizumab.

F-star's third product candidate, FS222, aims to improve outcomes in low PD-L1 expressing tumors and is a mAb^{2} bispecific antibody that is designed to target both the costimulatory CD137 and the inhibitory PD-L1 receptors, which are co-expressed in a number of tumor types. F-star initiated a Phase 1 clinical trial in patients with advanced cancers for FS222 in late 2020. We believe there is a strong rationale to combine FS222 with other anti-cancer agents, including targeted therapy and chemotherapy, and this can be done within the Phase 1 study. We expect to report an update on this study in late 2021.

SB 11285, which F-star acquired pursuant to a business combination with Spring Bank Pharmaceuticals, Inc. ("Spring Bank"), is a next generation cyclic dinucleotide STimulator of INterferon Gene ("STING") agonist designed to improve checkpoint inhibition outcomes as an immunotherapeutic compound for the treatment of selected cancers. SB 11285 appeared to be well tolerated both alone and in combination with atezolizumab across all dose levels tested to-date, including five dose levels as monotherapy and three dose levels as a combination. Initial analysis showed that pharmacokinetics (PK) were in-line with the predicted profile for rapid cellular uptake, a characteristic of second generation STING agonists. F-star is continuing with further dose-escalation and in parallel pursuing strategic business development opportunities for SB 11285. In June 2021, a U.S. patent was granted to F-star with claims protecting the composition of matter of SB 11285.

Share Exchange Agreement

On November 20, 2020, F-star Therapeutics, Inc., formerly known as Spring Bank Pharmaceuticals, Inc., completed a business combination (the "Transaction") with F-star Therapeutics Limited ("F-star Ltd") in accordance with the terms of the Share Exchange Agreement, dated July 29, 2020 (the "Exchange Agreement"), by and among the Company, F-star Ltd and certain holders of the capital stock and convertible notes of F-star Ltd (each a "Seller", and collectively with holders of F-star Ltd securities who subsequently became parties to the Exchange Agreement, the "Sellers"). Pursuant to the Exchange Agreement, each ordinary share of F-star Ltd outstanding immediately prior to the closing of the Transaction (the "Closing") was exchanged by the Sellers that owned such F-star Ltd shares for a number of duly authorized, validly issued, fully paid and non-assessable shares of Company common stock pursuant to an exchange ratio formula as set forth in the Exchange Agreement (the "Exchange Ratio"), rounded to the nearest whole share of Company common stock (after aggregating all fractional shares of Company common stock issuable to such Seller). Also, on November 20, 2020, in connection with, and prior to completion of, the Transaction, Spring Bank effected a 1-for-4 reverse stock split of its common stock (the "Reverse Stock Split") and, following the completion of the Transaction, changed its name to F-star Therapeutics, Inc. Following the completion of the Transaction, the business of the Company became the business conducted by F-star, which is a clinical-stage immuno-oncology company focused on cancer treatment through its proprietary tetravalent bispecific antibody programs. Unless otherwise noted, all references to share amounts in this report reflect the Reverse Stock Split.

Under the terms of the Exchange Agreement, at the Closing, Spring Bank issued an aggregate of 4,620,618 shares of its common stock to F-star Ltd stockholders, based on an Exchange Ratio of 0.1125 shares of Spring Bank common stock for each F-star Ltd ordinary share, stock option and restricted stock unit ("RSU") outstanding immediately prior to the Closing. The Exchange Ratio was determined through arms-length negotiations between Spring Bank and F-star Ltd pursuant to a formula set forth in the Exchange Agreement.

Pursuant to the Exchange Agreement, immediately prior to the Closing, certain investors in F-star Ltd purchased $15.0 million of F-star Ltd ordinary shares (the "Pre-Closing Financing"). These ordinary shares of F-star Ltd were then exchanged at the Closing for shares of the Company's common stock in the Transaction at the Exchange Ratio.

Pursuant to the Exchange Agreement, all outstanding options to purchase Spring Bank common stock were accelerated immediately prior to the Closing and each outstanding option with an exercise price greater than the closing price of the stock on the Closing Date was exercised in full and all other outstanding options to purchase Company common stock were cancelled effective as of the Closing Date.

Immediately following the Reverse Stock Split and the Closing, there were approximately 4,449,559 shares of Spring Bank common stock outstanding. Following the Closing, the F-star Ltd stockholders beneficially owned approximately 53.7% of the combined company's common stock, and the existing stockholders of Spring Bank beneficially owned approximately 46.3% of the combined company's common stock. Concurrently with the execution of the Exchange Agreement, certain officers and directors of Spring Bank and F-star Ltd and certain stockholders of F-star Ltd entered into lock-up agreements, pursuant to which they agreed to certain restrictions on transfers of any shares of the Company's common stock for the 180-day period following the Closing, other than the shares of the Company's common stock received in exchange for ordinary shares of F-star Ltd subscribed for in the Pre-Closing Financing and pursuant to certain other limited exceptions.

In addition, at the Closing, Spring Bank, F-star Ltd, a representative of Spring Bank stockholders prior to the Closing, and Computershare Trust Company N.A., as the Rights Agent, entered into a STING Agonist Contingent Value Rights Agreement (the "STING Agonist CVR Agreement"). Pursuant to the Exchange Agreement and the STING Agonist CVR Agreement, each pre-Reverse Stock Split share of Spring Bank common stock held by stockholders as of the record date on November 19, 2020, immediately prior to the Closing, received a dividend of one contingent value right ("CVR") ("STING Agonist CVR"), payable on a pre-Reverse Stock Split basis, entitling such holders to receive, in connection with certain transactions involving proprietary STING agonist compound designated as SB 11285 occurring on or prior to the STING Agonist CVR Expiration Date (as defined below) that resulted in aggregate Net Proceeds (as defined in the STING Agonist CVR Agreement) at least equal to the Target Payment Amount (as defined below), an aggregate amount equal to the greater of (i) 25% of the Net Proceeds received from all CVR Transactions (as defined in the STING Agonist CVR Agreement) and (ii) an aggregate amount equal to the product of $1.00 and the total number of shares of Company common stock outstanding as of such record date (not to exceed an aggregate amount of $18.0 million) (the "Target Payment Amount").

The CVR payment obligation expires on the later of 18 months following the Closing or the one-year anniversary of the date of the final database lock of the STING clinical trial (as defined in the STING Agonist CVR Agreement) (the "STING Agonist CVR Expiration Date"). The STING Agonist CVRs are not transferable, except in certain limited circumstances, are not certificated or evidenced by any instrument, do not accrue interest and are not registered with the SEC or listed for trading on any exchange. Until the STING Agonist CVR Expiration Date, subject to certain exceptions, the Company is required to use commercially reasonable efforts to (a) complete the STING Trial and (b) pursue a CVR Transaction. The STING Agonist CVR Agreement became effective upon the Closing and, unless terminated earlier in accordance with its terms, will continue in effect until the STING Agonist CVR Expiration Date the payment or all CVR payment amounts are paid pursuant to their terms.

At the Closing, Spring Bank, F-star Ltd, a representative of Spring Bank stockholders prior to the Closing, and Computershare Trust Company N.A., as the Rights Agent, also entered into a STING Antagonist Contingent Value Rights Agreement (the "STING Antagonist CVR Agreement"). Pursuant to the Exchange Agreement and the STING Antagonist CVR Agreement, each share of common stock held by Spring Bank stockholders as of November 19, 2020, immediately prior to the Closing, received a dividend of one CVR ("STING Antagonist CVR") entitling such holders to receive, in connection with the execution of a potential development agreement (the "Approved Development Agreement") and certain other transactions involving proprietary STING antagonist compound occurring on or prior to the STING Antagonist CVR Expiration Date (as defined below) equal to: 80% of all net proceeds (as defined in the STING Antagonist CVR Agreement) received by the Company after the Closing pursuant to (i) the Approved Development Agreement, if any, and (ii) all CVR Transactions (as defined in the STING Antagonist CVR Agreement) entered into prior to the STING Antagonist CVR Expiration Date.

The STING Antagonist CVRs are not transferable, except in certain limited circumstances, are not certificated or evidenced by any instrument, do not accrue interest, and are not registered with the SEC or listed for trading on any exchange. Until the STING Antagonist CVR Expiration Date, subject to certain exceptions, the Company is required to use commercially reasonable efforts to (a) consummate the Approved Development Agreement, (b) to perform the terms of the Approved Development Agreement and (c) pursue CVR Transactions. The STING Antagonist CVR Agreement became effective upon the Closing and, unless terminated earlier in accordance with its terms, will continue in effect until the STING Antagonist CVR Expiration Date or all CVR payment amounts are paid pursuant to their terms. On July 8, 2021, the Company entered into a License Agreement with AstraZeneca plc ("AstraZeneca") under which AstraZeneca will receive global rights to research, develop and commercialize next generation STING inhibitor compounds. Under the terms of the agreement, AstraZeneca is granted exclusive access to and will be responsible for all future research, development and commercialization of the STING inhibitor compounds. F-star is eligible to receive upfront and near-term payments of up to $12 million upon meeting certain milestones. In addition, F-star will be eligible for development and sales milestone payments of over $300 million, as well as single digit percentage royalty payments. Payments received by F-star are subject to a contingent value rights agreement (CVR 2), under which 80% will be payable to stockholders of F-star that were previously stockholders of Spring Bank prior to the business combination between F-star and Spring Bank.

The acquisition-date fair value of the CVR liability represents the future payments that are contingent upon the achievement of sale or licensing for the product candidates. The fair value of the contingent consideration acquired of $2.5 million as of December 31, 2020, and $3.1 million as of June 30, 2021, is based on the Company's probability-weighted discounted cash flow assessment that considers probability and timing of future payments. The fair value measurement is based on significant Level 3 unobservable inputs such as the probability of achieving a sale or licensing agreement, anticipated timelines, and discount rate. Changes in the fair value of the liability will be recognized in the consolidated statement of operations and comprehensive loss until settlement. For the three months ended June 30, 2021, the estimated fair value increased to $3.1 million which resulted in a $0.6 million charge on the Consolidated Statements of Operations and Comprehensive Loss.

All issued and outstanding F-star Ltd share options granted under F-star's three legacy equity incentive plans became exercisable in full immediately prior to the Closing. At the Closing, all issued share options and restricted stock units granted by F-star Ltd under the F-star Therapeutics Limited 2019 Equity Incentive Plan were replaced by options and awards on the same terms (including vesting), of the combined company's common stock, based on the Exchange Ratio.

The Company's common stock, which is listed on the Nasdaq Capital Market, traded through the close of business on Friday, November 20, 2020, under the ticker symbol "SBPH" and continued trading on the Nasdaq Capital Market, on a post-Reverse Stock Split adjusted basis, under the ticker symbol "FSTX" beginning on Monday, November 23, 2020. Commencing on November 23, 2020, the Company's common stock was represented by a new CUSIP number, 30315R 107.

The Transaction was accounted for as a business combination using the acquisition method of accounting under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, *Business Combinations* ("ASC 805"). The Transaction was accounted for as a reverse acquisition with F-star Ltd being deemed the acquiring company for accounting purposes. Under ASC 805, F-star Ltd as the accounting acquirer, recorded the assets acquired and liabilities assumed of Spring Bank in the Transaction at their fair values as of the acquisition date.

F-star Ltd was determined to be the accounting acquirer based on an analysis of the criteria outlined in ASC 805 and the facts and circumstances specific to the Transaction, including the fact that immediately following the Transaction: (1) F-star Ltd shareholders owned the majority of the voting rights of the combined company; (2) F-star Ltd designated a majority (five of eight) of the initial members of the board of directors of the combined company; and (3) F-star Ltd senior management held the key positions in senior management of the combined company. As a result, upon consummation of the Transaction, the historical financial statements of F-star Ltd became the historical financial statements of the combined organization.

Impact of COVID-19 on our Business

In March 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a pandemic and recommended containment and mitigation measures worldwide. The COVID-19 pandemic has been evolving, and to date has led to the implementation of various responses, including government-imposed quarantines, travel restrictions and other public health safety measures.

Management continues to closely monitor the impact of the COVID-19 pandemic on all aspects of the business, including how it will impact operations and the operations of customers, vendors, and business partners. Management took action in April 2020 to temporarily furlough some of its workforce and took advantage of the UK Government Coronavirus Job Retention Scheme that provided funding to businesses with furloughed staff. The grant funding available covered 80% of furloughed employees' wages plus employer National Insurance and pension contributions up to a maximum of £2,500 per month per furloughed employee. From December 2020 to April 2021, the UK government imposed a third national "lockdown", severely impacting on day-to-day activities. The onset of the global pandemic and consequent government-imposed restrictions resulted in a three to six-month delay in the operationalization of our clinical trials for FS118, FS120, FS222 and SB 11285. The extent to which COVID-19 impacts our future business, results of operation and financial condition will depend on future developments, which are highly uncertain and cannot be predicted with confidence at this time, such as the continued duration of the outbreak, new information that may emerge concerning the severity or other strains of COVID-19 or the effectiveness of actions to contain COVID-19 or treat its impact, among others. If the Company or any of the third parties with which we engage, however, were to experience shutdowns or other business disruptions, the ability to conduct business in the manner and on the timelines presently planned could be materially and negatively affected, which could have a material adverse impact on our business, results of operation and financial condition. The estimates of the impact on the Company's business may change based on new information that may emerge concerning COVID-19 and the actions to contain it or treat its impact and the economic impact on local, regional, national, and international markets.

Management has not identified any triggering events that would result in any significant impairment losses in the carrying values of assets as a result of the pandemic and are not aware of any specific related event or circumstance that would require management to revise estimates reflected in our consolidated financial statements.

Recent Developments

Loan and Security Agreement

On April 1, 2021, the Company, as borrower, entered into a Venture Loan and Security Agreement (the "Loan and Security Agreement") with Horizon Technology Finance Corporation ("Horizon"), as lender and collateral agent for itself. The Loan and Security Agreement provides for four separate and independent $2.5 million term loans ("Loan A", "Loan B", "Loan C", and "Loan D") (with each of Loan A, Loan B, Loan C and Loan D, individually a "Term Loan" and, collectively, the "Term Loans"), whereby, upon the satisfaction of all the conditions to the funding of the Term Loans, each Term Loan will be delivered by Horizon to the Company in the following manner: (i) Loan A was delivered by Horizon to the Company by April 1, 2021, (ii) Loan B was delivered by Horizon to the Company by April 1, 2021, (iii) Loan C was delivered by Horizon to the Company by June 30, 2021, and (iv) Loan D was delivered by Horizon to the Company by June 30, 2021. The Company may only use the proceeds of the Term Loans for working capital or general corporate purposes as contemplated by the Loan and Security Agreement. On April 1, 2021, the Company drew down $5 million. On June 22, 2021, the Company drew down another $5 million under this facility. The term note matures on the 48-month anniversary following the funding date. The principal balance the Term Loan bears a floating interest. The interest rate is calculated initially and, thereafter, each calendar month as the sum of (a) the per annum rate of interest from time to time published in The Wall Street Journal as contemplated by the Loan and Security Agreement, or any successor publication thereto, as the "prime rate" then in effect, plus (b) 6.25%; provided that, in the event such rate of interest is less than 3.25%, such rate shall be deemed to be 3.25% for purposes of calculating the interest rate. Interest is payable on a monthly basis based on each Term Loan principal amount outstanding the preceding month.

The Company may, at its option upon at least five business days' written notice to Horizon, prepay all or any portion of the outstanding Term Loan by simultaneously paying to Horizon an amount equal to (i) any accrued and unpaid interest on the outstanding principal balance of the Term Loan so prepaid; plus (ii) an amount equal to (A) if such Term Loan is prepaid on or before the Loan Amortization Date (as defined in the Loan and Security Agreement) applicable to such Term Loan, three percent of the then outstanding principal balance of such Term Loan, (B) if such Term Loan is prepaid after the Loan Amortization Date applicable to such Term Loan, but on or before the date that is 12 months after such Loan Amortization Date, two percent of the then outstanding principal balance of such Term Loan, or (C) if such Term Loan is prepaid more than 12 months after the Loan Amortization Date applicable to such Term Loan, one percent of the then outstanding principal balance of such Term Loan; plus (iii) the outstanding principal balance of such Term Loan; plus (iv) all other sums, if any, that had become due and payable under the Loan and Security Agreement.

In connection with the entry into the Loan and Security Agreement, the Company issued to Horizon warrants (each, individually, a "Warrant" and, collectively, the "Warrants") to purchase an aggregate number of shares of the Company's common stock in an amount equal to $100,000 divided by the price for each respective Warrant. If at any time the Company files a registration statement relating to an offering for its own account, or the account of others, of any of its equity securities, the Company agreed to include such number of shares underlying the Warrants in that registration statement as requested by the holder.

The Warrants, which are exercisable for an aggregate of 42,236 shares, will be exercisable for a period of seven years at a per-share exercise price of $9.47, which is equal to the 10-day average closing price prior to January 15, 2021, the date on which the term sheet relating to the Loan and Security Agreement was entered into, subject to certain adjustments as specified in the Warrant.

Sales Agreement and Underwriting Agreement

On March 30, 2021, the Company entered into a Sales Agreement (the "2021 Sales Agreement") with SVB Leerink LLC ("SVB Leerink") with respect to an "at-the-market" offering, as defined in Rule 415 of the Securities Act of 1933, as amended, under which the Company could offer and sell, from time to time in its sole discretion, shares of its common stock, par value $0.0001 per share, having an aggregate offering price of up to $50.0 million (the "Placement Shares") through SVB Leerink as its sales agent.

Upon delivery of a placement notice in April 2021, and subject to the terms and conditions of the 2021 Sales Agreement, SVB Leerink began to sell the Placement Shares. The Company agreed to pay SVB Leerink a commission equal to three percent of the gross sales proceeds of any Placement Shares sold through SVB Leerink under the 2021 Sales Agreement, and also provided SVB Leerink with customary indemnification and contribution rights. As of May 6, 2021, the Company had issued and sold 979,843 shares, for gross proceeds of $9.5 million, resulting in net proceeds of $9.2 million after deducting sales commissions. On May 6, 2021, the Company terminated the 2021 Sales Agreement.

On May 6, 2021, the Company entered into an underwriting agreement with SVB Leerink, as representative of the underwriters, relating to an underwritten public offering of 10.4 million shares of the Company's common stock, par value $0.0001 per share. The underwritten public offering resulted in gross proceeds of $73.1 million. The Company incurred $4.4 million in issuance costs and $0.5 million of professional fees associated with the underwritten public offering, resulting in net proceeds to the Company of $68.2 million.

Financial Operations Overview

License revenue

To date, we have not generated any revenue from product sales, and we do not expect to generate any revenue from product sales for the foreseeable future. Our revenue consists of collaboration revenue under our license and collaboration agreements with Ares Trading S.A. ("Ares") and Denali Therapeutics, Inc. ("Denali"), including amounts that are recognized related to upfront payments, milestone payments, option exercise payments, and amounts due to us for research and development services. In the future, revenue may include new collaboration agreements, additional milestone payments, option exercise payments, and royalties on any net product sales under our collaborations. We expect that any revenue we generate will fluctuate from period to period as a result of the timing and amount of license, research and development services, and milestone and other payments.

Operating Expenses

Research and development costs

Research and development costs are expensed as incurred. Research and development expenses are comprised of costs incurred in performing research and development activities, including salaries, share-based compensation and benefits, facilities costs and laboratory supplies, depreciation, amortization and impairment expense, manufacturing expenses and external costs of outside vendors engaged to conduct preclinical development activities and clinical trials as well as the cost of licensing technology. Typically, upfront payments and milestone payments made for the licensing of technology are expensed as research and development in the period in which they are incurred, except for payments relating for intellectual property rights with future alternative use which will be expensed when the intellectual property is in use. Non-refundable advance payments for goods or services to be received in the future for use in research and development activities are recorded as prepaid expenses. The prepaid amounts are expensed as the related goods are delivered or the services are performed.

Those expenses associated with R&D and clinical costs primarily include:

- expenses incurred under agreements with contract research organizations (“CROs”) as well as investigative sites and consultants that conduct our clinical trials, preclinical studies and other scientific development services;
- manufacturing scale-up expenses and the cost of acquiring and manufacturing preclinical and clinical trial materials;
- expenses incurred for outsourced professional scientific development services;
- costs for laboratory materials and supplies used to support our research activities;
- allocated facilities costs, depreciation, and other expenses, which include rent and utilities;
- up-front, milestone and management fees for maintaining licenses under our third-party licensing agreements; and
- compensation expense.

The Company recognizes external R&D costs based on an evaluation of the progress to completion of specific tasks using information provided to it by its internal program managers and service providers.

Research and development activities are central to the Company’s business models. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later stage clinical trials. As a result, the Company expects that research and development expenses will increase over the next several years as the Company increases personnel costs, initiate and conduct additional clinical trials and prepare regulatory filings related to the various product candidates.

The successful development of our product candidates is highly uncertain. As such, at this time, we cannot reasonably estimate or know the nature, timing and estimated costs of the efforts that will be necessary to complete the remainder of the development of these product candidates. We are also unable to predict when, if ever, material net cash inflows will commence from our product candidates. This is due to the numerous risks and uncertainties associated with developing products, including the uncertainty of:

- research and development support of our product candidates, including conducting future clinical trials of FS118, FS120, FS222 and SB 11285;
- progressing the clinical development of FS118, FS120, FS222 and SB 11285;
- establishing an appropriate safety profile with investigational new drug-enabling studies to advance our programs into clinical development;
- identifying new product candidates to add to our development pipeline;
- successful enrollment in, and the initiation and completion of clinical trials;
- the timing, receipt and terms of any marketing approvals from applicable regulatory authorities;
- commercializing the product candidates, if and when approved, whether alone or in collaboration with others;
- establishing commercial manufacturing capabilities or making arrangements with third party manufacturers;
- the development and timely delivery of commercial-grade drug formulations that can be used in our clinical trials;
- addressing any competing technological and market developments, as well as any changes in governmental regulations;
- negotiating favorable terms in any collaboration, licensing or other arrangements into which we may enter and performing our obligations under such arrangements;

- maintaining, protecting and expanding our portfolio of intellectual property rights, including patents, trade secrets and know-how, as well as obtaining and maintaining regulatory exclusivity for our product candidates;
- continued acceptable safety profile of the drugs following approval; and
- attracting, hiring, and retaining appropriately qualified personnel.

A change in the outcome of any of these variables with respect to the development of a product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, the U.S. Food and Drug Administration, European Medicines Agency or another regulatory authority may require us to conduct clinical trials beyond those that we anticipate will be required for the completion of clinical development of a product candidate, or we may experience significant trial delays due to patient enrolment or other reasons, in which case we would be required to expend significant additional financial resources and time on the completion of clinical development. In addition, we may obtain unexpected results from our clinical trials, and we may elect to discontinue, delay or modify clinical trials of some product candidates or focus on others. Identifying potential product candidates and 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, our product candidates, if approved, may not achieve commercial success.

General and administrative expenses

General and administrative expenses consist primarily of salaries, related benefits, travel, and share-based compensation expense for personnel in executive, finance, legal and administrative functions. General and administrative expenses also include facility-related costs, patent filing and prosecution costs, insurance and marketing costs and professional fees for legal, consulting, accounting, audit, tax services and costs associated with being a public company. Other expense also includes foreign currency transaction losses. The Company expects that general and administrative expenses will increase in the future as the Company expands its operating activities and incurs costs of being a US public company.

Other income and expenses, net

Other income and expenses, net, is primarily rent received from subletting an office in the United States and interest received on overdue trade receivable balances, bank interest received, and interest expense, which is primarily bank interest payable and similar charges, the interest liability on leased assets and convertible debt notes, changes in the fair value of CVR and foreign exchange losses incurred. Foreign exchange gain (loss) is foreign exchange gains or losses due to the fluctuation of the GBP, U.S. dollar and/or the Euro. Change in the fair value of convertible debt is the fair value adjustment of the convertible notes as measured using level 3 inputs which was converted on November 20, 2020, with the transaction with Spring Bank.

Income tax

The Company is subject to corporate taxation in the United States, United Kingdom and Austria.

Our UKestablished entities have generated losses and some profits in the United Kingdom since inception and have therefore not paid significant U.K. corporation tax. F-star Biotechnologische Forschungs-und Entwicklungsges.m.b.H has historical losses in Austria with more recent profits, which has resulted in payment of Austrian corporation tax in the years ended December 31, 2020, and 2019. The corporation tax benefit (tax) presented in the Company’s statements of comprehensive income (loss) represents the tax impact from its operating activities in the United States, United Kingdom and Austria, which have generated taxable income in certain periods. As the entities located in the United Kingdom carry out extensive research and development activities, they seek to benefit from the UK research and development tax credit cash rebate regime known as the Small and Medium-sized Enterprises R&D Tax Credit Program (the “SME Program”). Qualifying expenditures largely comprise employment costs for research staff, consumables expenses incurred under agreements with third parties that conduct research and development, preclinical activities, clinical activities and manufacturing on the Company’s behalf and certain internal overhead costs incurred as part of research projects. No research and development activities are carried out in Austria, so the Company is not able to utilize the research and development premium available under the Austrian corporation tax regime.

The tax credit received in the United Kingdom pursuant to the SME Program permits companies to deduct an extra 130% of their qualifying costs from their yearly profit or loss, as well as the normal 100% deduction, to make a total 230% deduction. If the company is incurring losses, it is entitled to claim a tax credit worth up to 14.5% of the surrenderable loss. To qualify for relief under the SME Program, companies are required to employ fewer than 500 staff and have a turnover of under €100.0 million or a balance sheet total of less than €86.0 million.

The UK government has released draft legislation to introduce a cap on the amount of the payable credit that a qualifying loss-making small and medium-sized enterprise business can receive through research and development relief in any one year. The cap would be applied to restrict payable credit claims in excess of £20,000 with effect for accounting periods beginning on or after April 2021 by reference to, broadly, three times the total employee payroll tax and social security liabilities of the company. The draft legislation also contains an exemption which prevents the cap from applying. That exemption requires the company to be creating, or taking steps to create, intellectual property as well as having research and development expenditure in respect of connected parties which does not exceed 15% of the total claimed. The Company does not expect this legislation, if adopted, to have a material impact on its payable credit claims based on amounts currently claimed.

Research and development tax credits received in the UK are recorded as a reduction in research and development expenses. The UK research and development tax credit is payable to companies after surrendering tax losses and is not dependent on current or future taxable income. As a result, it is not reflected as part of the income tax provision. If, in the future, any U.K. research and development tax credits generated are utilized to offset a corporate income tax liability in the United Kingdom, that portion would be recorded as a benefit within the income tax provision, and any refundable portion not dependent on taxable income would continue to be recorded as a reduction to research and development expenses.

During the three-month period ended June 30, 2021 the Company received $3.6 million in research and development tax credits related to the year ended December 31, 2020.

Income tax expense was relatively immaterial amounts for the three and six months ended June 30, 2021 and 2020.

In the event the Company generates revenues in the future, the Company may benefit from the United Kingdom “patent box” regime that allows profits attributable to revenues from patents or patented products to be taxed at an effective rate of 10%. Value Added Tax (“VAT”) is broadly charged on all taxable supplies of goods and services by VAT-registered businesses. In the United Kingdom, under current rates, an amount of 20% of the value, as determined for VAT purposes, of the goods or services supplied is added to all sales invoices and is payable to the United Kingdom’s tax authority, Her Majesty’s Revenue and Customs (“HMRC”). Similarly, VAT paid on purchase invoices is generally reclaimable from HMRC. In Austria, under current rates, an amount of 20% of the value, as determined for VAT purposes, of the goods or services supplied is added to all sales invoices and is payable to the Austrian tax authority. Similarly, VAT paid on purchase invoices is generally reclaimable from the Austrian tax authority.

Accrued Research and Development Expenses

As part of the process of preparing our consolidated financial statements, we are required to estimate our accrued research and development expenses. This process involves reviewing open contracts and purchase orders, communicating with our personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated costs incurred for the services when we have not yet been invoiced or otherwise notified of the actual costs. The majority of our service providers invoice us in arrears for services performed, on a predetermined schedule or when contractual milestones are met; however, some require advanced payments. We make estimates of our accrued expenses as of each balance sheet date in our consolidated financial statements based on facts and circumstances known to us at that time. Examples of estimated accrued research and development expenses include fees paid to:

- CROs in connection with performing research services on our behalf and clinical trials;
- investigative sites or other providers in connection with clinical trials;
- vendors in connection with preclinical and clinical development activities; and
- vendors related to product manufacturing, development and distribution of preclinical and clinical supplies.

We base our expenses related to preclinical studies and clinical trials on our estimates of the services received and efforts expended pursuant to quotes and contracts with multiple CROs that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. There may be instances in which payments made to our vendors will exceed the level of services provided and result in a prepayment of the clinical expense. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services will be performed, enrollment of patients, number of sites activated and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual or amount of prepaid expense accordingly. Although we do not expect our estimates to be materially different from amounts actually incurred, our understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in us reporting amounts that are too high or too low in any particular period. To date, we have not made any material adjustments to our prior estimates of accrued research and development expenses.

Contingent value rights

The acquisition-date fair value of the CVR liability represents the future payments that are contingent upon the achievement of sale or licensing for the STING product candidates. The fair value of the contingent value rights is based on the Company's probability-weighted discounted cash flow assessment that considers probability and timing of future payments. The fair value measurement is based on significant Level 3 unobservable inputs such as the probability of achieving a sale or licensing agreement, anticipated timelines, and discount rate. Changes in the fair value of the liability will be recognized in the consolidated statement of operations and comprehensive loss until settlement.

Share-based compensation

The Company accounts for share-based compensation in accordance with ASC 718, "Compensation – Stock Compensation" ("ASC 718"). ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statements of operations and comprehensive loss.

The Company records the expense for option awards using a graded vesting method. The Company accounts for forfeitures as they occur. For share-based awards granted to non-employee consultants, the measurement date is the date of grant. The compensation expense is then recognized over the requisite service period, which is the vesting period of the respective award.

The fair value of stock options ("options") on the grant date is estimated using the Black-Scholes option-pricing model using the single-option approach. The Black-Scholes option pricing model requires the use of highly subjective and complex assumptions, including an option's expected term and the price volatility of the underlying stock, to determine the fair value of the award.

Historically given the absence of an active market for the ordinary shares of F-star Ltd, the board of directors determined the estimated fair value of the Company's equity instruments based on input from management, which utilized the most recently available independent third-party valuation, and considering a number of objective and subjective factors, including external market conditions affecting the biotechnology industry sector. Each valuation methodology includes estimates and assumptions that require judgment. These estimates and assumptions include a number of objective and subjective factors in determining the value of F-star Ltd ordinary shares at each grant date. The expected volatility for F star Ltd was calculated based on reported volatility data for a representative group of publicly traded companies for which historical information was available. The historical volatility is calculated based on a period of time commensurate with the assumption used for the expected term. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected term assumption. F-star Ltd used the simplified method, under which the expected term is presumed to be the midpoint between the vesting date and the end of the contractual term. F-star Ltd utilized this method due to the lack of historical exercise data and the plain nature of its share-based awards. The Company uses the remaining contractual term for the expected life of non-employee awards. The expected dividend yield is assumed to be zero as the Company has never paid dividends and has no current plans to pay any dividends. We expect to continue to do so until such time as we have adequate historical data regarding the volatility of our traded stock price.

The Company classifies share-based compensation expense in its consolidated statements of operations and comprehensive loss Income in the same manner in which the award recipient's payroll costs are classified or in which the award recipient's service payments are classified.

Results of Operations

Comparison of the Three Months Ended June 30, 2021 and 2020

The following table summarizes our results of operations for the three ended June 30, 2021 and 2020 (in thousands):

	Three Months Ended June 30,		
	2021	2020	Change
	(in thousands)		
Statements of Comprehensive Income			
License revenue	$ —	$ 543	$ (543)
Operating expenses:			
Research and development	8,437	2,093	6,344
General and administrative	6,501	3,236	3,265
Total operating expenses	$ 14,938	$ 5,329	$ 9,609
Loss from operations	**(14,938)**	**(4,786)**	**(10,152)**
Other non-operating income (expense):			
Other income (expense)	(46)	(143)	97
Change in fair value of convertible notes	—	(1,498)	1,498
Change in fair value of liability	(583)	—	(583)
Loss before income taxes	(15,567)	(6,427)	(9,140)
(Loss) benefit for income taxes	(82)	(35)	(47)
Net loss	$(15,649)	$(6,462)	$ (9,187)

Licensing and Research & Development Services Revenue

Revenue for the three months ended June 30, 2021 was zero compared to $0.5 million for the three months ended June 30, 2020, a decrease of approximately $0.5 million, due to a reduction of R&D services revenue from Ares of $0.4 million and Denali of $0.1 million. All performance obligations relating to the second Fcab was satisfied in February 2021.

Research and development costs

Costs related to research and development for the three months ended June 30, 2021, increased by approximately $6.3 million compared to the three months ended June 30, 2020. This $6.3 million increase for the three-month June 30, 2021, was primarily due to a $2.0 million increase in manufacturing costs, mainly due to an FS118 manufacturing batch in the second quarter of 2021, an increase in clinical CRO and clinical assay costs of $1.2 million, due to a full quarter of Phase 1 clinical trial costs for FS120 and FS222, and an increase in other costs of $0.5 million due to the timing of other project-related activities. The remaining increase of $2.6 million is primarily due to a $1.4 million decrease in the UK R&D tax incentive credit year over year, which is allocated across all programs, a $0.7 million increase in R&D staff costs, $0.3 million increase laboratory consumables and $0.2 million increase in other allocated costs.

General and administrative expense

General and administrative expense for the three months ended June 30, 2021, increased by approximately $3.3 million due to an increase of $1.0 million in share-based compensation, an increase of $1.5 million in legal and professional fees, $0.5 million in insurance and other costs associated with being a public company and $0.4 million in other costs primarily due to additional rent for the leased buildings acquired with Spring Bank transaction, offset by a decrease of $0.1 million in staff costs.

Other income (expenses)

Other income (expense) for the three-month period ended June 30, 2021, consisting primarily of rental income of $0.2 million offset by foreign exchange losses of $0.1 million and interest expense on the term debt of $0.1 million. In addition, there was a charge of $0.6 million for the change in fair value of the CVR liability.

For the three months ended June 30, 2020, the total expense of $0.1 million consisted of other income of $0.5 million from the UK government Coronavirus Job Retention Scheme, for staff that were furloughed in the first half of 2020, offset buy foreign currency losses of $0.3 million and interest expense related to the convertible debt of $0.3 million.

Comparison of the Six Months Ended June 30, 2021 and 2020

The following table summarizes our results of operations for the six ended June 30, 2021 and 2020 (in thousands):

	Six Months Ended June 30,		
	2021	2020	Change
	(in thousands)		
Statements of Comprehensive Income			
License revenue	$ 2,917	$ 1,898	$ 1,019
Operating expenses:			
Research and development	15,704	5,493	10,211
General and administrative	12,930	6,425	6,505
Total operating expenses	$ 28,634	$ 11,918	$ 16,716
Loss from operations	(25,717)	(10,020)	(15,697)
Other non-operating income (expense):			
Other income (expense)	972	(1,670)	2,642
Change in fair value of convertible notes	—	(1,884)	1,884
Change in fair value of liability	(583)	—	(583)
Loss before income taxes	(25,328)	(13,574)	(11,754)
(Loss) benefit for income taxes	(190)	(47)	(143)
Net loss	$(25,518)	$(13,621)	$(11,897)

Licensing and Research & Development Services Revenue

Revenue for the six months ended June 30, 2021, was $2.9 million compared with $1.9 million for the six months ended June 30, 2020, an increase of approximately $1.0 million. Revenue from contracts with Ares increased by $1.5 million due to the exercise and payment of an option fee of $2.7 million to acquire intellectual property rights, which was offset by a reduction in R&D service revenues of $1.2 million. In addition, there was a decrease in overall revenue of $0.5 million relating to licensing and R&D services for the second molecule in the License and Collaboration Agreement with Denali. All performance obligations relating to this molecule were satisfied in February 2021.

Research and development costs

Costs related to research and development for the six months ended June 30, 2021 increased by approximately $10.2 million, compared to the six months ended June 30, 2020.

This $10.2 million increase for the six months ended June 30, 2021, was primarily due to a $3.2 million increase in manufacturing costs, mainly due to FS118 manufacturing batches in the first half of 2021, an increase in clinical CRO and clinical assay costs of $3.3 million, due to a full six months of Phase 1 clinical trial costs for FS120 and FS222, and a decrease in other costs of $0.1 million due to the timing of other project-related activities. The remaining increase of $3.8 million is primarily due to a $2.8 million decrease in the UK R&D tax incentive credit year over year, which is allocated across all programs, a $0.5 million increase in R&D staff costs, $0.3 million increase laboratory consumables and $0.2 million increase in other allocated costs.

General and administrative expense

General and administrative expense for the six months ended June 30, 2021 increased by approximately $6.5 million due to an increase of $2.6 million in share-based compensation, offset by a decrease of $0.3 million in staff costs, $2.8 million in legal and professional fees, $0.9 million in insurance and other costs associated with being a public company and $0.5 million in other costs, primarily due to additional rent for the leased buildings acquired with Spring Bank transaction.

Other income (expenses)

Other income (expense), for the six-month period ended June 30, 2021 of $1.0 million of other income consisted of $1.0 million income due to foreign exchange gains of $0.9 million, rental income of $0.3 million offset by interest payable of $0.2 million.

In addition, there was a charge of $0.6 million for the change in fair value of the CVR.

For six months ended June 30, 2020, other expense of $1.7 million consisted of foreign currency losses of $1.7 million, interest expense of $0.5 million in relation to the convertible debt, offset by other income of $0.5 million from the UK government Coronavirus Job Retention Scheme, for staff that were furloughed in the first half of 2020.

Liquidity and Capital Resources

Sources of liquidity

From our inception through June 30, 2021, we have not generated any revenue from product sales, and we have incurred significant operating losses and negative cash flows from our operations. We do not expect to generate significant revenue from sales of any products for several years, if at all.

As of June 30, 2021, the Company had an accumulated deficit of $72.7 million and cash of $81.6 million. The future success of the Company is dependent on its ability to successfully obtain additional working capital, obtain regulatory approval for and successfully launch and commercialize its product candidates and to ultimately attain profitable operations.

Historically, we have financed our operations primarily with proceeds from the issuance of common shares and convertible preferred shares, proceeds from tern debt and a convertible note facility, proceeds received from in connection with our collaboration arrangements, and payments received for research and development services. We expect this historical financing trend to continue if and until we are able obtain regulatory approval for and successfully commercialize one or more of our drug candidates, although there can be no assurance that we will obtain regulatory approval or successfully commercialize any of our current or planned future product candidates.

On March 30, 2021, the Company entered into a 2021 Sales Agreement with SVB Leerink with respect to an at-the-market offering program under which the Company could offer and sell, from time to time in its sole discretion, shares of its common stock, par value $0.0001 per share, having an aggregate offering price of up to $50.0 million through SVB Leerink as its sales agent. As of May 6, 2021, the Company had issued and sold 979,843 shares, for gross proceeds of $9.5 million, resulting in net proceeds of $9.2 million after deducting sales commissions. On May 6, 2021, the Company terminated the 2021 Sales Agreement.

On May 6, 2021, the Company entered into an underwriting agreement with SVB Leerink, as representative of the underwriters, relating to an underwritten public offering of 10.4 million shares of the Company’s common stock, par value $0.0001 per share. The underwritten public offering resulted in gross proceeds of $73.1 million. The Company incurred $4.4 million in issuance costs and $0.5 million of professional fees associated with the underwritten public offering, resulting in net proceeds to the Company of $68.2 million.

On April 1, 2021, the Company, as borrower, entered into the Loan and Security Agreement with Horizon, as lender and collateral agent for itself. The Loan and Security Agreement provides for four (4) separate and independent $2.5 million term loans (Loan A, Loan B, Loan C, and Loan D), whereby, upon the satisfaction of all the conditions to the funding of the Term Loans, each Term Loan will be delivered by Horizon to the Company in the following manner: (i) Loan A was delivered by Horizon to the Company by April 1, 2021, (ii) Loan B was delivered by Horizon to the Company by April 1, 2021, (iii) Loan C was delivered by Horizon to the Company by June 30, 2021, and (iv) Loan D was delivered by Horizon to the Company by June 30, 2021. The Company may only use the proceeds of the Term Loans for working capital or general corporate purposes as contemplated by the Loan and Security Agreement. On April 1, 2021, the Company drew down $5 million. On June 22, 2021, the Company drew down another $5 million under this facility.

Cash Flows

The following table summarizes our cash flows for each of the periods presented:

Summarized cash flow information

	Six Months Ended June 30,		
	2021	2020	Change
	(in thousands)		
Net cash used in operating activities	$(23,333)	(2,482)	$(20,851)
Net cash used in investing activities	(643)	(62)	(581)
Net cash provided by financing activities	87,046	500	86,546
Effect of exchange rate changes on cash	52	(201)	253
Net increase in cash	**$ 63,122**	**$(2,245)**	**$ 65,367**

Operating activities

Net cash used of $23.3 million in operating activities for the six months ended June 30, 2021, consisted of the net loss of $25.5 million adjusted for changes in operating assets and liabilities of $2.3 million and offset by non-cash charges of $4.4 million, primarily for share-based compensation expense of $4.0 million, non-cash interest expense of $0.1 million, depreciation of $0.3 million, fair value adjustment of the CVR liability of $0.6 million and the deduction of foreign exchange gains of $0.6 million.

Net cash used of $2.5 million in operating activities for the six months ended June 30, 2020, was primarily due to a net loss of $13.6 million offset by $5.2 million of non-cash items which included share-based compensation of $1.0 million, foreign exchange losses of $1.5 million, depreciation of $0.3 million, non-cash interest expense of $0.5 million and changes in fair value of convertible notes of $1.9 million. There was also an adjustment for changes in operating assets and liabilities of $5.9 million.

Investing activities

For the six-month periods ended June 30, 2021, and June 30, 2020, net cash used in investing activities was $0.6 million and $0.1 million, respectively. In both periods this related to the purchase of capital equipment.

Financing activities

For the six months ended June 30, 2021, net cash provided by financing activities was $87.0 million. This included $77.3 million raised on the issue of common stock, with $9.1 million of the total generated from the “at the market” offering and $68.2 million generated from the underwritten public offering, offset by $0.5 million legal fees in connection with the offering. In addition, we received net proceeds of $9.8 million from the Loan and Security Agreement with Horizon and third-party debt issuance costs of $0.1 million were paid.

For the six months ended June 30, 2020, net cash provided by financing activities was $0.5 million, which was due to the issuance of convertible notes.

Funding Requirements

The Company has incurred significant losses and has an accumulated deficit of $72.7 million as of June 30, 2021. F-star expects to incur substantial losses in the foreseeable future as it conducts and expands its clinical trial and research and development activities. As of August 13, 2021, the Company’s cash and cash equivalents will be sufficient to fund its current operating plan and planned capital expenditures for at least the next 12 months.

The Company may continue to seek additional funding through public equity, private equity, debt financing, collaboration partnerships, or other sources. There are no assurances, however, that the Company will be successful in raising additional working capital, or if it is able to raise additional working capital, it may be unable to do so on commercially favorable terms. The Company’s failure to raise capital or enter into other such arrangements if and when needed would have a negative impact on its business, results of operations and financial condition and its ability to develop its product candidates.

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

- our ability to raise capital in light of the impacts of the ongoing global COVID-19 pandemic on the global financial markets;
- the scope, progress, results, and costs of drug discovery, preclinical development, laboratory testing, drug manufacturing and clinical trials for the product candidates we have developed or may develop;
- our ability to enroll clinical trials in a timely manner and to quickly resolve any delays or clinical holds that may be imposed on our development programs, particularly in light of the global COVID-19 pandemic;
- the costs associated with our manufacturing process development and evaluation of third-party manufacturers and suppliers;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs of preparing and submitting marketing approvals for any of our product candidates that successfully complete clinical trials, and the costs of maintaining marketing authorization and related regulatory compliance for any products for which we obtain marketing approval;
- the costs of preparing, filing, and prosecuting patent applications, maintaining and enforcing our intellectual property and proprietary rights, and defending intellectual property-related claims;
- the costs of future activities, including product sales, medical affairs, marketing, manufacturing, and distribution, for any product candidates for which we receive marketing approval;
- the terms of our current and any future license agreements and collaborations; and the extent to which we acquire or in-license other product candidates, technologies and intellectual property;
- the success of our collaborations with Ares and Denali and other partners;
- our ability to establish and maintain additional collaborations on favorable terms, if at all; and
- the costs of operating as a public company.

Critical Accounting Policies and Significant Judgments and Estimates

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles. The preparation of our consolidated financial statements and related disclosures requires our management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue, costs and expenses and related disclosures. We believe that the estimates and assumptions underlying the accounting policies described therein may have the greatest potential impact on our consolidated financial statements and, therefore, consider these to be our critical accounting policies. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these current estimates based on different assumptions and under different conditions. There have been no material changes to the Company's critical accounting policies and estimates as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on March 30, 2021.

Contractual Obligations and Commitments

We enter into contracts in the normal course of business with third-party service providers for clinical trials, preclinical research studies and testing, manufacturing and other services and products for operating purposes. We have not included our payment obligations under these contracts as these contracts generally provide for termination upon notice, and therefore, we believe that our non-cancelable obligations under these agreements are not material, and we cannot reasonably estimate the timing of if and when they will occur. We could also enter into additional research, manufacturing, supplier and other agreements in the future, which may require up-front payments and even long-term commitments of cash.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 will change how companies account for credit losses for most financial assets and certain other instruments. For trade receivables, loans and held-to-maturity debt securities, companies will be required to recognize an allowance for credit losses rather than reducing the carrying value of the asset. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* to amend the effective date of ASU 2016-13, for entities eligible to be "smaller reporting companies," as defined by the SEC, to be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company has not elected to early adopt ASU No. 2016-13. The Company continues to evaluate the potential impact that the adoption of ASU 2016-13 will have on the Company's financial position and results of operations.

Emerging Growth Company and Smaller Reporting Company Status

We are an emerging growth company, ("EGC") as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). We will remain an EGC until the earlier of (1) the last day of the fiscal year following the fifth anniversary of the completion of our initial public offering (December 31, 2021), (2) the last day of the fiscal year in which we have total annual gross revenue of at least $1.07 billion, (3) the last day of the fiscal year in which we are deemed to be a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which would occur if the market value of our ordinary shares held by non-affiliates exceeded $700.0 million as of the last business day of the second fiscal quarter of such fiscal year or (4) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period. The JOBS Act permits an EGC to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. We have irrevocably elected to "opt out" of this provision and, as a result, we will comply with new or revised accounting standards when they are required to be adopted by public companies that are not emerging growth companies. In addition, we intend to rely on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, we are entitled to rely on certain exemptions as an EGC we are not required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b), (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that has or may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer's compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of Spring Bank's initial public offering (December 31, 2021) or until we no longer meet the requirements of being an EGC, whichever is earlier.

We are also a smaller reporting company as defined under the Exchange Act. We may take advantage of certain of the scaled disclosures available to smaller reporting companies and will be able to take advantage of these scaled disclosures for so long as (i) our voting and non-voting common stock held by non-affiliates is less than $250.0 million measured on the last business day of our second fiscal quarter or (ii) our annual revenue is less than $100.0 million during the most recently completed fiscal year and our voting and non-voting common stock held by non-affiliates is less than $700.0 million measured on the last business day of our second fiscal quarter.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company, as defined in Rule 12b-2 under the Exchange Act for this reporting period and are not required to provide the information required under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of June 30, 2021, our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer determined the material weaknesses in our internal controls as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020, as described below, our disclosure controls and procedures were not fully effective as of June 30, 2021.

Management's Annual Report on Internal Control over Financial Reporting

We have performed an evaluation of the effectiveness of our internal control over financial reporting, based on criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in its 2013 Internal Control-Integrated Framework. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was not fully effective as of June 30, 2021, due to material weaknesses in internal control over financial reporting, associated with (i) the lack of formal policies and procedures and sufficient complement of personnel to implement effective segregation of duties and (ii) the lack of sufficient formality and evidence of controls over key reports and spreadsheets.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future years are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As an EGC under the JOBS Act, we are exempt from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Remediation Plans

As discussed above, the material weaknesses over effective controls on the financial statement close and reporting process as well as lack of an effective control environment with formal processes and procedures and not having sufficient formality and evidence of controls as of December 31, 2020, were not fully remediated as of June 30, 2021. We have commenced measures to remediate these material weaknesses and have hired additional finance and accounting personnel during the fourth quarter of 2020 with appropriate expertise to perform specific functions which we believe will allow for proper segregation of duties, design key controls and implement improved processes and internal controls. We will continue to assess our finance and accounting staffing needs to ensure remediation of these material weaknesses. The material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control over Financial Reporting

There were 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 three months ended June 30, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any material litigation.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as filed with the SEC on March 30, 2021, which could materially affect our business, financial condition, or results of operations. . There have been no material changes to the risk factors described in our Annual Report on Form 10-K filed with the SEC on March 30, 2021, as updated by "Part II, Item 1A, Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, filed with the SEC on May 17, 2021.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Note Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index set forth immediately prior to the signature page.

EXHIBIT INDEX

Exhibit Number	Description
10.1*±	Side Letter, dated June 30, 2021, to (a) the License and Collaboration Agreement, dated August 24, 2016, by and among BBB Holding Ltd (f/k/a F-star Gamma Limited, DBH), F-star Biotechnologische Forschungs- und Entwicklungsges.m.b.h. (F-star GmbH), F-star Biotechnology Limited (F-star Ltd) and Denali Therapeutics Inc. (Denali), as amended by the letter agreement dated February 23, 2018, the letter agreement dated May 21, 2018 and the amendment dated June 1, 2018; (b) the Amended and Restated Gamma IP License Agreement, dated August 24, 2016, between F-star Ltd and DBH, as amended by the Patent Side Letter and Buy-Out Side Letter; (c) the Gamma Support Services Agreement, dated August 24, 2016, between F-star Ltd. and DBH, as amended by Amendment No. 1 dated April 11, 2019; and (d) the Share Purchase Agreement, dated May 30, 2018, by and among the Sellers party thereto, Shareholder Representative Services LLC and Denali.
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance 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	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, has been formatted in Inline XBRL.

***** Filed herewith.

± Certain confidential portions of this Exhibit were omitted by means of marking such portions with brackets ("[***]") because the identified confidential portions (i) are not material and (ii) would be competitively harmful if publicly disclosed.

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.

F-star Therapeutics, Inc.

Date: August 13, 2021

By: */s/ Eliot R. Forster*

Eliot R. Forster, Ph.D.
President and Chief Executive Officer

Exhibit 10.1

[Pursuant to Item 601(b)(10) of Regulation S-K, certain confidential portions of this exhibit have been omitted by means of marking such portions with asterisks as the identified confidential portions (i) are not material and (ii) would be competitively harmful if publicly disclosed.]

Confidential

From: Denali Therapeutics Inc.
161 Oyster Point Blvd.
South San Francisco
CA 94080
U.S.A.

BBB Holding Ltd
Hill House
1 Little New Street
London, United Kingdom
EC4A 3TR

To: F-star Biotechnology Limited
Eddeva B920
Babraham Research Campus
Cambridge, United Kingdom
CB22 3AT
Attn: Chief Executive Officer

F-star Biotechnologische Forschungs- und Entwicklungsges.m.b.h.
C/O - F-star Biotechnology Limited
Eddeva B920
Babraham Research Campus
Cambridge, United Kingdom
CB22 3AT
Attn: Chief Executive Officer

F-star Therapeutics Limited
Eddeva B920
Babraham Research Campus
Cambridge, United Kingdom
CB22 3AT
Attn: Chief Executive Officer
CC: alliances@f-star.com

June 30th, 2021

RE: Side Letter to License and Collaboration Agreement, the Amended and Restated Gamma License Agreement, the Support Services Agreement and the Share Purchase Agreement

Dear Sirs:

We refer to (a) the License and Collaboration Agreement between BBB Holding Ltd (f/k/a F-star Gamma Limited, "**DBH**"), F-star Biotechnologische Forschungs- und Entwicklungsges.m.b.h. ("**F-star GmbH**"), F-star Biotechnology Limited ("**F-star Ltd**", together with F-star GmbH, "**F-star**") and Denali Therapeutics Inc. ("**Denali**"), dated August 24, 2016 as amended by the letter agreement dated February 23, 2018 ("**Patent Side Letter**"), the letter agreement dated May 21, 2018 ("**Buy-Out Side Letter**") and the amendment dated June 1, 2018 (together the "**LCA**"), (b) the Amended and Restated Gamma IP License Agreement between F-star Ltd and DBH dated August 24, 2016, as amended by the Patent Side Letter and Buy-Out Side Letter (the "**GIPL**"), (c) the Gamma Support Services Agreement between F-star Ltd. and DBH dated August 24, 2016 ("**SSA**") as amended by Amendment No. 1 dated April 11, 2019 and (d) the Share Purchase Agreement between the Sellers, Shareholder Representative Services LLC ("**SRS**") and Denali dated May 30, 2018 ("**SPA**").

Capitalized terms in this letter have the meaning given to them in the LCA, GIPL, SSA and SPA unless otherwise stated.

By signing this letter, we, Denali and DBH, and by counter-signing, you, F-star and F-star Therapeutics, acknowledge and agree to the terms of this letter, which shall control notwithstanding any provision to the contrary in the LCA, GIPL, SSA or (as between Denali and F-star only) the SPA. For the avoidance of doubt, nothing in this letter shall vary or purport to vary the SPA and no right or obligation of a party arising under the LCA, GIPL or SSA shall be limited or restricted save to the extent expressly set out in this letter.

1. **Acknowledgments and Confirmations**. By signing this letter, we, Denali and DBH and by counter-signing, you, F-star and F-star Therapeutics, acknowledge and agree that:

    a. all of the assets and business of F-star, including intellectual property rights, were assigned to F-star Therapeutics Limited, a company incorporated in England with registered number 11532458 and registered office at Eddeva B920, Babraham Research Campus, Cambridge, United Kingdom ("**F-star Therapeutics**") on May 31, 2021 ("**Novation Date**");

    b. the rights and obligations of F-star arising under the LCA, GIPL, SSA, this letter and (as between Denali and F-star only) the SPA are to be deemed novated to F-star Therapeutics with effect from the Novation Date;

    c. all rights and obligations of F-star arising under the LCA, GIPL, SSA, this letter and (as between Denali and F-star only) the SPA have been assumed by F-star Therapeutics with effect from the Novation Date;

    d. this letter and any further notice served by a party to any F-star entity or F-star Therapeutics pursuant to any of the LCA, GIPL, SSA and (as between Denali and F-star only) the SPA does not need to be served on or copied to Cooley LLP; and

    e. any further notice served on any F-star entity or F-star Therapeutics under the LCA, GIPL, SSA, this letter and (as between Denali and F-star only) the SPA shall be required to be sent to F-star Therapeutics only and marked for the attention of the Chief Executive Officer (and copied by email to alliances@f-star.com).

2. **Denali Fcab Notice**. The parties agree and acknowledge that this letter agreement serves as the Denali Fcab Notice with respect to **[***]**.

3. **Disbandment of JSC**. In recognition of the winding down of collaboration activities related to the Fcab Discovery Plans for TfR and **[***]** under the LCA and SSA, the parties mutually agree to disband the JSC and Working Groups thereunder and, in accordance with Section 2.4 of the LCA, neither the JSC nor any Working Group shall have any further responsibility or authority under the LCA or the SSA.

   After the date hereof, contact between Denali and DBH on the one hand and F-star Therapeutics on the other hand shall be overseen by the Alliance Managers, and, notwithstanding Section 2.5 of the LCA, the Alliance Managers shall meet **[***]**.

4. **Status Reports**. The parties mutually agree that Denali's and DBH's obligations under Sections 4.1, 4.7.2, 4.9 and 5.3 of the LCA and Sections 4.2 and 4.4.1 of the GIPL shall be limited to a written report in the form attached hereto as Appendix A which will be provided to F-star Therapeutics (with a copy being sent by email to alliances@f-star.com) **[***]**. For avoidance of doubt, the foregoing shall not limit Denali's reporting obligations under Paragraph 2.8 of Schedule 5 to the SPA.

   Nothing in this paragraph shall restrict or limit a party's obligation under Section 11.4 of the LCA, Section 9.3 of the GIPL and Section 7.3 of the SSA (to the extent applicable to such party) to provide to the other applicable party(ies) for its review and comment a proposed public disclosure by such party relating to the LCA, GIPL or SSA, as the case may be, where in the opinion of that disclosing entity's counsel it is required by applicable law or the rules of a stock exchange on which its securities are listed to issue such public disclosure.

5. **Transfer of Libraries**.Denali agrees to deliver to F-star Therapeutics a copy of the two libraries known internally at Denali as **[***]**, which library copies shall be provided to F-star Therapeutics in DNA form (and not in the form of a glycerol stock) within sixty (60) days after the date hereof. Following the date hereof, Denali and DBH's obligations under Section 4.1 of the LCA and Section 4.3 of the GIPL shall be limited to providing F-star Therapeutics with **[***]**.

6. **Denali Materials**. F-star and F-star Therapeutics agree to destroy or return to Denali (at Denali's election provided always that such election shall be made by Denali within ninety (90) days of the date of this letter) all biological, chemical and other laboratory materials provided by Denali or DBH to F-star or F-star Therapeutics in connection with the LCA, SSA, or GIPL, including any Denali Fcabs, antigens and antibodies, and all subunits and derivatives thereof developed or generated by or on behalf of F-star or F-star Therapeutics, other than any Denali Libraries and Transferred Libraries provided by Denali to F-star or F-star Therapeutics.

7. **[***]**.

8. **Denali Fcab-Specific IP**. The parties hereby agree and acknowledge the following:

   a. "**Denali Fcab-Specific IP**" means, subject to paragraph 8.b, (i) any Know-How to the extent pertaining to an Fcab that binds to TfR or CD98hc and (ii) any Patent that only includes claims that **[***]** (any such Patent, a "**Denali Fcab-Specific Patent**").

   b. For clarity, Denali Fcab-Specific Patents shall not include a Patent that includes a claim that covers the composition of matter, use, or method of identification, improvement, manufacture or other use of **[***]**.

   c. As between the parties, Denali and/or DBH shall retain ownership of Denali Fcab-Specific IP and, for avoidance of doubt, neither Denali nor DBH or any of their Affiliates or (sub)licensees shall be obligated to assign any Denali Fcab-Specific IP to F-star or F-star Therapeutics.

   d. Denali and/or DBH shall have the sole right to prosecute and maintain the Denali Fcab-Specific Patents, and shall keep F-star Therapeutics informed of the prosecution and maintenance thereof where Denali includes a claim in any such Patent that covers the composition of matter, use, or method of identification, improvement, manufacture or other use of **[***]**, provided that Denali shall provide F-star Therapeutics with a patent status report regarding the Denali Fcab-Specific Patents every six months, such status report including a brief description of the claimed subject matter in each patent family, and Denali shall provide F-star Therapeutics with a copy of any claims in any Denali Fcab-Specific Patents prior **[***]**. For avoidance of doubt, the foregoing shall not limit Denali or DBH's obligations under the LCA or GIPL with respect to the assignment, prosecution and maintenance of any Patent that is not a Denali Fcab-Specific Patent.

   e. Nothing in this paragraph 8 shall oblige F-star or F-star Therapeutics to assign rights to Know-How or Patents to Denali or DBH that were developed, generated or invented by F-star or F-star Therapeutics on or prior to the date hereof. For clarity, the preceding sentence shall not limit any rights granted to Denali under the LCA or GIPL.

Please acknowledge your acceptance of the terms of this letter by countersigning this letter below.

Sincerely,

/s/ Ryan Watts

Ryan Watts, CEO
For and on behalf of Denali Therapeutics Inc. and BBB Holding Ltd

Agreed and Acknowledged by:

/s/ Eliot Forster

Chief Executive Officer
For and on behalf of F-star Biotechnology Limited, F-star Biotechnologische Forschungs -und Entwicklungsges.m.b.h. and F-star Therapeutics Limited

Exhibit 31.1

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

I, Eliot R. Forster, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of F-star 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.

Date: August 13, 2021

By: */s/ Eliot R. Forster*

Eliot R. Forster, Ph.D.
President and Chief Executive Officer

Exhibit 31.2

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

I, Darlene Deptula-Hicks, certify that:

6. I have reviewed this Quarterly Report on Form 10-Q of F-star Therapeutics, Inc.;

7. 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;

8. 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;

9. 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

10. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2021

By: **

Darlene Deptula-Hicks
Chief Financial Officer, Treasurer & Secretary

Exhibit 32.1

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

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

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

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

Date: August 13, 2021

By: *  *

Eliot R. Forster, Ph.D.
President and Chief Executive Officer

Exhibit 32.2

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

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

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

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

Date: August 13, 2021

By: */s/ Darlene Deptula-Hicks*
Darlene Deptula-Hicks
Chief Financial Officer, Treasurer & Secretary