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, 2023

OR

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

For the transition period from

Commission File Number: 001-40047

Talis Biomedical Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware		**46-3122255**
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
1100 Island Drive		
Redwood City, California		**94065**
(Address of principal executive offices)		(Zip Code)

(650) 433-3000
(Registrant's telephone number, including area code)

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

`Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, $0.0001 par value per share	TLIS	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of August 4, 2023, there were 3,809,948 shares of the Registrant's common stock and preferred stock outstanding consisting of 1,819,038 shares of common stock and 1,990,910 shares of Series 1 convertible preferred stock, as converted from 29,863,674 shares to reflect the 1-for-15 Reverse Stock Split effective July 5, 2023. Our Series 1 convertible preferred stock is a voting common stock equivalent, subject to certain limitations.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this Quarterly Report) contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our expectations regarding our revenue, expenses and other operating results;
- the timing or outcome of any of our domestic and international regulatory submissions;
- our planned regulatory clearance pathways;
- our efforts to successfully develop and commercialize our products and services, including our ability to successfully conduct clinical trials and studies and expand our product menu;
- our expectations of the reliability, accuracy and performance of our products and services, as well as expectations of the benefits to patients, clinicians and providers of our products and services;
- future investments in our business, our anticipated capital expenditures and our estimates regarding our capital requirements, future revenues, expenses, reimbursement rates and needs for additional financing;
- our ability to manufacture a regulatory cleared product at a low cost;
- impact from future regulatory, judicial, and legislative changes or developments in the United States and foreign countries;
- our ability to re-establish and deploy our commercial capabilities and acquire customers;
- our expectations relating to the effects of our reverse stock split effected on July 5, 2023;
- our expectations regarding our sales models;
- the costs and success of our research and development efforts, including the potential effects of inflation;
- our ability to increase demand for our products and services, obtain and maintain favorable coverage and reimbursement determinations from third-party payors and expand geographically;
- the performance of our third-party suppliers and manufacturers;
- our ability to effectively grow, including our ability to retain and recruit personnel, and maintain our culture;
- our ability to compete effectively with existing competitors and new market entrants;
- the impact on our business of economic or political events or trends;
- the size and growth potential of the markets for our products and services, and our ability to serve those markets; and
- the rate and degree of market acceptance of our products and services.

In some cases, you can identify these statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expects,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would” or the negative of those terms, and similar expressions that convey uncertainty of future events or outcomes. These forward-looking statements reflect our management’s beliefs and views with respect to future events and are based on estimates and assumptions as of the date of this Quarterly Report and are subject to risks and uncertainties. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should carefully read this Quarterly Report and the documents that we reference in this Quarterly Report and have filed as exhibits to this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in this Quarterly Report by these cautionary statements. Except as required by law, we assume no obligation to

update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statments, whether as a result of new information, future events or otherwise.

Item 1. Financial Statements.

Talis Biomedical Corporation
Condensed Balance Sheets
(in thousands, except for shares and par value)

	June 30, 2023 (unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 98,200	$ 130,191
Restricted cash	1,010	—
Accounts receivable, net	532	308
Prepaid expenses and other current assets	2,223	2,783
Total current assets	101,965	133,282
Property and equipment, net	3,539	3,312
Operating lease right-of-use-assets	16,030	30,920
Other long-term assets	1,542	1,776
Total assets	$ 123,076	$ 169,290
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,491	$ 3,768
Accrued compensation	3,097	4,212
Accrued liabilities	938	989
Operating lease liabilities, current portion	2,736	3,703
Total current liabilities	9,262	12,672
Operating lease liabilities, long-term portion	17,648	29,879
Total liabilities	$ 26,910	$ 42,551
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Series 1 convertible preferred stock, $0.0001 par value—60,000,000 shares authorized as of June 30, 2023 and December 31, 2022; 29,863,674 shares issued and outstanding as of June 30, 2023 and December 31, 2022; aggregate liquidation preference of $3 as of June 30, 2023 and December 31, 2022	3	3
Common Stock, $0.0001 par value; 200,000,000 shares authorized as of June 30, 2023 and December 31, 2022; 1,819,029 and 1,811,396 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	—	—
Additional paid-in capital	606,982	604,690
Accumulated deficit	(510,819)	(477,954)
Total stockholders' equity	96,166	126,739
Total liabilities and stockholders' equity	$ 123,076	$ 169,290

See accompanying notes to the unaudited condensed financial statements

Talis Biomedical Corporation
Condensed Statements of Operations and Comprehensive Loss (Unaudited)
(in thousands, except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenue				
Grant revenue	$ 533	$ 70	$ 1,614	$ 944
Product revenue, net	48	502	185	2,815
Total revenue, net	581	572	1,799	3,759
Operating expenses:				
Cost of products sold	7	1,302	27	4,823
Research and development	10,555	17,365	24,351	38,068
Selling, general and administrative	6,410	9,178	12,809	21,108
Total operating expenses	16,972	27,845	37,187	63,999
Loss from operations	(16,391)	(27,273)	(35,388)	(60,240)
Other income, net	1,357	262	2,523	178
Net loss and comprehensive loss	$ (15,034)	$ (27,011)	$ (32,865)	$ (60,062)
Net loss per share, basic and diluted	$ (8.27)	$ (15.01)	$ (18.11)	$ (33.47)
Weighted average shares used in the calculation of net loss per share, basic and diluted	1,817,288	1,799,559	1,814,994	1,794,463

See accompanying notes to the unaudited condensed financial statements

Talis Biomedical Corporation
Condensed Statements of Convertible Preferred Stock and Stockholders' Equity (Unaudited)
(in thousands, except for share amounts)

	Series 1 Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Stockholders'
	Shares	Value	Shares	Value	Capital	Deficit	Equity
Balance at December 31, 2022	29,863,674	$ 3	1,811,396	$ —	$ 604,690	$ (477,954)	$ 126,739
Issuance of Common Stock pursuant to equity incentive plan	—	—	233	—	—	—	—
Issuance of Common Stock pursuant to employee stock purchase plan	—	—	4,560	—	33	—	33
Stock-based compensation expense	—	—	—	—	1,183	—	1,183
Net loss	—	—	—	—	—	(17,831)	(17,831)
Balance at March 31, 2023	29,863,674	$ 3	1,816,189	$ —	$ 605,906	$ (495,785)	$ 110,124
Issuance of Common Stock pursuant to equity incentive plan	—	—	2,840	—	—	—	—
Stock-based compensation expense	—	—	—	—	1,076	—	1,076
Net loss	—	—	—	—	—	(15,034)	(15,034)
Balance at June 30, 2023	29,863,674	$ 3	1,819,029	$ —	$ 606,982	$ (510,819)	$ 96,166

	Series 1 Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Stockholders'
	Shares	Value	Shares	Value	Capital	Deficit	Equity
Balance at December 31, 2021	29,863,674	$ 3	1,785,476	$ —	$ 598,916	$ (364,942)	$ 233,977
Issuance of Common Stock pursuant to equity incentive plan	—	—	4,388	—	98	—	98
Issuance of Common Stock pursuant to employee stock purchase plan	—	—	9,695	—	216	—	216
Stock-based compensation expense	—	—	—	—	1,545	—	1,545
Net loss	—	—	—	—	—	(33,051)	(33,051)
Balance at March 31, 2022	29,863,674	$ 3	$ 1,799,559	$ —	$ 600,775	$ (397,993)	$ 202,785
Stock-based compensation expense	—	—	—	—	1,245	—	1,245
Net loss	—	—	—	—	—	(27,011)	(27,011)
Balance at June 30, 2022	29,863,674	$ 3	1,799,559	$ —	$ 602,020	$ (425,004)	$ 177,019

See accompanying notes to the unaudited condensed financial statements

Talis Biomedical Corporation
Condensed Statements of Cash Flows (Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2023	**2022**
Operating activities		
Net loss	$ (32,865)	$ (60,062)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	2,259	2,790
Depreciation and amortization	342	1,343
Non-cash lease expense	3,460	1,008
Changes in operating assets and liabilities:		
Accounts receivable	(224)	(453)
Inventory	—	(2,219)
Prepaid expenses and other current assets	560	(2,350)
Other long-term assets	—	980
Accounts payable	(1,307)	(1,144)
Accrued expenses and other liabilities	(1,197)	(5,429)
Lease liabilities	(1,767)	(235)
Net cash used in operating activities	$ (30,739)	$ (65,771)
Investing activities		
Purchase of property and equipment	(509)	(706)
Net cash used in investing activities	$ (509)	$ (706)
Financing activities		
Proceeds from stock option exercises	—	98
Proceeds from stock issuances pursuant to employee stock purchase plan	33	216
Net cash provided by financing activities	$ 33	$ 314
Net (decrease) in cash, cash equivalents and restricted cash	(31,215)	(66,163)
Cash, cash equivalents and restricted cash at beginning of period	131,967	233,312
Cash, cash equivalents and restricted cash at end of period	$ 100,752	$ 167,149
Supplemental disclosure of noncash investing and financing activities		
Right-of-use asset obtained in exchange for lease liability	$ 7,265	$ 19,245
Remeasurement of operating lease right-of-use asset for lease modification	$ (18,696)	$ —

The following table provides a reconciliation of the cash, cash equivalents and restricted cash balances as of each of the periods shown above:

	Six Months Ended June 30,	
	2023	**2022**
Cash and cash equivalents	$ 98,200	$ 165,373
Restricted cash	1,010	—
Restricted cash – other long-term assets	1,542	1,776
Total cash, cash equivalents and restricted cash	$ 100,752	$ 167,149

See accompanying notes to the unaudited condensed financial statements

1. Organization and nature of business

Talis Biomedical Corporation (the Company) is a molecular diagnostic company focused on advancing health equity and outcomes through the delivery of accurate infectious disease testing in the moment of need, at the point of care. The Company plans to develop and commercialize innovative products on its sample-to-answer Talis One system to enable accurate, low cost, and rapid molecular testing. The Company was incorporated in 2013 under the general laws of the State of Delaware and is based in Redwood City, California (CA) and Chicago, Illinois (IL).

Liquidity

The Company has incurred significant losses and negative cash flows since inception, including a net loss of $32.9 million for the six months ended June 30, 2023. As of June 30, 2023, the Company had unrestricted cash and cash equivalents of $98.2 million and $2.6 million of restricted cash.

Management expects to continue to incur additional substantial losses in the foreseeable future primarily as a result of the Company's research and development activities and future commercialization of the Talis One system. The Company's activities are subject to significant risks and uncertainties, including failing to secure additional funding to continue to operationalize the Company's current technology and to advance the development of its products.

The Company expects its existing unrestricted cash and cash equivalents as of June 30, 2023 will be sufficient to fund its operations through at least one year from the date these condensed financial statements are issued. The Company expects to finance its future operations with its existing unrestricted cash and cash equivalents and through strategic financing opportunities that could include, but are not limited to, one or a combination of corporate development and licensing opportunities and grant agreements, the incurrence of debt, future offerings of its equity, or collaborations or partnerships with other companies. However, there is no guarantee that any of these strategic or financing opportunities will be executed or realized on favorable terms, if at all, and some could be dilutive to existing stockholders. The Company's ability to raise additional capital through either the issuance of equity or debt, is dependent on a number of factors including, but not limited to, the demand for the Company, which itself is subject to a number of development and business risks and uncertainties, as well as the uncertainty that the Company would be able to raise such additional capital at a price or on terms that are favorable to the Company or at all.

In March 2022, we implemented a reduction in force designed to reduce our operating expenses, preserve cash and align our remaining resources to focus on, among other things, developing internal manufacturing expertise to support the commercial launch of the Talis One system. We incurred $1.0 million of expenses during the six months ended June 30, 2022 related to the reduction in force, substantially all of which consisted of charges related to the staff reduction, including cash expenditures and other costs. There were no remaining obligations as of June 30, 2023.

Reverse Stock Split

On June 30, 2023, the Company filed a certificate of amendment to the Company's Amended and Restated Certificate of Incorporation (the "Certificate of Amendment") with the Secretary of State of Delaware to effect a 1-for-15 reverse stock split of the shares of the Company's common stock, par value $0.0001 per share, effective as of 5:00 p.m., Eastern Time, on July 5, 2023 (the "Reverse Stock Split"). On this date, every 15 issued and outstanding shares of common stock were converted into one share of common stock, with any fractional shares resulting from the Reverse Stock Split rounded up to the nearest whole share. The number of outstanding shares of common stock was reduced from approximately 26.9 million shares to approximately 1.8 million shares.

The Reverse Stock Split did not change the Company's authorized shares of common stock and Series 1 convertible preferred stock, which remained at 200,000,000 and 60,000,000 shares, respectively. The Reverse Stock Split did not change the par value of the common stock and, therefore, the Company reclassified an amount equal to the reduction in the number of shares of common stock at par value to additional paid-in capital. Proportionate adjustments were made to the per share exercise price and/or the number of shares issuable upon the exercise of stock options and the settlement of restricted stock units and the number of shares authorized and reserved for issuance pursuant to the Company's equity incentive plans, see Note 7. Additionally, the Reverse Stock Split had no impact on the number of shares of the Company's Series 1 convertible preferred stock issued and outstanding. However, the conversion ratio of the outstanding Series 1 convertible preferred stock increased and the number of shares of common stock issuable upon conversion of such preferred stock decreased in proportion to the 1-for-15 split ratio, see Note 6.

All share and per share amounts for common stock in these condensed financial statements and notes thereto have been retroactively adjusted for all periods presented to give effect to the Reverse Stock Split.

2. Summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Accordingly, these unaudited condensed financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed financial statements include all adjustments necessary to fairly state the financial position and the results of our operations and cash flows for interim periods in accordance with GAAP. All such adjustments are of a normal, recurring nature. The results for any interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or for any future period.

The condensed balance sheet presented as of December 31, 2022 has been derived from the audited financial statements as of that date. The condensed financial statements and notes as presented do not contain all information that is included in the annual financial statements and notes thereto of the Company. The condensed financial statements and notes included in this Quarterly Report should be read in conjunction with the financial statements and notes included in the Company's 2022 Annual Report on Form 10-K (Annual Report) filed with the SEC.

The significant accounting policies used in preparation of these condensed financial statements as of and for the three and six months ended June 30, 2023 are consistent with those described in our Annual Report.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company bases its estimates and judgments on historical experience and on various other assumptions, including knowledge about current events and expectations about actions the Company may take in the future, that the Company believes are reasonable under the circumstances. Actual results could vary from the amounts derived from management's estimates and assumptions.

Concentration of credit risk and other risks and uncertainties

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, and accounts receivables. The Company's cash is deposited in accounts at large financial institutions and its cash equivalents are primarily held in prime and U.S. government money market funds. The Company believes it is not exposed to significant credit risk due to the financial strength of the depository institutions in which the cash and cash equivalents are held.

The Company is subject to risks common to companies in the diagnostics industry including, but not limited to, uncertainties related to commercialization of products, regulatory approvals, and protection of intellectual property rights.

Global economic conditions remain volatile resulting from the continuing and evolving effects of the COVID-19 pandemic, inflationary pressures, rising interest rates, the ongoing military conflict between Russia and Ukraine and related sanctions imposed against Russia and otherwise. The Company continues to evaluate the potential impact of these global issues on our current and future business operations, including our expenses, clinical trials and addressable markets as well as on our industry and healthcare system.

The Company is dependent on key suppliers for certain manufacturing and research and development activities. An interruption in the supply of these materials could temporarily impact the Company's ability to commercialize, manufacture inventory and perform research and development, testing and clinical trials related to its products. The Company is also dependent on its manufacturing partners that are critical to the Company's ability to supply product to its end customers.

Grant revenue and receivables

Grants awarded to the Company for research and development by government entities are outside the scope of ASC 606. This is because the granting entities are not considered to be customers and are not receiving reciprocal value for their grant support provided to the Company. These grants provide the Company with payments for certain types of expenditures in return for research and development activities or for meeting certain development milestones over a contractually defined period. For efforts performed under these grant agreements, the Company's policy is to recognize revenue when it is reasonably assured that the grant funding will be received as evidenced through the existence of a grant arrangement, amounts eligible for reimbursement are determinable and have been incurred and paid, the applicable conditions under the grant arrangements have been met, and collectability of amounts due is reasonably assured. Costs of grant revenue are recorded as a component of research and development expenses in the Company's condensed statements of operations and comprehensive loss.

Grant funds received from third parties are recorded as revenue if the Company is deemed to be the principal participant in the arrangement. If the Company is not the principal participant, the funds from grants are recorded as a reduction to research and

development expense. Reimbursable costs paid prior to being billed are recorded as unbilled grant receivables. Funds received in advance are recorded as deferred grant revenue. Management has determined that the Company is the principal participant under the Company's grant agreements, and accordingly, the Company records amounts earned under these arrangements as grant revenue.

New accounting pronouncements

Recently issued accounting pronouncements

There are no accounting pronouncements pending at June 30, 2023 that we expect to have a material impact on our financial statements and disclosures.

Recently adopted accounting standards

We did not adopt any new accounting standards during the three or six months ended June 30, 2023.

3. Fair value measurement

The following table summarizes the Company's financial assets carried at fair value and measured on a recurring basis by level within the fair value hierarchy (in thousands):

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents (money market funds)	$ 89,915	$ —	$ —	$ 89,915
Total assets measured at fair value	$ 89,915	$ —	$ —	$ 89,915

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents (money market funds)	$ 127,404	$ —	$ —	$ 127,404
Total assets measured at fair value	$ 127,404	$ —	$ —	$ 127,404

4. Revenue

Grant revenue and receivables

NIH grant

In May 2018, the Company was awarded a grant from the NIH for the Diagnostics via Rapid Enrichment, Identification, and Phenotypic Antibiotic Susceptibility Testing of Pathogens from Blood project. In April 2023, the Company exercised a one-year option under the grant, extending the term through April 2024. There is $0.5 million in additional funding available under the grant as of June 30, 2023.

During each of the three months ended June 30, 2023 and 2022, the Company recognized $0.5 million and $0.1 million of revenue related to this grant, respectively. During each of the six months ended June 30, 2023 and 2022, the Company recognized $1.6 million and $0.3 million of revenue related to this grant, respectively.

NIH Rapid Acceleration of Diagnostics - RADx Initiative contracts

In July 2020, the Company was awarded a subaward grant from the University of Massachusetts Medical School for Phase 1 of the NIH's RADx initiative and a contract from the NIH directly for Phase 2 of the RADx initiative. The RADx initiative aims to speed the development, validation, and commercialization of innovative, rapid tests that can directly detect COVID-19. In 2021, the Company and the NIH amended the contract for the completion of the RADx initiative, extending the term of the contract to January 30, 2022 and decreased the potential milestone payment from $4.0 million to $2.0 million. The contract expired on January 30, 2022.

The Company recognized $0.7 million in revenue related to this grant during the six months ended June 30, 2022.

5. Commitments and contingencies

Operating leases

In March 2023, the Company entered into a lease termination agreement with the landlord of its former Redwood City, CA facility. The original term of the lease commenced in June 2022 and was for an initial term of 10.5 years. As a result of this modification, the Company remeasured the lease liability and the corresponding right-of-use asset resulting in a reduction of each by $18.7 million. The Company incurred immaterial customary termination and broker fees during the six months ended June 30, 2023. The lease of our Redwood City, CA facility was terminated on May 12, 2023.

In March 2023, the Company entered into a sublease for laboratory and office space in its current Redwood City, CA facility. The sublease will continue for a term of 7 years, with no option to extend. The minimum annual commitment under the new sublease is approximately $1.0 million with fixed escalations of 3.5% per annum. The sublease commenced for accounting purposes on May 1, 2023 and the Company recorded a lease liability and corresponding right-of-use asset and liability of $7.3 million.

The undiscounted future lease payments for our Redwood City, CA and Chicago, IL operating leases as of June 30, 2023 were as follows (in thousands):

	Operating Leases
2023(remainder)	1,350
2024	2,970
2025	3,055
2026	3,144
2027	3,235
2028 and thereafter	12,506
Total future minimum lease payments	26,260
Less: imputed interest	(5,875)
Present value of operating lease liabilities	20,385
Less: current portion of lease liabilities	(2,736)
Noncurrent portion of lease liabilities	$ 17,648

Standby letters of credit

In January 2022, in conjunction with the Company's former Redwood City, CA operating lease, the Company entered into a standby letter of credit (LOC) in the amount of $1.0 million to secure the lease through its expiration. In March 2023, the Company entered into a lease termination agreement with the landlord of its former Redwood City, CA facility, which accelerated the lease termination date to no later than May 12, 2023. The Company is required to maintain a cash balance of $1.0 million, which has been classified as restricted cash on the condensed balance sheet as of June 30, 2023, as collateral for the LOC until all criteria in the termination agreement have been met.

In March 2023, the Company entered into a sublease for laboratory and office space in its current Redwood City, CA facility. The Company is required to hold a LOC in the amount of $0.7 million to secure this lease through expiration. The Company is required to maintain a cash balance of $0.7 million as collateral for the LOC, which has been classified in other long-term assets on the condensed balance sheet as of June 30, 2023, because it is unavailable for a period longer than one year from the balance sheet date.

In conjunction with the Chicago, IL laboratory and office space lease, the Company is required to hold an additional LOC in the amount of $0.8 million to secure this lease through its expiration. The Company is required to maintain a cash balance of $0.8 million as collateral for the LOC, which is classified in other long-term assets on the condensed balance sheet as of June 30, 2023, because it is unavailable for a period longer than one year from the balance sheet date.

The Company has not drawn upon any LOC through June 30, 2023.

Indemnification agreements

In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, customers and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements or from intellectual property infringement claims made by third parties. The Company also provides indemnification to directors and officers of the Company to the maximum extent permitted under applicable Delaware law. The maximum potential amount of future payments that the Company could be required to make under these indemnification agreements is, in many cases, unlimited.

As of June 30, 2023, the Company has not incurred any material costs as a result of such indemnifications and is not currently aware of any indemnification claims.

Contingencies

The Company is party to certain legal matters arising in the ordinary course of its business. In addition, third parties may, from time to time, assert claims against us in the form of letters and other communications. The Company records a provision for contingent losses when it is both probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. When management determines that it is not probable, but rather reasonably possible that a liability has been incurred at the date of the financial statements, management discloses such contingencies and the possible loss or range of loss if such estimate can be made. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Circumstances change over time and actual results may vary significantly from estimates.

On or about January 7, 2022, John Modrak filed a class action in the United States District Court for the Northern District of California against us, certain of our officers and directors, and J.P. Morgan Securities LLC, BofA Securities, Inc., Piper Sandler & Co., and BTIG, LLC, underwriters of our February 2021 initial public offering (“IPO”), captioned as Modrak v. Talis Biomedical Corp., et al., No. 3:22-cv-00105, purportedly on behalf of shareholders who purchased shares of our stock that were registered in our IPO. On February 18, 2022, Karen Mitcham filed a substantively identical lawsuit in the same court captioned as Mitcham v. Talis Biomedical Corp., et al., No. 3:22-cv-01039-JD, against us, and the same officers and directors as the Modrak lawsuit. The complaints alleged that our registration statement and prospectus issued in connection with our IPO was false and misleading and omitted to state material adverse facts related to the comparator test used in our primary study, our EUA application for our Talis One COVID-19 test system, and associated regulatory approval and commercialization. The complaints sought unspecified damages under Section 11 and Section 15 of the Securities Act of 1933 ("Securities Act"), and reasonable attorneys’ and expert witnesses’ fees and other costs. These two cases have been consolidated and co-lead plaintiffs have been appointed as mandated by the applicable federal securities laws.

On December 9, 2022, the Court granted our motion to dismiss and plaintiffs leave to amend their consolidated complaint. On January 13, 2023, the plaintiffs filed an amended complaint, asserting claims for violation of Section 11 of the Securities Act against all defendants and Section 15 of the Securities Act against the individual defendants and seeking unspecified damages, reasonable attorneys' fees and other costs. The consolidated complaint does not assert claims against the above-referenced underwriters. On April 28, 2023, the Court denied our motion to dismiss. The initial stages of discovery are underway. We dispute these claims and intend to defend these matters vigorously. These claims remain at an early stage, and the extent and outcome of these claims cannot be predicted at this time. The Company has not recorded an accrual related to this matter as of June 30, 2023 as it determined that any such loss contingency was not probable or reasonably estimable.

Other than the litigation matters discussed above, the Company currently does not believe that the ultimate outcome of any of the matters is probable or reasonably estimable, or that these matters will have a material adverse effect on its business; however, the results of litigation and claims are inherently unpredictable. Regardless of the outcome, litigation and other negotiations can have an adverse impact on the Company because of litigation and settlement costs, diversion of management resources and other factors. Legal costs are expensed as incurred.

6. Stockholders’ equity

Common stock

On July 27, 2022, the Company received a notice (Notice) from the Nasdaq Stock Market (Nasdaq) that the Company is not in compliance with the $1.00 minimum bid price requirement for continued listing, as set forth in Nasdaq Listing Rule 5450(a)(1) (Minimum Bid Price Requirement), as the minimum bid price of the Company’s common stock had been below $1.00 per share for thirty-one (31) consecutive business days as of the date of the Notice.

On January 24, 2023, the Company transferred the listing of its securities to the Nasdaq Capital Market (Capital Market) and received notice from Nasdaq indicating that, while the Company has not regained compliance with the Minimum Bid Price Requirement, Nasdaq has determined that the Company is eligible for an additional 180-day period, or until July 24, 2023, to regain compliance. We committed to effectuating a reverse stock split by the end of the second compliance period, if necessary, to regain compliance with the Minimum Bid Price Requirement. The Notice has no other immediate effect on the listing of the Company’s common stock, which will trade on the Capital Market under the symbol “TLIS.”

Effective July 5, 2023, the Company completed a 1-for-15 reverse stock split of its issued and outstanding shares of common stock, as further described in Note 1. As a result of the Reverse Stock Split, every 15 shares of common stock issued and outstanding were converted into one share of common stock with any fractional shares resulting from the Reverse Stock Split rounded up to the nearest whole share. The rights and privileges of the holders of shares of common stock are unaffected by the Reverse Stock Split.

The common stock traded on an as-adjusted basis upon market open on July 6, 2023. The purpose of the Reverse Stock Split was to enable the Company to regain compliance with the requirements of Minimum Bid Price Requirement. On July 20, 2023, we received notice from Nasdaq that we had regained compliance with the Minimum Bid Price Requirement.

The Reverse Stock Split did not change the par value of the common stock or the authorized number of shares of common stock. All share and per share amounts for common stock in these condensed financial statements and notes thereto have been retroactively adjusted for all periods presented to give effect to the Reverse Stock Split, including reclassifying an amount equal to the reduction in the number of shares of common stock at par value to additional paid-in capital.

Convertible preferred stock

As of June 30, 2023 and December 31, 2022, there were 29,863,674 shares of Series 1 convertible preferred stock issued and outstanding. There were 60,000,000 shares of Series 1 convertible preferred stock with a par value of $0.0001 per share authorized as of June 30, 2023 and December 31, 2022.

The Reverse Stock Split had no impact on the number of shares of the Company's Series 1 convertible preferred stock issued and outstanding. However, the conversion ratio of the outstanding Series 1 convertible preferred stock increased and the number of shares of common stock issuable upon conversion of such Series 1 convertible preferred stock decreased in proportion to the 1-for-15 ratio. The rights and privileges of the holders of shares of Series 1 convertible preferred stock are unaffected by the Reverse Stock Split.

7. Stock-based compensation

Effective July 5, 2023, the Company completed a 1-for-15 Reverse Stock Split of its issued and outstanding shares of common stock, as further described in Note 1 and Note 6. All stock options and restricted stock units outstanding immediately prior to the Reverse Stock Split, as well as strike price and fair value amounts, were adjusted pursuant to the terms of the 2021 Equity Incentive Plan to give effect to the Reverse Stock Split. The number of shares of common stock issuable upon the exercise of each stock option and the settlement of each restricted stock unit decreased in proportion to the 1-for-15 ratio and the number of shares authorized and reserved for issuance pursuant to the Company's equity incentive plans was proportionately adjusted to give effect to the Reverse Stock Split.

Stock options

A summary of stock option activity during the six months ended June 30, 2023 is as follows:

	Number of Units Outstanding	Weighted Average Strike Price per Unit	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2022	559,542	$ 52.87	8.6	$ —
Granted	269,637	$ 7.45		
Exercised	-	$ —		
Forfeited	(90,915)	$ 23.89		
Expired	(4,277)	$ 64.04		
Outstanding at June 30, 2023	733,987	$ 39.71	8.7	$ —
Options vested and expected to vest at June 30, 2023	733,987	$ 39.71	8.7	$ —
Options vested and exercisable at June 30, 2023	256,458	$ 66.54	7.7	$ —

As of June 30, 2023, the total unrecognized stock-based compensation related to stock options was $7.7 million, which is expected be recognized over a weighted-average period of approximately 3 years.

Restricted stock units (RSUs)

A summary of RSU activity during the six months ended June 30, 2023 is as follows:

	Number of Units Outstanding	Weighted Average Grant Date Fair Value (per RSU)
Outstanding at December 31, 2022	21,764	$ 41.18
Granted	2,504	$ 7.77
Vested	(2,859)	$ 17.26
Forfeited	(2,092)	$ 28.28
Outstanding at June 30, 2023	19,317	$ 41.78

As of June 30, 2023, the total unrecognized stock-based compensation related to RSUs was $0.64 million, which is expected to be recognized over a weighted average period of approximately 3 years. Outstanding RSUs as of June 30, 2023 includes 124 RSUs that were vested, but not yet delivered.

Stock-based compensation expense

The following table summarizes the components of stock-based compensation expense recorded in the Company's condensed statement of operations and comprehensive loss (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Research and development	$ 262	$ 234	$ 493	$ 809
Selling, general and administrative	814	1,011	1,766	1,981
Total stock-based compensation	$ 1,076	$ 1,245	$ 2,259	$ 2,790

8. Related-party transactions

Registration rights

In March 2021, the Company entered into a registration rights agreement (the Registration Rights Agreement) with Baker Brothers Life Sciences, L.P. and 667, L.P. (the Baker Funds), holders of the Company's Series 1 convertible preferred stock and related parties. The obligations of the Company regarding such registration rights include, but are not limited to, file a registration statement with the SEC for the registration of registrable securities, reasonable efforts to cause such registration statement to become effective, keep such registration statement effective for up to 30 days, prepare and file amendments and supplements to such registration statement and the prospectus used in connection with such registration statement, and notify each selling holder, promptly after the Company receives notice thereof, of the time when such registration statement has been declared effective or a supplement to any prospectus forming a part of such registration statement has been filed. The terms of the Registration Rights Agreement provide for the payment of certain expenses related to the registration of the shares, including a capped reimbursement of legal fees of a single special counsel for the holders of the shares, but do not impose any obligations for the Company to pay additional consideration to the holders in case a registration statement is not declared effective. On May 10, 2022, the Company filed a registration statement on Form S-3 with the SEC to register the registrable securities pursuant to the Registration Rights Agreement, which was declared effective on May 24, 2022. Under the Registration Rights Agreement, the Baker Funds also have the right to one underwritten offering per calendar year, but no more than two underwritten offerings or block trades in any twelve-month period, to effect the sale or distribution of their registrable securities, subject to specified exceptions, conditions and limitations. The Registration Rights Agreement also includes customary indemnification obligations in connection with registrations conducted pursuant to the Registration Rights Agreement.

9. Net loss per share

Net loss per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net loss - basic and diluted	$ (15,034)	$ (27,011)	$ (32,865)	$ (60,062)
Denominator:				
Weighted-average number of shares of common stock outstanding - basic and diluted	1,817,288	1,799,559	1,814,994	1,794,463
Net loss per share - basic and diluted	$ (8.27)	$ (15.01)	$ (18.11)	$ (33.47)

Since the Company was in a loss position for all periods presented, basic net loss per share is the same as diluted net loss per share for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive. The Company's Series 1 convertible preferred stock are participating securities but, because they do not have the obligation to share in the loss of the

Company, they are excluded from the calculation of basic net loss per share. Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows:

	As of June 30,	
	2023	2022
Series 1 convertible preferred stock*	29,863,674	29,863,674
Options to purchase common stock	733,987	683,515
Shares estimated to be purchased under 2021 Employee Stock Purchase Plan	—	30,355
Unvested RSUs	19,317	40,069
Total	30,616,978	30,617,613

*The conversion ratio of the Company's Series 1 convertible preferred stock has been adjusted to proportionally reflect the 1-for-15 Reverse Stock Split upon conversion. See Note 1.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited condensed financial statements and related notes included elsewhere in this Quarterly Report and our audited financial statements and the related notes and the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on March 22, 2023 (Annual Report). Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business and related financing including statements of the Company's expectations relating to the Reverse Stock Split, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the "Risk Factors" section of our Annual Report, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. You should carefully read the "Risk Factors" section of the Annual Report to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements. Please also see the section entitled "Special Note Regarding Forward-Looking Statements."

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide material information relevant to an assessment of our financial condition and results of operations, including an evaluation of the amounts and certainty of cash flows from operations and from outside sources. This section is designed to focus on material events and uncertainties known to management that are reasonably likely to cause reported financial information not to be necessarily indicative of future operating results or of future financial condition. This includes descriptions and amounts of matters that have had a material impact on reported operations, as well as matters that are reasonably likely based on management's assessment to have a material impact on future operations.

Overview

Talis aims to transform diagnostic testing by developing and commercializing innovative products that are designed to enable accurate, reliable, low cost and rapid molecular testing for infectious diseases and other conditions at the point of care. While timely diagnosis of infectious diseases is critically important to enable effective treatment, currently, testing is primarily performed in centralized laboratories, which requires samples to be shipped for processing, delaying the return of results by days. Point-of-care testing solves this problem by delivering the timely information necessary for clinical care. We are developing the Talis One system, a sample-to-answer, cloud-enabled molecular diagnostic system that could be deployed to a variety of testing settings in the United States and around the world to diagnose infectious disease in the moment of need, at the point of care. The Talis One system comprises a compact instrument, single use test cartridges and software, supporting a central cloud database, which work together. The system is designed to provide central laboratory levels of accuracy and be operated by an untrained user in less than 30 minutes.

Recent surveys of women's and sexual health providers that we have conducted confirm continued and strong interest in adoption of point-of-care systems. We believe that the Talis One system is well positioned to meet this growing demand in both traditional and non-traditional care settings. Although there are several commercially available point-of-care systems, we believe that few, if any, sufficiently meet the needs of healthcare providers to drive broad adoption of, and transition to, point-of-care testing from central lab testing for a broad range of infectious diseases. We believe that the ideal point-of-care technology for diagnosing infectious diseases would not only be highly accurate and rapid, but would also be easy to use, low cost, cloud-compatible and enable multiplexing to detect multiple pathogens at the same time.

We are developing Talis One tests to address some of the most critical infectious diseases in women's and sexual health with a targeted product menu and disciplined regulatory strategy to minimize risk and accelerate time to first commercial launch. We are prioritizing the development of four tests, consisting of a respiratory panel for influenza A, influenza B and COVID-19; Chlamydia trachomatis, Neisseria gonorrhoeae, and Trichomonas vaginalis (CT/NG/TV); herpes simplex virus (HSV); and vaginal infections including bacterial vaginosis (Vaginal Infections Panel). We plan to conduct clinical trials to support regulatory clearance and commercialization of these tests, as well as other sexually transmitted infections (STIs), such as urinary tract infections (UTI), Group B Strep, and additional tests that we believe will address the most critical infectious disease testing needs in women's and sexual health.

Our products will require marketing authorization from the U.S. Food and Drug Administration (FDA) prior to commercialization, and we plan to pursue 510(k) clearance under the federal Food, Drug and Cosmetic Act (FDCA). We are executing on a disciplined regulatory strategy designed to minimize risk and accelerate time to commercialization. In order to bring the Talis One system to market as soon as possible, we are leveraging the progress we have made to-date with our COVID-19 test in pursuit of 510(k) clearance for our Talis One system, followed by submissions to the FDA for 510(k) clearance for our respiratory, CT/NG/TV, HSV and Vaginal Infections Panel. This quarter, we have made important progress toward our goal to secure clearance for three tests before the end of 2025. Specifically, we have commenced our COVID-19 clinical study to support 510(k) clearance for the Talis One system, and we are preparing to initiate a clinical study on our influenza A, influenza B and COVID-19 panel. We are also beginning to work on our FDA pre-submission for HSV and selecting sites for our CT/NG/TV clinical study.

We have invested in and have increased the flexibility of our manufacturing capabilities to support the development and commercialization of the Talis One system. We have continued to make notable progress in our manufacturing process and have demonstrated our ability to manufacture cartridges and instruments at the pace and the quality needed today via internal manufacturing lines as well as with fully automated and high throughput lines to provide attractive margins at scale. We have consistently passed lots through our quality control protocols and we have demonstrated this level of quality through investigational use only (IUO) system evaluations of the Talis One system using our COVID-19 test, the results of which have confirmed acceptable cartridge performance when used by third parties, accuracy and validity rates consistent with our internal quality control testing, and positive feedback on the user experience.

We have automated cartridge manufacturing lines, currently located and operated by our contract manufacturing partners, to enable production advantages with quality, speed, and cost at full scale. We also have established internal manufacturing lines to enable flexibility and stability in our ability to support our strategic efforts around research and development, clinical trials and commercialization. These internal lines allow us to (i) make process improvements and cost reductions in-house before transferring production back to our contract manufacturing partners, (ii) innovate more quickly to support internal test development and (iii) support cartridge inventory levels pre-commercialization. In order to drive further efficiency and cost reduction in the manufacturing process, we have begun restructuring our relationships with our contract manufacturing partners and streamlining our supply chain to achieve target cost of goods sold. Additionally, we have built several hundred instruments to date and invested in, and received, the raw materials to build thousands more to help ensure that we are positioned to complete development, clinical trials and begin commercialization of our initial test menu.

We will continue to (i) focus on flexible manufacturing to support our research and development functions, clinical trials, early commercialization and to gain internal expertise of our manufacturing process and capabilities and (ii) refine and improve high throughput manufacturing lines to ensure we maintain the ability to manufacture at scale with acceptable cost of goods sold for commercialization.

We outsource a substantial portion of our manufacturing. Design work, prototyping and pilot manufacturing are performed in-house before outsourcing to third-party contract manufacturers. Our outsourced production strategy is intended to drive rapid scalability. Certain of our suppliers of components and materials are single source suppliers. During the three and six months ended June 30, 2023 and 2022, we had two suppliers provide more than 10% of our materials and equipment purchases. To support a commercial launch, we have invested in automated cartridge manufacturing production lines for our Talis One cartridges. Those assets deemed to have an alternative future use have been capitalized as property and equipment while those assets determined to not have an alternative future use have been expensed.

Since our inception in 2013, we have devoted substantially all our efforts to research and development activities, manufacturing capabilities, raising capital, building our intellectual property portfolio, providing general and administrative support for these operations, and providing selling support as the need has arisen. We have principally financed our operations through the issuance and sale of shares of our convertible preferred stock to outside investors in private equity financings as well as the issuance of convertible promissory notes and receipts from government grants. Prior to our initial public offering, we received $351.5 million from investors in our preferred stock financings and the sale of convertible promissory notes that converted in such financings. Additionally, on February 17, 2021, we raised $232.5 million (after deducting underwriting discounts, commissions and offering expenses) through an initial public offering.

We have incurred recurring losses since our inception, including net losses of $32.9 million and $60.1 million for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, we had an accumulated deficit of $510.8 million. We expect to continue to generate operating losses and negative operating cash flows for the foreseeable future if and as we:

- continue the research and development of our system and tests for multiple diseases;
- initiate clinical trials for, or additional pre-clinical development of, our Talis One system;
- further develop and refine the manufacturing processes for our Talis One system and potentially the design of our Talis One system;
- change or add manufacturers or suppliers of materials used for our Talis One system;
- seek marketing authorizations;
- seek to identify and validate diagnostic tests for additional disease states;
- obtain, maintain, protect and enforce our intellectual property portfolio;
- re-establish and deploy a sales force;
- seek to attract and retain new and existing skilled personnel;

- create additional infrastructure to support our operations as a public company and incur increased legal, accounting, investor relations and other expenses; and
- experience delays or encounter issues with any of the above.

As of June 30, 2023, we had unrestricted cash and cash equivalents of $98.2 million. Based on our planned operations, we expect that our unrestricted cash and cash equivalents of $98.2 million as of June 30, 2023 will be sufficient to fund our operations through at least the next 12 months from the date our condensed financial statements are issued. We believe, though there can be no assurance, that we can fund our operations into 2025. This target could change as we gain more clarity on the timing and trajectory of the Talis One system launch.

In addition, if we obtain marketing authorization for our system, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. As a result, we will need substantial additional funding to support our operating activities. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of development, manufacturing and commercialization activities. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operating activities through one or a combination of grant revenue, equity or debt financings, or collaborations or partnerships with other companies. Adequate funding may not be available to us on acceptable terms, or at all.

If we are unable to obtain funding, we will be forced to delay, reduce or eliminate some or all of our research and development programs, product portfolio expansion or commercialization efforts, which could adversely affect our business prospects, or we may be unable to continue operations.

In March 2023, in order to support our long-term financial objectives, we terminated our former lease for laboratory and office space in Redwood City, CA and entered into a sublease for new laboratory and office space in Redwood City, CA. This move reduced our facilities footprint by two-thirds, and we expect approximately $9.0 million of cash savings on a discounted basis over the life of the lease.

In 2022, in connection with our refocus on the women's health and STI markets, we implemented two separate reductions in force, designed to align our remaining resources to focus on (i) developing women's health and STI tests on the Talis One system, (ii) our internal manufacturing expertise to support our strategic plans and (iii) reducing costs and preserving cash to extend our runway to commercialize our women's health and STI tests. The 2022 reductions in force amounted to approximately 40% of our headcount. Going forward, we estimate annualized savings of $12.0 million in compensation expenses related to the 2022 reductions in force.

Reverse Stock Split

On June 30, 2023, the Company filed a certificate of amendment to the Company's Amended and Restated Certificate of Incorporation (the "Certificate of Amendment"), with the Secretary of State of the State of Delaware to effect a 1-for-15 reverse stock split of the shares of the Company's common stock, par value $0.0001 per share, effective as of 5:00 p.m., Eastern Time, on July 5, 2023 (the "Reverse Stock Split"). On this date, every 15 issued and outstanding shares of common stock were converted into one share of common stock, with any fractional shares resulting from the Reverse Stock Split rounded up to the nearest whole share. The number of outstanding shares of common stock was reduced from approximately 26.9 million shares to approximately 1.8 million shares.

The Reverse Stock Split did not change the Company's authorized shares of common stock or Series 1 convertible preferred stock, which remained at 200,000,000 and 60,000,000 shares, respectively. The Reverse Stock Split did not change the par value of the common stock. Proportionate adjustments were made to the per share exercise price and/or the number of shares issuable upon the exercise of stock options and the settlement of restricted stock units and the number of shares authorized and reserved for issuance pursuant to the Company's equity incentive plans. Additionally, the Reverse Stock Split had no impact on the number of shares of the Company's Series 1 convertible preferred stock issued and outstanding. However, the conversion ratio of the outstanding Series 1 convertible preferred stock increased and the number of shares of common stock issuable upon conversion of such preferred stock decreased in proportion to the 1-for-15 split ratio.

All share and per share amounts for common stock in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 have been retroactively adjusted for all periods presented to give effect to the Reverse Stock Split, including reclassifying an amount equal to the reduction in the number of shares of common stock at par value to additional paid-in capital.

Components of our results of operations

Revenue

To date, we have not generated any revenue from sales of our Talis One system. We expect to generate revenue in the future from product sales of our Talis One instruments and single use cartridges, following regulatory approval, but there can be no assurance that

we will be successful in our development and commercialization efforts. Our business model is focused on driving the adoption of the Talis One system. Customers would gain access to our instrument via a direct sales model or a reagent rental model. Under direct system sales, our customers would directly purchase our Talis One instrument and make subsequent independent purchases of our cartridges. When we place a system under a reagent rental agreement, we plan to install equipment in the customer's facility without a fee and the customer agrees to purchase our cartridges at a stated price over the term of the reagent rental agreement. Some of these agreements could include minimum purchase commitments. Under a reagent rental model, we plan to retain title to the equipment and such title is transferred to the customer at the conclusion of the initial arrangement. The cost of the instrument under the agreement is expected to be recovered in the fees charged for consumables, to the extent sold, over the term of the agreement.

We cannot predict when, or to what extent we will generate revenue from the commercialization and sale of our system. We rely, and expect to continue to rely, on third parties for the manufacture of the Talis One system and our tests, as well as for commercial supply. Our contract manufacturers may not have the ability to produce quality product at scale to meet commercial demand which could delay commercialization efforts. Further, we may not succeed in obtaining regulatory approval for our women's health and STI products, or any other future tests. Growth and predictability of recurring revenue is impacted by the timing of commercialization and expansion of our products. It is our goal and expectation that recurring revenue will grow over time, both in absolute dollars and as a percentage of our revenue.

Product revenue, net

In January 2022, we began distributing third party antigen tests (the "Antigen Tests"). We currently derive all of our product revenue from the sales of the Antigen Tests in accordance with the provisions of Accounting Standards Codifications (ASC), Topic 606, *Revenue from Contracts with Customer*s. Our product revenue is recognized upon the transfer of control of the test kits to the customer. This program has concluded as of December 31, 2022. During the six months ended June 30, 2023, we earned immaterial amounts of revenue from the remaining sales of Antigen Tests from existing inventory.

Grant revenue

For the six months ended June 30, 2023 and 2022, our revenue from government grants includes a May 2018 grant from the NIH to support our advancement of a Diagnostics via Rapid Enrichment, Identification, and Phenotypic Antibiotic Susceptibility Testing of Pathogens from Blood project (NIH grant), a July 2020 subaward grant from the University of Massachusetts Medical School for Phase 1 of the NIH's Rapid Acceleration of Diagnostics - Advanced Technology Platforms (RADx) initiative and a contract from the NIH directly for Phase 2 of the RADx initiative (NIH Contract).

Under the NIH grant, we recognized $1.6 million and $0.3 million during the six months ended June 30, 2023 and 2022. In April 2023, the Company exercised a one-year option under the grant, extending the term through April 2024. As of June 30, 2023 there is $0.5 million in additional funding available under the grant.

The NIH Contract for the RADx initiative expired on January 30, 2022. The Company successfully met milestone requirements and recognized $0.7 million of grant revenue during the six months ended June 30, 2022. There is no additional funding available under the NIH Contract.

These grants are not in the scope of ASC 606 as the government entities and/or government-sponsored entities are not customers under the agreements.

Cost of product sold

We began to recognize costs of product sold in January 2022 when we began selling the Antigen Tests. Costs of product sold include material costs, direct labor, provisions for inventory write-downs and shipping and handling costs incurred.

Operating expenses

Research and development expenses

Research and development expenses consist primarily of internal and external costs incurred for our research activities, the development of our system, investment in manufacturing capabilities as well as costs incurred pursuant to our government grants and include:

- salaries, benefits and other related costs, including stock-based compensation expense, for personnel engaged in research and development functions;
- the cost of laboratory supplies and developing and manufacturing of our system;
- contract services, other outside costs and costs to develop our technology capabilities;

- facility-related expenses, which include direct depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs;
- cost of outside consultants, including their fees and related travel expenses, engaged in research and development functions;
- cost of performing clinical trials and
- expenses related to regulatory affairs.

Until future commercialization is considered probable and the future economic benefit is expected to be realized, we do not capitalize pre-launch inventory costs and costs of property and equipment prior to completion of marketing authorization unless the regulatory review process has progressed to a point that objective and persuasive evidence of regulatory approval is sufficiently probable, and future economic benefit can be asserted. We record pre-launch inventory costs to research and development expenses, or if used in marketing evaluations, record such cost to selling, general and administrative expense. We record property and equipment costs to research and development expenses when the asset does not have an alternative future use. A number of factors are taken into consideration, based on management's judgment, including the current status in the regulatory approval process, potential impediments to the approval process, anticipated research and development initiatives and risk of technical feasibility, viability of commercialization and marketplace trends.

Research and development activities are central to our business model. We previously focused our research and development efforts on the stand-alone Talis One COVID-19 test and are now developing tests for women's and sexual health infections, including a respiratory panel consisting of tests for influenza A, influenza B and COVID-19; Chlamydia trachomatis, Neisseria gonorrhoeae, and Trichomonas vaginalis (CT/NG/TV); herpes simplex virus (HSV); and the Vaginal Infections Panel. We expect to continue to incur significant research and development expenses in the future as we continue the research and development of our system and tests for other infectious diseases and disease states, initiate clinical trials for future tests, further develop and refine the manufacturing processes for our system, and continue commercialization efforts. There are numerous factors associated with the successful commercialization of any test we may develop in the future for other diseases or disease states, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development.

Selling, general and administrative expenses

Selling, general and administrative expenses consist primarily of salaries and other related costs, including stock-based compensation and bonus, for personnel in our executive, finance, sales and product management, commercial operations, human resources and legal functions. Selling, general and administrative expenses also include professional fees for legal, auditing, tax and consulting services, insurance fees, information technology, and facility-related expenses, which include direct depreciation expenses and allocated expenses for rent and maintenance of facilities and other operating expenses.

Other income (expense)

Other income (expense), net consists primarily of interest income on cash deposits held at financial institutions, gains and losses on holdings invested in money market funds, and unrealized and realized foreign exchange gains and losses.

Results of operations

Comparison for the three months ended June 30, 2023 and 2022

The following table summarizes our results of operations:

	Three Months Ended June 30,		
(in thousands)	**2023**	**2022**	**Change**
Revenue			
Grant revenue	$ 533	$ 70	$ 463
Product revenue, net	48	502	(454)
Total revenue, net	581	572	9
Operating expenses:			
Cost of products sold	7	1,302	(1,295)
Research and development	10,555	17,365	(6,810)
Selling, general and administrative	6,410	9,178	(2,768)
Total operating expenses	16,972	27,845	(10,873)
Loss from operations	(16,391)	(27,273)	10,882
Other income/(expense), net	1,357	262	1,095
Net loss and comprehensive loss	$ (15,034)	$ (27,011)	$ 11,977

Grant revenue and product revenue, net

Grant revenue for the three months ended June 30, 2023 and 2022 relates to the NIH grants and the RADx initiative. During the three months ended June 30, 2023 and 2022, $0.5 million and $0.1 million of revenue was recognized related to our NIH grant, respectively. The NIH Contract for the RADx initiative expired on January 30, 2022. The Company did not recognize any revenue related to the RADx initiative during the three months ended June 30, 2023 and 2022.

We began to generate product sales during January 2022 after we entered into a distribution agreement to sell the Antigen Tests. The change in product revenue, net is driven by the conclusion of the program at the end of 2022. During the three months ended June 30, 2023, we earned immaterial amounts of revenue from the remaining sales of Antigen Tests from existing inventory.

Cost of products sold

The decrease in cost of product sold during the three months ended June 30, 2023 is due to higher volume in units sold during the three months ended June 30, 2022 whereas we did not conduct significant product revenue generating activities during the same period in 2023.

Research and development expenses

Research and development expenses for the three months ended June 30, 2023 and 2022 were $10.6 million and $17.4 million, respectively, a decrease of $6.8 million. Substantially all of our research and development expenses incurred were related to the development of and manufacturing scale-up for the Talis One system including rapid, point-of-care molecular diagnostic tests to detect COVID-19 as well as other respiratory, women's health and sexual health tests. The decline of $6.8 million was primarily driven by a $3.6 million decrease in personnel and consulting costs as a result of our 2022 spending reduction programs, a reduction of $3.5 million in pre-launch inventory costs and a decrease of $1.2 million for the automation of consumables manufacturing as we completed our scale-up investments. Partially offsetting these declines was a $1.9 million increase in rent expenses including expenses incurred related to our move to our new laboratory and office space in Redwood City, CA.

Selling, general and administrative expenses

Selling, general and administrative expenses were $6.4 million for three months ended June 30, 2023, compared to $9.2 million for the three months ended June 30, 2022, a decrease of $2.8 million. The decrease was primarily due to lower personnel related expenses, including salaries and benefits and stock-based compensation expenses as a result of our 2022 spending reduction program.

Comparison for the six months ended June 30, 2023 and 2022

The following table summarizes our results of operations:

	Six Months Ended June 30,		
(in thousands)	**2023**	**2022**	**Change**
Revenue			
Grant revenue	$ 1,614	$ 944	$ 670
Product revenue, net	185	2,815	(2,630)
Total revenue, net	1,799	3,759	(1,960)
Operating expenses:			
Cost of products sold	27	4,823	(4,796)
Research and development	24,351	38,068	(13,717)
Selling, general and administrative	12,809	21,108	(8,299)
Total operating expenses	37,187	63,999	(26,812)
Loss from operations	(35,388)	(60,240)	24,852
Other income/(expense), net	2,523	178	2,345
Net loss and comprehensive loss	$ (32,865)	$ (60,062)	$ 27,197

Grant revenue and product revenue, net

Grant revenue for the six months ended June 30, 2023 and 2022 relates to the NIH grants and the RADx initiative. During the six months ended June 30, 2023 and 2022 $1.6 million and $0.3 million of revenue was recognized related to our NIH grant, respectively.

The NIH Contract for the RADx initiative expired on January 30, 2022. The Company successfully met milestone requirements and recognized $0.7 million of grant revenue during the six months ended June 30, 2022.

We began to generate product sales during January 2022 after we entered into a distribution agreement to sell the Antigen Tests. The change in product revenue, net is driven by the conclusion of the program at the end of 2022. During the six months ended June 30, 2023, we earned immaterial amounts of revenue from the remaining sales of Antigen Tests from existing inventory.

Cost of products sold

The decrease in cost of product sold during the six months ended June 30, 2023 is due to increased volume in units sold during the three and six months ended June 30, 2022 whereas we did not conduct significant product revenue generating activities during the same period in 2023.

Research and development expenses

Research and development expenses for the six months ended June 30, 2023 and 2022 were $24.4 million compared to $38.1 million, a decrease of $13.7 million. Substantially all of our research and development expenses incurred for the periods were related to the development and manufacturing scale-up for the Talis One system including rapid, point-of-care molecular diagnostic tests to detect COVID-19 as well as other respiratory, women's health and sexual health tests. The decrease of $13.7 million was primarily driven by a decline of $9.4 million in pre-launch inventory costs and a $6.7 million decrease in personnel costs as a result of our 2022 spending reduction program. Partially offsetting these declines was $3.1 million of expense incurred in 2023 to purchase a license for patents, cartridge raw materials and components in connection with the termination of our supply agreement with a contract manufacturer.

Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended June 30, 2023 were $12.8 million compared to $21.1 million for the six months ended June 30, 2022, a decrease of $8.3 million. The decrease was primarily due to $7.1 million decline in personnel related expenses, including salaries and benefits and stock-based compensation expenses as a result of our 2022 spending reduction program and $0.7 million decline in insurance costs.

Liquidity and capital resources

Sources of liquidity

We have funded our operations primarily through public equity offerings, private placements of equity securities and through government grants.

On February 17, 2021, we completed our initial public offering (IPO), pursuant to which we issued and sold 1,058,000 shares (15,870,000 shares pre-Reverse Stock Split) of our common stock, at a public offering price of $240 per share ($16.00 per share pre-Reverse Stock Split). The net proceeds from the IPO were $232.5 million after deducting underwriting discounts and commissions and other offering expenses.

As of June 30, 2023, we had unrestricted cash and cash equivalents of $98.2 million. We believe our unrestricted cash and cash equivalents balance as of June 30, 2023 is sufficient to fund our operations for at least the next 12 months from the date our condensed financial statements are issued. We believe, although there can be no assurance, that we can fund our operations into 2025. This target could change as we gain more clarity on the timing and trajectory of the Talis One system launch. In addition, if we obtain marketing authorization for our system, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. As a result, we will need substantial additional funding to support our operating activities. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our research efforts for our tests and development and manufacturing activities. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operating activities through one or a combination of corporate development and licensing opportunities, grant revenue, equity or debt financings, or collaborations or partnerships with other companies. Adequate funding may not be available to us on acceptable terms, or at all.

In 2022, in connection with our refocus on the women's health and STI markets, we implemented two separate reductions in force as part of our 2022 spending reduction program ("2022 spending reduction program"), designed to align our remaining resources to focus on (i) developing women's health and STI tests on the Talis One system, (ii) our internal manufacturing expertise to support our strategic plans and (iii) reducing costs and preserving cash to extend our runway to commercialize our women's health and STI tests. The 2022 reductions in force amounted to approximately 40% of our headcount. There were no remaining obligations incurred during the six months ended June 30, 2023. Going forward, we estimate annualized savings of $12.0 million in compensation expenses related to the 2022 reductions in force.

Nasdaq Deficiency Notice

On July 27, 2022, we received a notice from The Nasdaq Stock Market ("Nasdaq") that we were not in compliance with the $1.00 minimum bid price requirement for continued listing, as set forth in Nasdaq Listing Rule 5450(a)(1) (the "Minimum Bid Price Requirement"), as the minimum bid price of our common stock had been below $1.00 per share for 31 consecutive business days as of the date of the Notice.

On January 24, 2023, the Company transferred the listing of its securities to the Nasdaq Capital Market (the "Capital Market") and received notice from Nasdaq indicating that, while the Company has not regained compliance with the Minimum Bid Price Requirement, Nasdaq has determined that the Company was eligible for an additional 180-day period, or until July 24, 2023, to regain compliance. We committed to effectuating a reverse stock split by the end of the second compliance period, if necessary, to regain compliance with the Minimum Bid Price Requirement.

If, at any time during this second 180-day compliance period, the closing bid price of the common stock is at least $1 per share for a minimum of 10 consecutive business days, Nasdaq will provide the Company with written confirmation of compliance. If compliance cannot be demonstrated by July 24, 2023, Nasdaq will provide the Company with written notification that the common stock will be delisted. At that time, the Company may appeal Nasdaq's determination to a Hearings Panel.

On July 5, 2023, we effected our 1-for-15 Reverse Stock Split. The common stock began trading on a post-split as-adjusted basis on July 6, 2023. On July 20, 2023, we received notice from Nasdaq that we had regained compliance with the Minimum Bid Price Requirement. There can be no assurance that the Company will be able to maintain compliance with the Minimum Bid Price Requirement, even after the implementation of the Reverse Stock Split.

Future funding requirements

We have limited commercial-scale manufacturing facilities and expect to continue to rely on third parties to manufacture the Talis One system and related test cartridges. We have entered into, and expect to enter into additional, agreements with contract manufacturers to support our manufacturing scale-up. We have engaged a third-party logistics provider to manage the movement of materials between suppliers and contract manufacturers and for finished goods warehousing.

We do not expect to generate any meaningful revenue unless and until we obtain regulatory approval of and commercialize our Talis One system. Until we can generate a sufficient amount of revenue from the commercialization of the Talis One system, if ever, we expect to finance our future cash needs through one or a combination of corporate development and licensing opportunities, grant revenue, equity or debt financings, or collaborations or partnerships with other companies.

To date, our primary uses of cash have been to fund operating expenses, primarily research and development expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the change in our outstanding accounts payable, accrued expenses and operating lease costs. In March 2023, we entered into a sublease agreement with an initial term of 7 years for our current laboratory and office space in Redwood City, CA. The sublease commenced in the second quarter of 2023. Other than our operating leases, we currently have no other ongoing material financing commitments, such as lines of credit or guarantees. We expect to incur significant research and development and commercialization expenses related to program sales, marketing, manufacturing and distribution to the extent that such sales, marketing and distribution are not the responsibility of any future collaborators. We expect to incur additional costs associated with operating as a public company. Accordingly, we may choose to obtain additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

Since our inception, we have incurred significant losses and negative cash flows from operations. We have an accumulated deficit of $510.8 million through June 30, 2023. We expect to incur substantial additional losses in the future as we conduct and expand our research and development, manufacturing and commercialization activities. Based on our planned operations, we expect that our unrestricted cash and cash equivalents of $98.2 million as of June 30, 2023, will be sufficient to fund our operations for at least 12 months after our condensed financial statements are issued. We expect to fund operations into 2025. This target could change as we gain more clarity on the timing and trajectory of the Talis One system launch. However, we may need to raise additional capital through equity or debt financing, or potential additional collaboration proceeds prior to achieving commercialization of our products. Our ability to continue as a going concern is dependent upon our ability to successfully secure sources of financing and ultimately achieve profitable operations.

We have based our projections of operating capital requirements on assumptions that may prove to be incorrect, and we may use all our available capital resources sooner than we expect. Because of the numerous risks and uncertainties associated with research, development and commercialization of the Talis One system, we are unable to estimate the exact amount of our operating capital requirements. Our future capital requirements will depend on many factors, including:

- our ability to receive, and the timing of receipt of future regulatory approval for our products;
- the number and development requirements of tests for other diseases or disease states that we may pursue;
- our ability to manufacture the Talis One system at scale to meet eventual market demand, if any;
- the amount of capital, and related timing of payments, required to build sufficient inventory of our Talis One system and test cartridges in advance of and during commercial launch;

- the costs and timing of future commercialization activities, including manufacturing, marketing, sales and distribution, for the Talis One system;
- limitations of, or interruptions in, the quality or quantity of materials from our third-party suppliers;
- our ability to implement an effective manufacturing, marketing and commercialization operation;
- the scope, progress, results and costs of our ongoing and planned operations;
- the costs associated with expanding our operations;
- intervention, interruptions or recalls by government or regulatory agencies;
- enhancements and disruptive advances in the diagnostic testing industry;
- our estimates and forecasts of the market size addressable by our Talis One system;
- our ability to maintain the listing of our common stock on Nasdaq or another national securities exchange;
- security breaches, data losses or other disruptions affecting our information systems;
- the regulatory and political landscape upon any future commercial launch of the Talis One system;
- the revenue, if any, received from commercial sales of our products, if and when approved, including additional working capital requirements if we pursue a reagent rental model for our Talis One instrument, or from commercial sales of third-party products, including the Antigen Tests;
- the costs to defend any shareholder suits or other third-party litigation;
- our ability to establish strategic collaborations; and
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims.

Cash flows

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

	Six Months Ended June 30,	
	2023	2022
	(in thousands)	
Net cash used in operating activities	$ (30,739)	$ (65,771)
Net cash used in investing activities	(509)	(706)
Net cash provided by financing activities	33	314
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (31,215)	$ (66,163)

Operating activities

During the six months ended June 30, 2023, net cash used in operating activities was $30.7 million, resulting from our net loss of $32.9 million, a decrease in accounts payable and accrued expenses of $2.5 million driven by the completion of our manufacturing scale-up project and a decrease of $1.7 million in lease liabilities driven by a lease termination agreement with the landlord of our Redwood City, CA facility entered into in March 2023. These outflows were partially offset by non-cash items of $2.2 million of stock-based compensation, $0.3 million of depreciation and amortization, and $3.5 million of non-cash lease expense.

During the six months ended June 30, 2022, net cash used in operating activities was $65.8 million, resulting from our net loss of $60.1 million, a decrease accrued expenses of $5.4 million driven by the substantial completion of our manufacturing scale-up project, and increases in prepaid expenses of $2.4 million as it relates to insurance prepayments and inventory of $2.2 million related to the purchase of Antigen inventory. These outflows were offset by non-cash items of $2.8 million of stock-based compensation and $1.3 million of depreciation and amortization.

Investing activities

During the six months ended June 30, 2023 and 2022, we used $0.5 and $0.7 million of cash for investing activities related to purchases of property and equipment, respectively.

Financing activities

During the six months ended June 30, 2023, net cash provided by financing activities related to proceeds from stock purchases pursuant to the Company's employee stock purchase plan.

During the six months ended June 30, 2022, net cash provided by financing activities was $0.3 million, primarily consisting of $0.2 million in proceeds from stock purchases pursuant to the Company's employee stock purchase plan.

Contractual obligations and commitments

Leases

See Note 5. Commitments and contingencies, to our unaudited condensed financial statements included in Item 1 of this Quarterly Report for a summary of our operating lease commitments as of June 30, 2023.

In March 2023, the Company entered into a lease termination agreement with the landlord of our former Redwood City, CA facility. The Company incurred immaterial customary termination and broker fees during the six months ended June 30, 2023. The lease of our former Redwood City, CA facility was terminated on May 12, 2023.

In March 2023, the Company entered into a sublease for laboratory and office space in our current Redwood City, CA facility. The sublease will continue for a term of 7 years, with no option to extend. The minimum annual commitment under the new sublease is approximately $1.0 million with fixed escalations of 3.5% per annum. The sublease commenced for accounting purposes on May 1, 2023 and the Company recorded a lease liability and corresponding right-of-use asset and liability of $7.3 million.

Purchase commitments

Currently, we have no material long-term purchase commitments. We have entered into contracts in the normal course of business with certain contract manufacturing organizations and other third parties for manufacturing services.

Critical accounting policies and significant judgments and estimates

This discussion and analysis of financial condition and results of operation is based on our unaudited condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements and related disclosures requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, costs and expenses and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

Our accounting policies and estimates are discussed in our Annual Report. As of June 30, 2023 there have been no material changes to the items disclosed as critical accounting policies and estimates in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II—Item 7 of our Annual Report.

Recently issued accounting pronouncements

There are no accounting pronouncements pending at June 30, 2023 that we expect to have a material impact on our financial statements and disclosures.

Recently adopted accounting standards

We did not adopt any new accounting standards during the three months ended June 30, 2023.

Emerging growth company status

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an emerging growth company may take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Therefore, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected to avail ourselves of this extended transition period and, as a result, we may adopt new or revised accounting standards on the relevant dates on which adoption of such standards is

required for non-public companies instead of the dates required for other public companies. However, we may early adopt these standards.

In addition, as an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. These provisions include:

- reduced disclosure about the compensation paid to our executive officers;
- not being required to submit to our stockholders' advisory votes on executive compensation or golden parachute arrangements;
- an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act; and
- an exemption from new or revised financial accounting standards until they would apply to private companies and from compliance with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation.

We may take advantage of these exemptions for up to the last day of the fiscal year ending after the fifth anniversary of our initial public offering, which is December 31, 2026, or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company on the date that is the earliest of (1) the last day of the fiscal year in which we have total annual gross revenues of $1.24 billion or more; (2) the last day of our fiscal year following the fifth anniversary of the date of our initial public offering; (3) the date on which we have issued more than $1.0 billion in nonconvertible debt during the previous three years; or (4) the date on which we are deemed to be a large accelerated filer under the rules of the SEC. We may choose to take advantage of some but not all of these exemptions.

We are also a "smaller reporting company" meaning that the market value of our stock held by non-affiliates is less than $700 million and our annual revenue was less than $100 million during the most recently completed fiscal year. We may continue to be a smaller reporting company if either (i) the market value of our stock held by non-affiliates is less than $250 million or (ii) our annual revenue was less than $100 million during the most recently completed fiscal year and the market value of our stock held by non-affiliates is less than $700 million. If we are a smaller reporting company at the time we cease to be an emerging growth company, we may continue to rely on exemptions from certain disclosure requirements that are available to smaller reporting companies. Specifically, as a smaller reporting company we may choose to present only the two most recent fiscal years of audited financial statements in our Annual Report and, similar to emerging growth companies, smaller reporting companies have reduced disclosure obligations regarding executive compensation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (CEO) and Interim Chief Financial Officer (Interim CFO), have evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended (the Exchange Act)) as of the end of the period covered by this Quarterly Report required by Exchange Act Rules 13a-15(b) or 15d-15(b).

Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that this information is accumulated and communicated to our management, including the CEO and Interim CFO, to allow timely decisions regarding required disclosure. Based on this evaluation, the CEO and Interim CFO concluded that, as of June 30, 2023, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

Changes in internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, the Company’s internal control over financial reporting during the three months ended June 30, 2023.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we have been and may become involved in legal proceedings arising in the ordinary course of our business. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity, reputational harm and other factors, and there can be no assurances that favorable outcomes will be obtained.

On or about January 7, 2022, John Modrak filed a class action in the United States District Court for the Northern District of California against us, certain of our officers and directors, and J.P. Morgan Securities LLC, BofA Securities, Inc., Piper Sandler & Co., and BTIG, LLC, underwriters of our February 2021 initial public offering ("IPO"), captioned as Modrak v. Talis Biomedical Corp., et al., No. 3:22-cv-00105, purportedly on behalf of shareholders who purchased shares of our stock that were registered in our IPO. On February 18, 2022, Karen Mitcham filed a substantively identical lawsuit in the same court captioned as Mitcham v. Talis Biomedical Corp., et al., No. 3:22-cv-01039-JD, against us, and the same officers and directors as the Modrak lawsuit. The complaints alleged that our registration statement and prospectus issued in connection with our IPO was false and misleading and omitted to state material adverse facts related to the comparator test used in our primary study, our EUA application for our Talis One COVID-19 test system, and associated regulatory approval and commercialization. The complaints sought unspecified damages under Section 11 and Section 15 of the Securities Act of 1933 ("Securities Act"), and reasonable attorneys' and expert witnesses' fees and other costs.

These two cases have been consolidated and co-lead plaintiffs have been appointed as mandated by the applicable federal securities laws.

On December 9, 2022, the Court granted our motion to dismiss and plaintiffs leave to amend their consolidated complaint. On January 13, 2023, the plaintiffs filed an amended complaint, asserting claims for violation of Section 11 of the Securities Act against all defendants and Section 15 of the Securities Act against the individual defendants and seeking unspecified damages, reasonable attorneys' fees and other costs. The consolidated complaint does not assert claims against the above-referenced underwriters. On April 28, 2023, the Court denied our motion to dismiss. The initial stages of discovery are underway. We dispute these claims and intend to defend these matters vigorously. These claims remain at an early stage, and the extent and outcome of these claims cannot be predicted at this time.

Item 1A. Risk Factors.

There have been no material changes in the Company's assessment of risk factors from those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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

(a) Recent sales of unregistered securities

None.

(b) Use of Proceeds from our Initial Public Offering of Common Stock

In February 2021, our Registration Statement on Form S-1 (File No: 333-252360) was declared effective by the SEC. We received approximately $233 million in net proceeds from our initial public offering. Through June 30, 2023, we have used all of the net proceeds from the offering primarily to fund our ongoing research and development activities, manufacturing scale-up project and pre-launch inventory.

Due to significant delays in obtaining regulatory clearance and to produce the Talis One system at scale, which in turn delayed the commercialization of the Talis One system, we have used a larger proportion of the net proceeds from our initial public offering for research and development expenses and a smaller proportion for commercial activities than our original estimates in our prospectus filed with the SEC on February 12, 2021 pursuant to Rule 424(b)(4). Other than the foregoing, there have been no other no material changes in the planned use of proceeds from our initial public offering from that described in the related prospectus filed February 12, 2021 with the SEC pursuant to Rule 424(b)(4) under the Securities Act.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities.

(a) Not Applicable.
(b) Not Applicable.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

(a) None.
(b) None.
(c) Not applicable.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Certificate of Amendment, dated June 30, 2023, to the amended and restated certificate of incorporation of Talis Biomedical Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC on July 5, 2023).
10.1*	Lease Termination Agreement, dated March 17, 2023, by and between the Registrant and Westport Office Park, LLC (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the SEC on March 22, 2023).
10.2*	Sublease, dated March 17, 2023, by and between the Registrant and Kriya Therapeutics, Inc. (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the SEC on March 22, 2023).
10.3*	Consent to Sublease, dated March 17, 2023, by and between the Registrant, Westport Office Park, LLC, and Kriya Therapeutics, Inc. (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the SEC on March 22, 2023).
10.4	Termination and Release Agreement, dated March 22, 2023, by and between the Registrant and thinXXS Microtechnology AG (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the SEC on March 22, 2023).
10.5	License Agreement, dated March 22, 2023, by and between the Registrant and thinXXS Microtechnology AG (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the SEC on March 22, 2023).
10.6+	Offer Letter, dated July 27, 2023, by and between the Company and Andrew Lukowiak (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on August 2, 2023).
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	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Certain portions of this exhibit (indicated by "[***]") have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K .
\+ Indicates management contract or compensatory plan.

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.

TALIS BIOMEDICAL CORPORATION

Date: August 10, 2023 By: /s/ Robert J. Kelley

Robert J. Kelley

Chief Executive Officer

Date: August 10, 2023 By: /s/ Rebecca L. Markovich

Rebecca L. Markovich

Interim Chief Financial Officer

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, Robert J. Kelley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Talis Biomedical Corporation;

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 10, 2023

By: /s/ Robert J. Kelley

Robert J. Kelley
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Rebecca L. Markovich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Talis Biomedical Corporation;

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 10, 2023

By: /s/ Rebecca L. Markovich

Rebecca L. Markovich
Interim Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Talis Biomedical Corporation (the "Company") on Form 10-Q for the period ending June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I hereby certify to the best of my knowledge, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and 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 Exchange Act; 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 10, 2023

By: /s/ Robert J. Kelley

Robert J. Kelley
Chief Executive Officer
(Principal Executive Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

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 Talis Biomedical Corporation (the "Company") on Form 10-Q for the period ending June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I hereby certify to the best of my knowledge, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and 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 Exchange Act; 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 10, 2023

By: /s/ Rebecca L. Markovich

Rebecca L. Markovich
Interim Chief Financial Officer
(Principal Financial Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.