



Up to 7,003,383 Shares of Common Stock

This prospectus supplement updates and supplements the prospectus dated April 5, 2022 (as amended, the "**Prospectus**"), which forms a part of our Registration Statement on Form S-1 (No. 333-263923). This prospectus supplement is being filed to update and supplement the information in the Prospectus with the information contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, filed with the Securities and Exchange Commission on August 11, 2022 (the "**Report**"). Accordingly, we have attached the Report to this prospectus supplement.

The Prospectus and this prospectus supplement relate to the issuance by us of an aggregate of up to 7,003,383 shares of our common stock, \$0.0001 par value per share (the "**Common Stock**"), by Lincoln Park Capital Fund, LLC (the "**Selling Securityholder**"). The shares included in this prospectus consist of shares of Common Stock that we have issued or that we may, in our discretion, elect to issue and sell to the Selling Securityholder, from time to time after the date of this prospectus, pursuant to a common stock purchase agreement we entered into with the Selling Securityholder on February 18, 2022 (the "**Purchase Agreement**"), in which the Selling Securityholder has committed to purchase from us, at our direction, up to \$50,000,000 of our Common Stock, subject to terms and conditions specified in the Purchase Agreement. Concurrently with our execution of the Purchase Agreement on February 18, 2022, we issued 100,000 shares of Common Stock to the Selling Securityholder as consideration for its irrevocable commitment to purchase shares of our Common Stock at our election in our sole discretion, from time to time after the date of this prospectus, upon the terms and subject to the satisfaction of the conditions set forth in the Purchase Agreement. See the section titled "Committed Equity Financing" for a description of the Purchase Agreement and the section titled "Selling Securityholder" for additional information regarding the Selling Securityholder.

The Common Stock is listed on The Nasdaq Capital Market ("**Nasdaq**") under the symbol "SRZN". On August 24, 2022, the last reported sales price of the Common Stock as reported on Nasdaq was \$2.65 per share.

This prospectus supplement should be read in conjunction with the Prospectus, including any amendments or supplements thereto, which is to be delivered with this prospectus supplement. This prospectus supplement is qualified by reference to the Prospectus, including any amendments or supplements thereto, except to the extent that the information in this prospectus supplement updates and supersedes the information contained therein.

This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any amendments or supplements thereto.

We are an "emerging growth company" as defined under U.S. federal securities laws and, as such, have elected to comply with reduced public company reporting requirements. This prospectus supplement complies with the requirements that apply to an issuer that is an emerging growth company. We are incorporated in Delaware.

Investing in our securities involves a high degree of risk. You should review carefully the risks and uncertainties described in the section titled "*Risk Factors*" beginning on page 9 of the Prospectus, and under similar headings in any amendments or supplements to the Prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or passed upon the accuracy or adequacy of this prospectus supplement or the Prospectus. Any representation to the contrary is a criminal offense.

Prospectus dated August 24, 2022

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2022**

OR

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

For the transition period from to

Commission File Number: **001-39635**

Surrozen, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

171 Oyster Point Blvd, Suite 400, South San Francisco, California

(Address of principal executive offices)

98-1556622

(I.R.S. Employer
Identification No.)

94080

(Zip Code)

Registrant's telephone number, including area code: (650) 489-9000

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	SRZN	The Nasdaq Capital Market
Redeemable warrants, each whole warrant exercisable for one share of Common Stock	SRZNW	The Nasdaq Capital Market

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

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

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

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

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

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

As of August 8, 2022, there were 35,122,863 shares of common stock, par value \$0.0001 per share, issued and outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

SURROZEN, INC.
Condensed Consolidated Balance Sheets
(In thousands, except per share amounts)

	June 30, 2022 (Unaudited)	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,866	\$ 33,091
Short-term marketable securities	75,823	68,760
Prepaid expenses and other current assets	2,130	3,338
Total current assets	94,819	105,189
Property and equipment, net	4,200	4,794
Operating lease right-of-use assets	3,837	4,582
Long-term marketable securities	—	21,655
Restricted cash	405	405
Other assets	866	549
Total assets	\$ 104,127	\$ 137,174
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 418	\$ 2,718
Accrued and other liabilities	6,012	8,662
Lease liabilities, current portion	2,094	2,193
Total current liabilities	8,524	13,573
Lease liabilities, noncurrent portion	4,525	5,600
Warrant liabilities	1,382	8,301
Total liabilities	14,431	27,474
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 10,000 shares authorized; no shares issued and outstanding as of June 30, 2022 and December 31, 2021	—	—
Common stock, \$0.0001 par value, 500,000 shares authorized as of June 30, 2022 and December 31, 2021; 35,124 and 35,034 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	4	4
Additional paid-in capital	254,689	252,464
Accumulated other comprehensive loss	(476)	(119)
Accumulated deficit	(164,521)	(142,649)
Total stockholders' equity	89,696	109,700
Total liabilities and stockholders' equity	\$ 104,127	\$ 137,174

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

SURROZEN, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(In thousands, except per share amounts)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Operating expenses:				
Research and development	\$ 9,581	\$ 10,265	\$ 18,952	\$ 18,866
General and administrative	4,491	2,395	9,613	6,825
Total operating expenses	<u>14,072</u>	<u>12,660</u>	<u>28,565</u>	<u>25,691</u>
Loss from operations	(14,072)	(12,660)	(28,565)	(25,691)
Interest income	60	7	109	16
Other income, net	87	—	6,584	—
Net loss	(13,925)	(12,653)	(21,872)	(25,675)
Unrealized loss on marketable securities, net of tax	(47)	—	(357)	—
Comprehensive loss	<u>\$ (13,972)</u>	<u>\$ (12,653)</u>	<u>\$ (22,229)</u>	<u>\$ (25,675)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.40)</u>	<u>\$ (0.69)</u>	<u>\$ (0.63)</u>	<u>\$ (1.41)</u>
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	<u>34,945</u>	<u>18,217</u>	<u>34,904</u>	<u>18,186</u>

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

SURROZEN, INC.
Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity
(Unaudited)
(In thousands)

	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance at December 31, 2021	35,034	\$ 4	\$ 252,464	\$ (119)	\$ (142,649)	\$ 109,700
Issuance of common stock under Equity Purchase Agreement	100	—	273	—	—	273
Repurchase of early exercised stock options	(8)	—	—	—	—	—
Vesting of early exercised stock options	—	—	30	—	—	30
Stock-based compensation expense	—	—	916	—	—	916
Other comprehensive loss	—	—	—	(310)	—	(310)
Net loss	—	—	—	—	(7,947)	(7,947)
Balance at March 31, 2022	35,126	4	253,683	(429)	(150,596)	102,662
Repurchase of early exercised stock options	(2)	—	—	—	—	—
Vesting of early exercised stock options	—	—	27	—	—	27
Stock-based compensation expense	—	—	979	—	—	979
Other comprehensive loss	—	—	—	(47)	—	(47)
Net loss	—	—	—	—	(13,925)	(13,925)
Balance at June 30, 2022	35,124	\$ 4	\$ 254,689	\$ (476)	\$ (164,521)	\$ 89,696

	Redeemable convertible preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2020, as previously reported	95,290	\$ 133,097	8,649	\$ 1	\$ 2,196	\$ —	\$ (88,001)	\$ (85,804)
Retroactive application of recapitalization	(95,290)	(133,097)	9,608	1	133,096	—	—	133,097
Balance at December 31, 2020, after effect of Business Combination	—	—	18,257	2	135,292	—	(88,001)	47,293
Exercises of stock options	—	—	76	—	196	—	—	196
Restricted stock granted	—	—	123	—	—	—	—	—
Reclassification to liability for early exercised stock options	—	—	—	—	(120)	—	—	(120)
Vesting of early exercised stock options	—	—	—	—	30	—	—	30
Stock-based compensation expense	—	—	—	—	475	—	—	475
Net loss	—	—	—	—	—	—	(13,022)	(13,022)
Balance at March 31, 2021, after effect of Business Combination	—	—	18,456	2	135,873	—	(101,023)	34,852
Exercises of stock options	—	—	50	—	109	—	—	109
Restricted stock granted	—	—	70	—	—	—	—	—
Restricted stock forfeited	—	—	(16)	—	—	—	—	—
Reclassification to liability for early exercised stock options	—	—	—	—	(65)	—	—	(65)
Vesting of early exercised stock options	—	—	—	—	47	—	—	47
Repurchase of early exercised stock options	—	—	(1)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	532	—	—	532
Net loss	—	—	—	—	—	—	(12,653)	(12,653)
Balance at June 30, 2021, after effect of Business Combination	—	\$ —	18,559	\$ 2	\$ 136,496	\$ —	\$ (113,676)	\$ 22,822

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

SURROZEN, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2022	2021
Operating activities:		
Net loss	\$ (21,872)	\$ (25,675)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,007	1,003
Stock-based compensation	1,895	1,007
Non-cash operating lease expense	745	628
Amortization of premium on marketable securities, net	235	—
Change in fair value of warrant liabilities	(6,919)	—
Other expense related to the commitment shares issued to Lincoln Park	273	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	1,309	(747)
Other assets	(418)	(1)
Accounts payable	(2,278)	(637)
Accrued and other liabilities	(2,590)	2,245
Operating lease liabilities	(1,174)	(1,035)
Net cash used in operating activities	(29,787)	(23,212)
Investing activities:		
Purchases of property and equipment	(435)	(404)
Purchases of marketable securities	—	(1,098)
Proceeds from maturities of marketable securities	14,000	8,700
Net cash provided by investing activities	13,565	7,198
Financing activities:		
Proceeds from exercise of stock options	—	305
Repurchase of early exercised stock options	(3)	(1)
Payments of deferred transaction costs	—	(422)
Net cash used in financing activities	(3)	(118)
Net decrease in cash, cash equivalents and restricted cash	(16,225)	(16,132)
Cash, cash equivalents and restricted cash at beginning of period	33,496	35,387
Cash, cash equivalents and restricted cash at end of period	<u>\$ 17,271</u>	<u>\$ 19,255</u>
Supplemental disclosure of noncash investing and financing activities:		
Purchases of property and equipment included in accounts payable	\$ —	\$ 156
Vesting of early exercises of stock options	\$ 57	\$ 77
Reclassification of early exercised stock options to liability	\$ —	\$ 185
Deferred transaction costs included in accounts payable and accrued liabilities	\$ —	\$ 922

The following table presents a reconciliation of the Company's cash, cash equivalents and restricted cash in the Company's unaudited condensed consolidated balance sheets:

	June 30,	
	2022	2021
Cash and cash equivalents	\$ 16,866	\$ 18,850
Restricted cash	405	405
Cash, cash equivalents and restricted cash	<u>\$ 17,271</u>	<u>\$ 19,255</u>

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

SURROZEN, INC.
Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1. Organization and Business

Organization

Surrozen, Inc., or the Company, formerly known as Consonance-HFW Acquisition Corp., or Consonance, is a clinical stage biotechnology company committed to discovering and developing drug candidates to selectively modulate the Wnt pathway, a critical mediator of tissue repair, in a broad range of organs and tissues, for human diseases. The Company, a Delaware corporation, is located in South San Francisco, California.

Business Combination and Private Investment in Public Entity Financing

Consonance was a blank check company incorporated as a Cayman Islands exempted company on August 21, 2020. It was formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses.

On August 11, 2021, Consonance consummated a business combination, or the Business Combination, among Consonance, Perseverance Merger Sub Inc., a subsidiary of Consonance, and Surrozen, Inc., or Legacy Surrozen, a Delaware company incorporated on August 12, 2015. Upon closing of the Business Combination, Consonance became a Delaware corporation and was renamed to Surrozen, Inc., Legacy Surrozen, was renamed to Surrozen Operating, Inc., and Legacy Surrozen continued as a wholly-owned subsidiary of the Company. See Note 3, "*Recapitalization*" for additional details.

In May 2022, Surrozen Netherlands, B.V. was incorporated and located in Rotterdam, Netherlands as a wholly-owned subsidiary of Surrozen Operating, Inc.

Liquidity

The Company has incurred net losses since inception. The Company has historically financed the operations primarily through private placements of redeemable convertible preferred stock. As of June 30, 2022, the Company had cash, cash equivalents and marketable securities of \$92.7 million. As of June 30, 2022, the Company had an accumulated deficit of approximately \$164.5 million. The Company expects operating expenses to continue to increase in connection with our ongoing clinical studies and anticipates the need to raise additional capital to continue to execute its long-range business plan.

In February 2022, the Company entered into a purchase agreement, or the Equity Purchase Agreement, and a registration rights agreement with Lincoln Park Capital Fund, LLC, or Lincoln Park, pursuant to which Lincoln Park is obligated to purchase up to \$50.0 million of the Company's common stock from time to time at the Company's sole discretion over a 36-month period commencing on April 27, 2022 (see Note 8).

Management believes that the existing cash, cash equivalents, and marketable securities are sufficient for the Company to continue operating activities for at least the next 12 months from the date of issuance of its unaudited condensed consolidated financial statements. However, if the Company's anticipated cash burn is greater than anticipated, the Company could use its capital resources sooner than expected which may result in the need to reduce future planned expenditures and/or raise additional capital to continue to fund the operations.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, and pursuant to the regulations of the U.S. Securities and Exchange Commission, or SEC. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP have been condensed or omitted and accordingly, the condensed consolidated balance sheet as of December 31, 2021 has been derived from the Company's audited consolidated financial statements at that date but does not include all of the information required by GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements have been prepared on the same basis as the Company's annual consolidated financial statements and, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of the Company's consolidated

financial statements. The results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the year ended December 31, 2022 or for any other interim period or future year.

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated.

The Business Combination discussed in Note 1 was accounted for as a reverse recapitalization with Legacy Surrozen as the accounting acquirer and Consonance as the acquired company for accounting purposes. Accordingly, all historical financial information presented in the unaudited condensed consolidated financial statements represents the accounts of Legacy Surrozen at their historical cost as if Legacy Surrozen is the predecessor to the Company. The unaudited condensed consolidated financial statements following the closing of the Business Combination reflect the results of the combined entity's operations. All issued and outstanding common stock, redeemable convertible preferred stock and stock awards of Legacy Surrozen and per share amounts contained in the unaudited condensed consolidated financial statements for the periods presented prior to the closing of the Business Combination on August 11, 2021 have been retroactively restated to reflect the exchange ratio established in the Business Combination. See Note 3, "Recapitalization" for additional details.

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K, filed with the SEC on March 28, 2022.

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated financial statements and the reported amounts of expenses during the reporting periods. Significant estimates and assumptions made in the accompanying unaudited condensed consolidated financial statements include, but are not limited to, certain accrued expenses for research and development activities, the fair value of common stock prior to the Business Combination, stock-based compensation expense and income taxes. Management bases its estimates on historical experience and on various other market-specific and relevant assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could materially differ from those estimates.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to significant concentration of credit risk, consist of cash, cash equivalents and marketable securities. The Company's cash is held by one financial institution that management believes is creditworthy. Such deposits held with the financial institution may at times exceed federally insured limits, however, its exposure to credit risk in the event of default by the financial institution is limited to the extent of amounts recorded on the unaudited condensed consolidated balance sheets. The Company performs evaluations of the relative credit standing of these financial institutions to limit the amount of credit exposure. The Company's policy is to invest cash in institutional money market funds and marketable securities with high credit quality to limit the amount of credit exposure. The Company currently maintains a portfolio of cash equivalents and marketable securities in a variety of securities, including money market funds, U.S. government bonds, foreign bonds, commercial paper and corporate debt securities. The Company has not experienced any losses on its cash equivalents and marketable securities.

Marketable Securities

The Company invests its excess cash in U.S. government bonds, foreign bonds, commercial paper and corporate debt securities. All marketable securities have been classified as available-for-sale and are carried at estimated fair value as determined based upon quoted market prices or pricing models for similar securities. The Company does not buy or hold securities principally for the purpose of selling them in the near future. The Company's policy is focused on the preservation of capital, liquidity and return. From time to time, the Company may sell certain securities, but the objectives are generally not to generate profits on short-term differences in price.

Short-term marketable securities have maturities less than or equal to one year as of the balance sheet date. Long-term marketable securities have maturities greater than one year as of the balance sheet date. These marketable securities are carried at estimated fair value with unrealized holding gains and losses included in accumulated other comprehensive loss in stockholders' equity until realized. Gains and losses on marketable security transactions are reported on the specific-identification method. Interest income is recognized in the unaudited condensed consolidated statements of operations and comprehensive loss when earned.

The Company periodically evaluates its available-for-sale marketable securities for impairment. When the fair value of a marketable security is below its amortized cost, the amortized cost is reduced to its fair value if it is more likely than not that the Company is required to sell the impaired security before recovery of its amortized cost basis, or the Company has the intention to sell the security. If neither of these conditions are met, the Company determines whether the impairment is due to credit losses by comparing the present value of the expected cash flows of the security with its amortized cost basis. The amount of impairment recognized is limited to the excess of the amortized cost over the fair value of the security. An allowance for credit losses for the excess of amortized cost over the expected cash flows, if any, is recorded in other income, net on the unaudited condensed consolidated statements of operations. Impairment losses that are not credit-related are included in accumulated other comprehensive loss in stockholders' equity.

Warrant Liabilities

The Company's Public Warrants, Private Placement Warrants and PIPE Warrants were classified as liabilities (see Note 9). At the end of each reporting period, any changes in fair value during the period are recognized in other income, net within the unaudited condensed consolidated statements of operations and comprehensive loss. The Company will continue to adjust the warrant liabilities for changes in the fair value until the earlier of a) the exercise or expiration of the warrants or b) the redemption of the warrants, at which time such warrants will be reclassified to additional paid-in capital.

Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss attributable to common stock by the weighted-average number of shares of common stock outstanding for the period, without consideration for potential dilutive securities. Since the Company was in a loss position for the periods presented, basic net loss per share is the same as diluted net loss per share as the effects of potentially dilutive securities are antidilutive. The following table presents the potential common stock outstanding that were excluded from the computation of diluted net loss per share of common stock as of the periods presented because including them would have been antidilutive (in thousands):

	June 30,	
	2022	2021
Options outstanding	3,503	1,479
Unvested restricted stock	130	196
Unvested common stock subject to repurchase	38	108
Warrants to purchase common stock	7,219	—
Total	10,890	1,783

Note 3. Recapitalization

On August 11, 2021, Consonance consummated the Business Combination (see Note 1). Immediately after the consummation of the Business Combination, certain investors subscribed for and purchased an aggregate of 12.0 million units, each consisting of one share of the Company's common stock and one-third of one redeemable warrant, for a purchase price of \$10.00 per unit through a private investment in public entity financing, or PIPE Financing. In connection with the Business Combination and PIPE Financing, Legacy Surrozen received the aggregate cash consideration of \$128.8 million, after deducting the transaction fees incurred by Consonance. The cash consideration was comprised of \$8.6 million in proceeds from issuance of common stock upon the closing of the Business Combination and \$120.2 million in proceeds from the PIPE Financing. The Company incurred transaction costs of \$6.3 million, consisting of legal, accounting and other professional services directly related to the Business Combination, \$0.4 million of which were allocated to the warrant liabilities assumed and recognized as other expenses when incurred. The remaining \$5.9 million were recorded as a reduction of additional paid-in capital in the unaudited condensed consolidated balance sheet. Legacy Surrozen was deemed the accounting acquirer in the Business Combination and the Business Combination was accounted for as a reverse recapitalization based on the following predominant factors:

- Legacy Surrozen's stockholders have the greatest voting interest in the Company;
- The Company's board and senior management are primarily composed of individuals associated with Legacy Surrozen; and
- Legacy Surrozen is the larger entity based on historical operating activity and has the larger employee base at the time of the Business Combination.

Accordingly, for accounting purposes, the reverse recapitalization was treated as the equivalent of Legacy Surrozen issuing stock for the net assets of Consonance, accompanied by a recapitalization. The net assets of Consonance are stated at historical cost, with no goodwill or other intangible assets recorded.

Pursuant to the Business Combination Agreement, upon the closing of the Business Combination, (i) each share of redeemable convertible preferred stock of Legacy Surrozen (on an as converted to common stock basis) and each share of common stock of Legacy Surrozen, whether vested or unvested, was converted into 0.175648535 shares of the Company's common stock and (ii) each outstanding option to purchase common stock of Legacy Surrozen was converted into an option to purchase shares of the Company's common stock based on an exchange ratio of 0.175648535, or the Exchange Ratio, with corresponding adjustments to the exercise price. All issued and outstanding common stock, preferred stock and stock awards of Legacy Surrozen and corresponding capital amounts contained in the unaudited condensed consolidated financial statements for the periods presented prior to the closing of the Business Combination have been retroactively restated to reflect the conversion.

Note 4. Fair Value Measurement

The following tables summarize the Company's financial assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds ⁽¹⁾	\$ 13,623	\$ —	\$ —	\$ 13,623
Commercial paper	—	35,185	—	35,185
Corporate bonds	—	19,252	—	19,252
Government bonds	—	17,719	—	17,719
Foreign bonds	—	3,667	—	3,667
Total financial assets measured at fair value	<u>\$ 13,623</u>	<u>\$ 75,823</u>	<u>\$ —</u>	<u>\$ 89,446</u>
Liabilities⁽²⁾:				
Public Warrants	\$ 587	\$ —	\$ —	\$ 587
Private Placement Warrants	—	28	—	28
PIPE Warrants	—	767	—	767
Total financial liabilities measured at fair value	<u>\$ 587</u>	<u>\$ 795</u>	<u>\$ —</u>	<u>\$ 1,382</u>

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds ⁽¹⁾	\$ 32,310	\$ —	\$ —	\$ 32,310
Commercial paper	—	49,136	—	49,136
Corporate bonds	—	19,480	—	19,480
Government bonds	—	18,082	—	18,082
Foreign bonds	—	3,717	—	3,717
Total financial assets measured at fair value	<u>\$ 32,310</u>	<u>\$ 90,415</u>	<u>\$ —</u>	<u>\$ 122,725</u>
Liabilities⁽²⁾:				
Public Warrants	\$ 3,527	\$ —	\$ —	\$ 3,527
Private Placement Warrants	—	166	—	166
PIPE Warrants	—	4,608	—	4,608
Total financial liabilities measured at fair value	<u>\$ 3,527</u>	<u>\$ 4,774</u>	<u>\$ —</u>	<u>\$ 8,301</u>

(1) Money market funds are included in cash and cash equivalents on the unaudited condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021.

(2) See the definition and discussion of Public Warrants, Private Placement Warrants and PIPE Warrants in Note 9.

There were no changes to the valuation methods utilized and there were no transfers of financial instruments between Level 1, Level 2, and Level 3 during the six months ended June 30, 2022.

Corporate bonds, commercial paper, foreign bonds and government bonds are classified as Level 2 as they were valued based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not

active, and model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

The Public Warrants are classified as Level 1 due to the use of an observable market quote in an active market. The Private Placement Warrants and PIPE Warrants are classified as Level 2 due to the use of observable market data for identical or similar liabilities. The fair value of each Private Placement Warrant and PIPE Warrant was determined to be consistent with that of a Public Warrant because the Private Placement Warrants and PIPE Warrants are also subject to the make-whole redemption feature, which allows the Company to redeem both types of warrants on similar terms when the stock price is in the range of \$10 to \$18 per share.

The following tables provide the Company's marketable securities by security type (in thousands):

June 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	\$ 35,185	\$ —	\$ —	\$ 35,185
Corporate bonds	19,335	—	(83)	19,252
Government bonds	18,093	—	(374)	17,719
Foreign bonds	3,686	—	(19)	3,667
Total short-term marketable securities	<u>\$ 76,299</u>	<u>\$ —</u>	<u>\$ (476)</u>	<u>\$ 75,823</u>
December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	\$ 49,136	\$ —	\$ —	\$ 49,136
Corporate bonds	15,920	4	(17)	15,907
Foreign bonds	3,725	—	(8)	3,717
Total short-term marketable securities	<u>\$ 68,781</u>	<u>\$ 4</u>	<u>\$ (25)</u>	<u>\$ 68,760</u>
Government bonds	\$ 18,165	\$ —	\$ (83)	\$ 18,082
Corporate bonds	3,588	—	(15)	3,573
Total long-term marketable securities	<u>\$ 21,753</u>	<u>\$ —</u>	<u>\$ (98)</u>	<u>\$ 21,655</u>

The following table indicates the length of the time that individual securities have been in a continuous unrealized loss position as of June 30, 2022 (dollars in thousands):

	Number of Investments	Less Than 12 Months	
		Fair Value	Unrealized Losses
Corporate bonds	6	\$ 15,752	\$ 83
Government bonds	3	17,720	374
Foreign bonds	2	3,667	19
Total	<u>11</u>	<u>\$ 37,139</u>	<u>\$ 476</u>

As of June 30, 2022 and December 31, 2021, all short-term marketable securities had maturities of one year or less. There have been no significant realized gains or losses on the short-term and long-term marketable securities during the three and six months ended June 30, 2022 and 2021. The Company periodically reviews the available-for-sale investments for other-than-temporary impairment loss. All investments with unrealized losses have been in a loss position for less than 12 months. The Company determined that the unrealized loss was primarily attributed to changes in current market interest rates and not to credit quality. The Company does not intend to sell the marketable securities that are in an unrealized loss position, nor is it more likely than not that the Company will be required to sell the marketable securities before the recovery of the amortized cost basis, which may be at maturity. As a result, the Company did not recognize any other-than-temporary impairment losses as of June 30, 2022.

Note 5. Balance Sheet Components

Accrued and Other Liabilities

Accrued and other liabilities consist of the following (in thousands):

	June 30, 2022	December 31, 2021
Accrued payroll and related expenses	\$ 2,757	\$ 2,887
Accrued research and development expenses	2,389	3,666
Accrued professional service fees	64	1,520
Liability for early exercised stock options	138	205
Other	664	384
Accrued and other liabilities	<u>\$ 6,012</u>	<u>\$ 8,662</u>

Note 6. License Agreements

Stanford License Agreements

In March 2016, the Company entered into a license agreement with Stanford University, or the 2016 Stanford Agreement, which was amended in July 2016, October 2016 and January 2021, pursuant to which the Company obtained from Stanford a worldwide, exclusive, sublicensable license under certain patents, rights, or licensed patents and technology related to its engineered Wnt surrogate molecules to make, use, import, offer to sell and sell products that are claimed by the licensed patents or that use or incorporate such technology, or licensed products, for the treatment, diagnosis and prevention of human and veterinary diseases. The Company agreed to pay Stanford an aggregate of up to \$0.9 million for the achievement of specified development and regulatory milestones, and an aggregate of up to \$5.0 million for achievement of specified sales milestones. Stanford is also entitled to receive royalties from the Company equal to a very low single digit percentage of the Company's and its sublicensees' net sales of licensed products that are covered by a valid claim of a licensed patent. Additionally, the Company agreed to pay Stanford a low double-digit percentage of non-royalty sublicense consideration received by the Company in connection with any sublicense granted to a third-party and, if the Company is acquired, a one-time change of control fee in the low six figures.

In June 2018, the Company entered into another license agreement with Stanford, or the 2018 Stanford Agreement, pursuant to which the Company obtained from Stanford a worldwide, exclusive, sublicensable license under certain patent rights related to its surrogate R-spondin proteins, or the licensed patents, to make, use, import, offer to sell and sell products that are claimed by the licensed patents, or licensed products, for the treatment, diagnosis and prevention of human and veterinary diseases, or the exclusive field. Additionally, Stanford granted the Company a worldwide, non-exclusive, sublicensable license under the licensed patents to make and use licensed products for research and development purposes in furtherance of the exclusive field and a worldwide, non-exclusive license to make, use and import, but not to offer to sell or sell, licensed products in any other field of use. The Company agreed to pay Stanford an aggregate of up to \$0.4 million for the achievement of specified development and regulatory milestones. Stanford is also entitled to receive royalties from the Company equal to a sub-single digit percentage of the Company's and its sublicensees' net sales of licensed products. Additionally, the Company agreed to pay Stanford a one-time payment in the low six figures for each sublicense of the licensed patents that the Company grants to a third party and, if the Company is acquired, a one-time nominal change of control fee.

For the three and six months ended June 30, 2022 and 2021, the Company incurred de minimis research and development expenses under the Stanford agreements. No milestones have been achieved as of June 30, 2022.

UCSF License and Option Agreements

In September and October 2016, the Company entered into two separate license and option agreements with The Regents of the University of California, or the UCSF Agreements, pursuant to which the Company obtained exclusive licenses from UCSF for internal research and antibody discovery purposes and an option to negotiate with UCSF to obtain an exclusive license under UCSF's rights in the applicable library to make, use, sell, offer for sale and import products incorporating antibodies identified or resulting from the Company's use of such library, or licensed products.

In January 2020, the Company amended and restated the UCSF Agreements to provide non-exclusive licenses to make and use a certain human Fab naïve phage display library and to make and use a certain phage display llama VHH single domain antibody library for internal research and antibody discovery purposes and an option to negotiate with UCSF to obtain a non-exclusive commercial license under UCSF's rights in the applicable library to make, use, sell, offer for sale and import products incorporating antibodies identified or resulting from the Company's use of such library, or licensed products.

In March 2022, the Company exercised the option under the UCSF Agreements and entered into a non-exclusive commercial license agreement to make and use licensed products derived from the phage display llama VHH single domain antibody library. Under the commercial license agreement, the Company paid UCSF a nominal license issue fee and agreed to pay a nominal annual license maintenance fee, five- to six-digit payments per licensed product upon achievement of a regulatory milestone, nominal minimum annual royalties, and earned royalties equal to a sub-single digit percentage of the Company's and the Company's sublicensees' net sales of licensed products.

For the three and six months ended June 30, 2022 and 2021, the Company incurred de minimis research and development expenses under the UCSF Agreements and the commercial license agreement. No milestones have been achieved as of June 30, 2022.

Distributed Bio Subscription Agreement

In September 2016, the Company entered into, and in January 2019, the Company amended, an antibody library subscription agreement with Charles River Laboratories International, Inc., formerly known as Distributed Bio, or the Distributed Bio Agreement, in which the Company obtained from Distributed Bio a non-exclusive license to use Distributed Bio's antibody library to identify antibodies directed to an unlimited number of the Company's proprietary targets and to make, use, sell, offer for sale, import and exploit products incorporating the antibodies that the Company identifies, or licensed products. The Company agreed to pay Distributed Bio an annual fee in the low six figures after the first three years. Additionally, the Company agreed to pay Distributed Bio an aggregate of \$5.9 million for each licensed product that achieves specified development, regulatory and commercial milestones and royalties equal to a very low single digit percentage of the Company's and its sublicensees' net sales of licensed products. The Company's obligation to pay royalties will end for each licensed product ten years after its first commercial sale.

For the three and six months ended June 30, 2022, the Company incurred \$0.1 million research and development expenses under the Distributed Bio Agreement as the Company achieved a milestone with regard to the initiation of the Phase 1 clinical trial for SZN-1326 in May 2022. For the three and six months ended June 30, 2021, the Company incurred de minimis research and development expenses under the Distributed Bio Agreement.

Note 7. Commitments and Contingencies

Lease Agreements

In August 2016, the Company entered into a lease agreement for office and lab space, which consists of approximately 32,813 square feet of rental space in South San Francisco, California. The office space lease is classified as an operating lease. The initial lease term commenced in May 2017 and ends in April 2025, with rent payments escalating each year. The Company has options to extend the lease for additional years, but the exercise of the option was not reasonably certain. In connection with the lease, the Company maintains a letter of credit for the benefit of the landlord in the amount of \$0.4 million, which is recorded as restricted cash in the unaudited condensed consolidated balance sheets.

In January 2020, the Company entered into a lease agreement for a term of 18 months for approximately 6,478 square feet of office space. This office space lease, which commenced in June 2020, is classified as an operating lease and the rent payments escalate after 14 months. In September 2021, the Company amended the lease to extend the lease term until June 2022.

The operating lease expense for the three and six months ended June 30, 2022 and 2021 was \$0.5 million, \$1.0 million, \$0.5 million and \$1.0 million respectively.

Aggregate future minimum rental payments under the operating leases as of June 30, 2022, were as follows (in thousands):

Remaining six months ending December 31, 2022	\$	1,271
Year ending December 31, 2023		2,596
Year ending December 31, 2024		2,670
Year ending December 31, 2025		891
Total lease payments		<u>7,428</u>
Less: Imputed interest		(809)
Operating lease liabilities	\$	<u>6,619</u>

Note 8. Stockholders' Equity

Equity Purchase Agreement

In February 2022, the Company entered into the Equity Purchase Agreement with Lincoln Park, pursuant to which Lincoln Park is obligated to purchase up to \$50.0 million of the Company's common stock with a maximum of 7,003,383 shares from time to time at the Company's sole discretion over a 36-month period commencing on April 27, 2022. The Company also entered into a registration rights agreement with Lincoln Park pursuant to which the Company filed with the SEC the registration statement to register for resale under the Securities Act of 1933, as amended, the shares of common stock that have been or may be issued to Lincoln Park under the Equity Purchase Agreement. The registration statement was effective on April 5, 2022.

Upon execution of the Equity Purchase Agreement, the Company issued 0.1 million shares of common stock to Lincoln Park with the fair value of \$0.3 million as consideration for Lincoln Park's commitment to purchase the Company's common stock, which was included in other income, net on the unaudited condensed consolidated statements of operations and comprehensive loss. In the event that the Company sells its common stock under the Equity Purchase Agreement for an aggregate price equal to or greater than \$30.0 million, the Company shall pay the additional commitment fee of \$0.1 million to Lincoln Park.

As contemplated by the Equity Purchase Agreement, and so long as the closing price of the Company's common stock exceeds \$1.00 per share, the Company may direct Lincoln Park, at its sole discretion, to purchase up to 30,000 shares of its common stock, or the Regular Purchase Share Limit, on any business day at a purchase price per share equal to the lower of: (i) the lowest price of the Company's common stock on the applicable purchase date and (ii) the average of the 3 lowest closing prices of the Company's common stock during the 10 consecutive business days preceding such purchase date. The Regular Purchase Share Limit may be increased to up to 35,000 shares and 40,000 shares if the closing price of the Company's common stock is not below \$10.00 per share and \$12.00 per share, respectively. Any single purchase of the Company's common stock shall not exceed \$3.5 million.

The Company may also direct Lincoln Park to purchase additional shares no less than the Regular Purchase Share Limit and no greater than 500,000 shares at a purchase price per share equal to 96% of the lower of (i) the closing price of the Company's common stock on the purchase date and (ii) the volume weighted average price of the Company's common stock on the purchase date.

As of June 30, 2022, the Company has not sold any shares of common stock under the Equity Purchase Agreement.

Note 9. Common Stock Warrants

In connection with the Business Combination, Legacy Surrozen, as the accounting acquirer, was deemed to assume warrants held by Consonance's stockholders, or the Public Warrants, and warrants held by Consonance's sponsor, or the Private Placement Warrants. In addition, in the PIPE Financing, certain investors subscribed for and purchased an aggregate of 12.0 million units, each consisting of one share of the Company's common stock and one-third of one redeemable warrant, or PIPE Warrants. All of these warrants were outstanding as of June 30, 2022. The following table sets forth the common stock warrants outstanding as of June 30, 2022 (in thousands, except exercise price per warrant):

Type	Classification	Expiration Date	Exercise Price per Warrant	Number of Warrants	Fair Value
Public Warrants	Liability	August 12, 2026	\$ 11.50	3,067	\$ 587
Private Placement Warrants	Liability	August 12, 2026	11.50	145	28
PIPE Warrants	Liability	August 12, 2026	11.50	4,007	767
Total				<u>7,219</u>	<u>\$ 1,382</u>

Public Warrants

Each whole Public Warrant entitles the holder to purchase one share of the Company's common stock at a price of \$11.50 per share, at any time commencing on November 23, 2021 and terminating at the earlier of August 12, 2026 or upon redemption or liquidation. The exercise price and number of shares issuable upon exercise of the Public Warrants may be adjusted in the event of a share dividend, extraordinary dividend or recapitalization, reorganization, merger or consolidation. The Company would not be obligated to deliver any shares of common stock pursuant to the exercise of a Public Warrant and would have no obligation to settle such Public Warrant exercise unless a registration statement under the Securities Act with respect to the common stock underlying the Public Warrants is then effective. The registration statement on Form S-1 to register for resale under the Securities Act of 1933, as amended, was effective in November 2021. The Company shall use its efforts to maintain the effectiveness of the registration statement until the expiration or redemption of the Public Warrants. If the Company fails to have maintained an effective registration statement, the Public Warrant holders have the right to exercise the Public Warrants on a cashless basis until such time as there is an effective registration statement.

The Company may redeem the outstanding Public Warrants at a price of \$0.01 per warrant if the closing price of common stock equals or exceeds \$18.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and similar transaction). Additionally, the Company may redeem the outstanding Public Warrants at a price of \$0.10 per warrant if the closing price of common stock equals or exceeds \$10.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and similar transaction). Notice of redemption shall be mailed to the Public Warrant holders no less than 30 days prior to the redemption date, or the Redemption Period. If the closing price of common stock equals or exceeds \$10.00 per share and is less than \$18.00 per share, during the Redemption Period, the Public Warrant holders may elect to exercise their Public Warrants on a cashless basis based on a make-whole table.

In no event will the Company be required to net cash settle the Public Warrants. The Public Warrant holders do not have the rights or privileges of common stockholders and any voting rights until they exercise their Public Warrants and receive common stock.

Private Placement Warrants

The Private Placement Warrants have terms and provisions that are identical to those of the Public Warrants, except that so long as they are held by Consonance's sponsor or any of its permitted transferees, the Private Placement Warrants: (i) may be exercised for cash or on a cashless basis, (ii) may not be transferred, assigned or sold until 30 days after the completion of the Business Combination, (iii) shall not be redeemable by the Company if the closing price of common stock equals or exceeds \$18.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and similar transaction) and (iv) shall only be redeemable if the closing price of common stock is less than \$18.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and similar transaction). If the Private Placement Warrants are held by holders other than Consonance's sponsor or its permitted transferees, the Private Placement Warrants will be redeemable by the Company in all redemption scenarios and exercisable by the holders on the same basis as the Public Warrants.

PIPE Warrants

Each whole PIPE Warrant entitles the holder to purchase one share of the Company's common stock at a price of \$11.50 per share, at any time commencing on November 23, 2021 and terminating on August 12, 2026. The PIPE Warrants are the same in all respects as the Public Warrants except that the PIPE Warrants are not redeemable before August 12, 2022.

Classification

The Public Warrants, Private Placement Warrants and PIPE Warrants are not considered indexed to the Company's common stock as certain provisions of the warrant agreements could change the settlement amount of these warrants. As a result, they were classified as liabilities and recorded at fair value with subsequent change in their respective fair value recognized in the other income, net within the unaudited condensed consolidated statements of operations and comprehensive loss at each reporting date. See Note 4 for the discussion of warrant valuations.

Note 10. Stock-Based Compensation Plan

The Company maintains the 2021 Equity Incentive Plan, or the 2021 Plan, which provides for the granting of stock awards to employees, directors and consultants. Options granted under the 2021 Plan may be either incentive stock options, or ISOs, or nonqualified stock options, or NSOs. Options granted under the 2021 Plan expire no later than 10 years from the date of grant. Options under the 2021 Plan generally vest 25% upon one year of continued service to the Company, with the remainder in monthly increments over three additional years. As of June 30, 2022, there were 4.8 million shares of common stock available for issuance under the 2021 Plan.

The Company adopted the 2021 Employee Stock Purchase Plan, or the ESPP, in August 2021. The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to plan limitations. An offering period under the ESPP consists of four six-month purchase periods, unless otherwise determined by the Company. The eligible employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the purchase day. As of June 30, 2022, there were 0.9 million shares of common stock available for issuance under the ESPP. No shares have been issued under the ESPP as of June 30, 2022.

Stock-based compensation expense under the ESPP is measured at the beginning of the offering period using the Black-Scholes option-pricing model and recognized on a straight-line basis over the offering period.

Stock Options

A summary of stock option activity is set forth below:

	Options outstanding			
	Number of Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding – December 31, 2021	1,794	\$ 6.31	8.43	
Granted	1,761	3.38		
Forfeited	(43)	5.17		
Expired	(9)	6.15		
Outstanding – June 30, 2022	<u>3,503</u>	4.86	8.80	\$ 1,209
Exercisable – June 30, 2022	<u>950</u>	3.56	7.40	1,047

The aggregate intrinsic values of options outstanding and exercisable are the differences between the exercise price of the options and the fair value of the Company's common stock at June 30, 2022.

During the six months ended June 30, 2022, the Company granted options with a weighted-average grant-date fair value of \$2.34 per share.

The fair value of options is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021⁽¹⁾	2022	2021
Expected term (in years)	5.66	—	5.99	5.95
Expected volatility	82.97%	—	80.46%	63.43%
Risk-free rate	2.96%	—	1.74%	0.78%
Dividend yield	—	—	—	—

⁽¹⁾No options were granted during the three months ended June 30, 2021.

Restricted Stock Awards

The following table summarizes the Company's restricted stock award activity:

	Number of Shares	Weighted Average Grant Date
RSAs, unvested at December 31, 2021	161	\$ 9.39
Vested	(31)	8.12
RSAs, unvested at June 30, 2022	<u>130</u>	<u>9.69</u>

The fair value of restricted stock awards vested during the six months ended June 30, 2022 was \$0.1 million.

Stock-Based Compensation

Total stock-based compensation recorded in the unaudited condensed consolidated statements of operations and comprehensive loss related to stock options, restricted stock awards and ESPP was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Research and development	\$ 354	\$ 172	\$ 687	\$ 347
General and administrative	625	360	1,208	660
Total stock-based compensation expense	<u>\$ 979</u>	<u>\$ 532</u>	<u>\$ 1,895</u>	<u>\$ 1,007</u>

As of June 30, 2022, there was approximately \$10.6 million of stock-based compensation expense to be recognized over a weighted-average period of approximately 2.81 years.

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

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, or this Report, and our consolidated financial statements and related notes thereto for the year ended December 31, 2021 included in the Annual Report on Form 10-K filed on March 28, 2022. Unless otherwise indicated, the terms “Surrozen,” “we,” “us,” or “our” refer to Surrozen Operating, Inc., or Legacy Surrozen, prior to the Business Combination with Consonance-HFW Acquisition Corp. and Surrozen, Inc., formerly known as Consonance-HFW Acquisition Corp., together with its consolidated subsidiaries after giving effect to the Business Combination.

Forward-Looking Statements

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. All statements other than statements of historical facts are “forward-looking statements” for purposes of these provisions, including those relating to future events or our future financial performance and financial guidance. In some cases, you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “project,” “believe,” “estimate,” “predict,” “potential,” “intend” or “continue,” the negative of terms like these or other comparable terminology, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. These statements are only predictions.

All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Any or all of our forward-looking statements in this document may turn out to be wrong. Actual events or results may differ materially. Our forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and other factors. In evaluating these statements, you should specifically consider various factors, including the risks outlined under the caption “Risk Factors” set forth in Item 1A of Part II of this Report, as well as those contained from time to time in our other filings with the SEC. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

Overview

We are discovering and developing biologic drug candidates to selectively modulate the Wnt pathway, a critical mediator of tissue repair, in a broad range of organs and tissues, for human diseases. Building upon the seminal work of our founders and scientific advisors who discovered the Wnt gene and key regulators of the Wnt pathway, we have made breakthrough discoveries that we believe will overcome previous limitations in harnessing the potential of Wnt biology. These breakthroughs enable us to rapidly and flexibly design tissue-targeted therapeutics that modulate Wnt signaling. As a result of our discoveries, we are pioneering the selective activation of Wnt signaling, designing and engineering Wnt pathway mimetics, and advancing tissue-specific Wnt candidates. Our lead product candidates are multi-specific, antibody-based therapeutics that mimic the roles of naturally occurring Wnt or R-spondin proteins, which are involved in activation and enhancement of the Wnt pathway, respectively. Given Wnt signaling is essential in tissue maintenance and regeneration throughout the body, we have the potential to target a wide variety of severe diseases, including certain diseases that afflict the intestine, liver, retina, cornea, lung, kidney, cochlea, skin, pancreas and central nervous system. In each of these areas, we believe our approach has the potential to change the treatment paradigm for the disease and substantially impact patient outcomes. Our strategy is to exploit the full potential of Wnt signaling by identifying disease states responsive to Wnt modulation, design tissue-specific therapeutics, and advance candidates into clinical development in targeted indications with high unmet need. Our unique approach and platform technologies have led to the discovery and advancement of two lead product candidates. We initiated a Phase 1 clinical trial in the second quarter of 2022 for SZN-1326, our candidate in development for moderate to severe inflammatory bowel disease, or IBD, with ulcerative colitis, or UC, as our first proposed indication. SZN-1326, a Fzd5 targeted bi-specific antibody, is the first development candidate designed using Surrozen’s SWAP™ technology and targets the Wnt-signaling pathway in the intestinal epithelium. In preclinical animal models of acute and chronic colitis, SZN-1326 has been shown to transiently activate Wnt signaling in the diseased intestine, stimulate intestinal epithelial regeneration, reduce inflammation and reduce disease activity with no treatment related adverse effects observed in 13-week toxicology evaluations in rats and non-human primates (NHPs). Furthermore, we initiated a Phase 1 clinical trial in the second quarter of 2022 for SZN-043, our candidate in development for severe alcoholic hepatitis, or AH. SZN-043, a hepatocyte-specific R-spondin mimetic bispecific fusion protein targeting ASGR1, is the first development candidate using Surrozen’s SWEETS™ technology which is designed to mimic the regenerative properties of the protein R-Spondin by enhancing Wnt signaling in a cell-targeted manner. In multiple preclinical animal models of liver injury and fibrosis, SZN-043 has been shown to selectively activate Wnt signaling in the liver, stimulate transient hepatocyte proliferation, improve liver function and reduce fibrosis with no treatment-related adverse effects observed in 4-week GLP toxicology evaluations in mice and NHPs. Surrozen is developing SZN-043 for severe liver diseases, initially focusing on severe alcoholic hepatitis. In the first quarter of 2022, we nominated SZN-413, a Fzd4 targeted bi-specific antibody, as a development candidate for the treatment of retinal vascular associated diseases. Fzd4 mediated Wnt signaling is known to play a critical role in retinal vascular integrity and function. Data generated in preclinical models of retinopathy

demonstrated SZN-413 stimulated Wnt signaling and was able to induce normal retinal vessel regrowth while suppressing pathological vessel growth. We expect to nominate additional lead candidates and advance them into the clinic in 2023 and beyond.

The chart below represents a summary of our wholly owned product candidates:

Lead Programs	Indication(s)	Research	Preclinical	Phase 1	Phase 2	Phase 3	Regulatory	Next Milestone
SZN-1326	Moderate to Severe IBD	████████████████████						Initiated clinical trial Q2'22
SZN-043	Severe Alcoholic Hepatitis	████████████████████						Initiated clinical trial Q2'22
SZN-413	Retinopathies	████████████						Nominated candidate Q1'22

By leveraging our scientific capabilities and approach, we have identified more than 20 potential tissue types to explore. We are assessing the potential to drive tissue repair in diseases resulting in tissue injury to organs including the lung, lacrimal gland, cornea, pancreas and skin.

The chart below represents a summary of our wholly-owned research programs:

Research Programs		Discovery	Proof of Concept	Lead Candidate/s
Tissue	Indications			
Lung	IPF	████████████████████		
Lacrimal Gland	Severe Dry Eye (Sjögren's)	████████████████████		
Cornea	Fuchs' Dystrophy	████████████		
Lung	COPD	████████████		
Pancreas	Type 1 Diabetes	████████████		
Skin	Wound Healing	████████████		

Since our inception in 2015, we have devoted substantially all of our efforts and financial resources to organizing and staffing our company, business planning, raising capital, developing and optimizing our Wnt therapeutics platform, identifying potential product candidates, undertaking research and development activities, engaging in strategic transactions, establishing and enhancing our intellectual property portfolio, and providing general and administrative support for these operations. We have incurred net losses since inception. During the three months ended June 30, 2022 and 2021, we incurred net losses of \$13.9 million and \$12.7 million. During the six months ended June 30, 2022 and 2021, we incurred net losses of \$21.9 million and \$25.7 million. As of June 30, 2022, we had an accumulated deficit of \$164.5 million and cash, cash equivalents and marketable securities of \$92.7 million.

We expect to continue to incur losses for the foreseeable future and expect to incur increased expenses as we expand our pipeline and advance our product candidates through clinical development and regulatory submissions. Specifically, in the near term we expect to incur substantial expenses relating to our Phase 1 clinical trials, the development and validation of our manufacturing processes, and other research and development activities.

Impacts of the Conflict between Russia and Ukraine and the COVID-19 Pandemic

Russia invaded Ukraine in February 2022 and is still engaged in active armed conflict against the country. The global COVID-19 pandemic continues to evolve, and we will continue to monitor developments closely. To date, our financial condition and operations have not been significantly impacted by the conflict between Russia and Ukraine and the COVID-19 pandemic. The extent of the impact on our business, operations and clinical development timelines and plans remains uncertain and will depend on certain developments, including the actions of U.S. and foreign governments to impose sanctions on Russia and to slow the spread of the COVID-19 and their impact on our preclinical development activities, regulatory agencies, clinical research organizations, or CROs, third-party manufacturers, other third parties with whom we do business, and, if we obtain regulatory approval to commence dosing in humans, trial enrollment and trial sites. We will continue to actively monitor the rapidly evolving situation and may take actions that alter our operations, including those that may be required by federal, state or local authorities or that we determine are in the best interests of our employees and other third parties with whom we do business.

Impact of Inflation

Inflation has increased and is expected to continue to increase for the near future. Inflation generally affects us by increasing our labor costs, research and clinical trial costs. While we do not believe that inflation has had a material effect on our financial condition and results of operations during the periods presented, it may result in increased costs in the foreseeable future and adversely affect our business and financial condition. In addition, inflation may cause us to experience greater uncertainty in general economic conditions and additional volatility in the market price of our common stock, which are already subject to the effects of rising interest rates and the ongoing military conflict in Ukraine. If these conditions worsen or do not improve, our ability to raise capital and our shareholders ability to sell their shares will be adversely affected.

Intellectual Property and Licensing Arrangements

As of June 30, 2022, our patent portfolio consisted of 22 pending patent application families, including 15 families that have entered national phase in the United States and other countries, two families with pending Patent Cooperation Treaty, or PCT, applications, and five families with pending U.S. provisional applications. These patent applications are directed to, for example, the SWAP™ and SWEETS™ platforms, the parental constructs of our two lead product candidate molecules, SZN-043 and SZN-1326, the lead product candidate molecules, as well as methods of treating disorders of the liver, intestine, retina, cornea, lacrimal gland, and kidney.

We also have entered into patent and research tool license arrangements with third-parties, as described in Note 6 of the footnotes to the financial statements of this report. The license agreements require milestone payments upon the achievement of certain regulatory and developmental stages. In addition, we will be required to pay royalties on sales of certain licensed products. As of June 30, 2022, we have incurred nominal fees and milestone payments under our license agreements. Upon the achievement of further regulatory and developmental milestones and the sale of licensed products, we may incur significant fees and royalties under these licenses.

Components of Results of Operations

Revenue

We have not generated any revenue from the sale of our products, and we do not expect to generate any revenue unless and until we obtain regulatory clearance or approval of, and commercialize, our product candidates.

Operating Expenses

We classify operating expenses into two main categories: (i) research and development expenses and (ii) general and administrative expenses.

Research and Development Expenses

Since our inception, we have focused significant resources on our research and development activities. Our research and development expenses consist of external and internal expenses incurred in connection with our research activities and development programs.

External expenses include:

- costs incurred under agreements with third parties, including CROs and other third parties conducting research and development activities on our behalf;
- costs of outside consultants, including their fees, stock-based compensation and related travel expenses;
- costs of laboratory supplies and acquiring, developing and manufacturing drug candidate materials; and
- license payments under our license agreements made for intellectual property used in research and development activities.

Internal expenses include:

- personnel-related costs, including salaries, bonuses, benefits and stock-based compensation for individuals involved in our research and product development activities; and
- facilities, depreciation, and other allocated costs, which include rent and insurance.

We track external expenses that are directly attributable to our clinical development candidates. We allocate internal expenses to our clinical development candidates on a program-specific basis. The internal expenses for early-stage research and discovery programs are not allocated as our internal resources, employees and infrastructure are typically deployed across multiple programs. As such, we do not provide financial information regarding the costs incurred for early-stage research and discovery programs on a program-specific basis.

We expect our research and development expenses will increase significantly for the foreseeable future as we identify and develop product candidates, in particular as we seek to initiate clinical trials and pursue regulatory approval and commercialization for SZN-1326, SZN-043 and SZN-413.

The successful development of our product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs required to complete the remaining development of SZN-1326, SZN-043 and SZN-413 or any future product candidates. This is due to the numerous risks and uncertainties associated with the development of product candidates, many of which are outside of our control, including those associated with:

- our ability, and the ability of our primary business partners, to hire and retain key personnel;
- the timing and progress of preclinical and clinical development activities;
- the number and scope of preclinical and clinical programs we decide to pursue;
- our ability to maintain our current research and development programs and to establish new ones;
- establishing an appropriate safety profile with IND-enabling studies;
- the number of sites and patients included in the clinical trials;
- the countries in which the clinical trials are conducted;
- per patient trial costs;
- successful patient enrollment in, and the initiation of, clinical trials, as well as drop out or discontinuation rates, particularly in light of the lingering effects of the COVID-19 pandemic, the availability of alternate treatments and the limited pool of eligible patients in certain disease areas;
- the successful completion of clinical trials with safety, tolerability and efficacy profiles that are satisfactory to the FDA or any comparable foreign regulatory authority;
- the number of trials required for regulatory approval;
- the timing, receipt and terms of any regulatory approvals from applicable regulatory authorities;
- our ability to establish new licensing or collaboration arrangements;
- the performance of our future collaborators, if any;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- significant and changing government regulation and regulatory guidance;
- the impact of any business interruptions to our operations or to those of the third parties with whom we work, particularly in light of the conflict between Russia and Ukraine and the current COVID-19 pandemic environment;
- the impact of inflation on our expenses;
- launching commercial sales of our drug candidates, if approved, whether alone or in collaboration with others;
- the effect of products that may compete with our product candidates or other market developments; and
- maintaining a continued acceptable safety profile of the drug candidates following approval.

Any changes in the outcome of any of these variables could mean a significant change in the costs and timing associated with the development of our drug candidates.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel-related costs, including salaries, bonuses, benefits and stock-based compensation expense for personnel in executive, finance, human resources, business and corporate development, legal, information technology and other administrative functions. General and administrative expenses also include legal fees, professional fees paid for accounting, auditing, consulting, tax, investor relations services, insurance costs, and facility costs not otherwise included in research and development expenses, and costs associated with compliance with the rules and regulations of the SEC and those of the Nasdaq. We expect that our general and administrative expenses will increase significantly for the foreseeable future to support our expanding headcount and operations.

Interest Income

Interest income consists primarily of interest earned on our cash equivalents and marketable securities.

Other Income, Net

Other income, net consists of the gain on the change in fair value of warrant liabilities and expenses pertaining to the commitment shares issued to Lincoln Park Capital Fund, LLC, or Lincoln Park, under the Equity Purchase Agreement.

Results of Operations

Comparison of the Three Months Ended June 30, 2022 and 2021

The following table summarizes results of operations for the periods presented (dollars in thousands):

	Three Months Ended June 30,		\$ Change	% Change
	2022	2021		
Operating expenses:				
Research and development	\$ 9,581	\$ 10,265	\$ (684)	-7%
General and administrative	4,491	2,395	2,096	88%
Total operating expenses	14,072	12,660	1,412	11%
Loss from operations	(14,072)	(12,660)	(1,412)	11%
Interest income	60	7	53	757%
Other income, net	87	—	87	*
Net loss	\$ (13,925)	\$ (12,653)	\$ (1,272)	10%

*Percentage is not meaningful

Research and Development Expenses

The following table summarizes research and development expenses for the periods presented (dollars in thousands):

	Three Months Ended June 30,		\$ Change	% Change
	2022	2021		
SZN-1326	\$ 2,921	\$ 3,723	\$ (802)	-22%
SZN-043	2,839	3,183	(344)	-11%
Discovery and preclinical stage programs	3,821	3,359	462	14%
Total research and development expenses	\$ 9,581	\$ 10,265	\$ (684)	-7%

The decrease of \$0.8 million, or 22%, in SZN-1326 program expenses and the decrease of \$0.3 million, or 11%, in SZN-043 program expenses for the three months ended June 30, 2022, compared to the three months ended June 30, 2021, is primarily due to the completion of manufacturing drug substance. The increase of \$0.5 million, or 14% in discovery and preclinical stage program expenses for the three months ended June 30, 2022, compared to the three months ended June 30, 2021, is primarily due to the increase in personnel-related expenses as a result of a higher headcount and options granted to our employees.

General and Administrative Expenses

The increase of \$2.1 million, or 88%, in general and administrative expenses for the three months ended June 30, 2022, compared to the three months ended June 30, 2021, is primarily attributable to the \$1.0 million increase in personnel-related expenses due to an increase in headcount and options granted to our employees, the \$0.5 million increase in corporate insurance and the \$0.4 million increase in professional service fees as a result of the growth of operations.

Interest Income

The increase of \$53,000, or 757%, in interest income for the three months ended June 30, 2022, compared to the three months ended June 30, 2021, is primarily due to the increase in investments in money market funds and marketable securities.

Other Income, Net

The increase of \$87,000 in other income, net for the three months ended June 30, 2022, compared to the three months ended June 30, 2021, is primarily attributable to the \$0.4 million gain on the change in fair value of warrant liabilities, offset by \$0.3 million expenses related to the commitment shares issued to Lincoln Park under the Equity Purchase Agreement.

Results of Operations

Comparison of the Six Months Ended June 30, 2022 and 2021

The following table summarizes results of operations for the periods presented (dollars in thousands):

	Six Months Ended June 30,		\$ Change	% Change
	2022	2021		
Operating expenses:				
Research and development	\$ 18,952	\$ 18,866	\$ 86	0 %
General and administrative	9,613	6,825	2,788	41 %
Total operating expenses	28,565	25,691	2,874	11 %
Loss from operations	(28,565)	(25,691)	(2,874)	11 %
Interest income	109	16	93	581 %
Other income, net	6,584	—	6,584	*
Net loss	<u>\$ (21,872)</u>	<u>\$ (25,675)</u>	<u>\$ 3,803</u>	-15 %

*Percentage is not meaningful

Research and Development Expenses

The following table summarizes research and development expenses for the periods presented (dollars in thousands):

	Six Months Ended June 30,		\$ Change	% Change
	2022	2021		
SZN-1326	\$ 5,106	\$ 7,108	\$ (2,002)	-28 %
SZN-043	5,865	5,359	506	9 %
Discovery and preclinical stage programs	7,981	6,399	1,582	25 %
Total research and development expenses	<u>\$ 18,952</u>	<u>\$ 18,866</u>	<u>\$ 86</u>	0 %

The decrease of \$2.0 million, or 28%, in SZN-1326 program expenses for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, is primarily due to the completion of manufacturing drug substance. The increase of \$0.5 million, or 9%, in SZN-043 program expenses for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, is primarily due to the higher indirect costs allocated to the program. The increase of \$1.6 million, or 25% in preclinical, discovery and other research and development costs is primarily due to the increase in personnel-related expenses as a result of a higher headcount and options granted to our employees.

General and Administrative Expenses

The increase of \$2.8 million, or 41%, in general and administrative expenses for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, is primarily attributable to the \$2.0 million increase in personnel-related expenses due to an increase in headcount and options granted to our employees, the \$1.2 million increase in corporate insurance and the \$0.3 million increase in recruiting costs, offset by the \$0.7 million decrease in professional and consulting service fees related to the potential initial public offering prior to our decision to commence the business combination with Consonance-HFW Acquisition Corp.

Interest Income

The increase of \$93,000, or 581%, in interest income for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, is primarily due to the increase in investments in money market funds and marketable securities.

Other Income, Net

The increase of \$6.6 million in other income, net for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, is primarily attributable to the \$6.9 million gain on the change in fair value of warrant liabilities, offset by \$0.3 million expenses related to the commitment shares issued to Lincoln Park under the Equity Purchase Agreement.

Liquidity and Capital Resources

Since inception, we have incurred significant net operating losses and negative cash flows from operations. Historically, we financed our operations primarily from the sales of our redeemable convertible preferred stock. As of June 30, 2022, we had cash, cash equivalents and marketable securities of \$92.7 million and an accumulated deficit of \$164.5 million.

In February 2022, we entered into a purchase agreement and a registration rights agreement with Lincoln Park, pursuant to which Lincoln Park is obligated to purchase up to \$50.0 million of our common stock from time to time at our sole discretion over a 36-month period commencing on April 27, 2022.

We believe, based on our current operating plan, that our existing cash, cash equivalents, and marketable securities will be sufficient to fund our operations for at least the next 12 months from the date of this Report. However, if the anticipated operating results are not achieved in future periods, we could use our capital resources sooner than expected which may result in the need to reduce future planned expenditures and/or raise additional capital to continue to fund the operations.

Future Funding Requirements

To date, we have not generated any revenue. We do not expect to generate any meaningful revenue unless and until we obtain regulatory approval and commercialize one of our product candidates, and we do not know when, or if, that will occur. We will continue to require substantial additional capital to develop our products candidates and fund operations for the foreseeable future. Since our inception in 2015, we have devoted substantially all of our efforts and financial resources to organizing and staffing our company, business planning, raising capital, developing and optimizing our Wnt therapeutics platform, identifying potential product candidates, undertaking research and development activities, engaging in strategic transactions, establishing and enhancing our intellectual property portfolio, and providing general and administrative support for these operations. We expect our expenses to continue to increase in connection with our ongoing activities as we continue to advance our product candidates through clinical development and regulatory approval. In addition, we will continue to incur additional costs associated with operating as a public company.

We expect that our cash, cash equivalents and marketable securities, will provide the capital needed to fund our operations in the short-term. We expect that in the long-term we will need to raise additional capital through public or private equity offerings, debt financings or other capital sources, including government grants, potential collaborations with other companies or other strategic transactions as we do not expect sales of common stock to Lincoln Park to be sufficient to provide all necessary financing until we are able to generate revenue on our own. There can be no assurance that sufficient funds will be available to us at all or on attractive terms when needed from these sources. If we are unable to obtain additional funding from these or other sources when needed, it may be necessary to significantly reduce expenses through reductions in staff and delaying, scaling back operations, or stopping certain research and development programs.

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 pharmaceutical products, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the scope, rate of progress, results and costs of researching and developing our lead product candidates or any future product candidates, conducting preclinical and clinical studies, in particular our current ongoing clinical studies of SZN-1326 and SZN-043;
 - the outcome, costs, and timing involved in obtaining regulatory approvals for our lead product candidates or our other product candidates;
 - the number and scope of clinical programs we decide to pursue;
 - the cost of acquiring, licensing, or investing in product candidates and technologies;
 - the costs associated with securing and establishing commercialization;
 - our ability to maintain, expand, and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with the licensing, filing, prosecution, defense, and enforcement of any patents or other intellectual property rights;
 - our need and ability to retain key management and hire scientific, technical, business, and medical personnel;
 - the effect of competing products and product candidates and other market developments;
 - the timing, receipt, and amount of sales from SZN-1326, SZN-043 and any other product candidates, if approved;
 - our need to implement additional internal systems and infrastructure, including financial and reporting systems;
 - the economic and other terms, timing of, and success of any collaboration, licensing, or other arrangements which we may enter in the future;
- and

- the effects of the disruptions to and volatility in the credit and financial markets in the U.S. and worldwide from the conflict between Russia and Ukraine and the COVID-19 pandemic.

In addition, any future financing through sales of equity securities, including sales to Lincoln Park under the Equity Purchase Agreement, will cause our stockholders to experience dilution. If we raise additional capital through debt financing, we may be subject to covenants that restrict our operations including limitations on our ability to incur liens or additional debt, pay dividends, repurchase our common stock, make certain investments, and engage in certain merger, consolidation, or asset sale transactions. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. If we are unable to raise additional funds when needed, we may be required to delay, reduce, or terminate some or all of our development programs and clinical trials. We may also be required to sell or license to others our rights to any of our current or future product candidates or discovery programs in certain territories or indications that we would prefer to develop and commercialize ourselves.

Summary of Cash Flows

The following table sets forth the primary sources and uses of cash, cash equivalents and restricted cash for the periods presented below (in thousands):

	Six Months Ended June 30,	
	2022	2021
Net cash used in operating activities	\$ (29,787)	\$ (23,212)
Net cash provided by investing activities	13,565	7,198
Net cash used in financing activities	(3)	(118)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (16,225)</u>	<u>\$ (16,132)</u>

Cash Used in Operating Activities

Cash used in operating activities of \$29.8 million for the six months ended June 30, 2022 was primarily due to the use of funds in our operations and the resulting net loss of \$21.9 million, a net change of \$5.2 million in our net operating assets and liabilities and \$2.7 million in non-cash charges. The net change in our operating assets and liabilities was primarily due to the cash used in prepaid expenses, accounts payable and accrued liabilities. Cash used in operating activities of \$23.2 million for the six months ended June 30, 2021 was primarily due to the use of funds in our operations and the resulting net loss of \$25.7 million and a net change of \$0.2 million in our net operating assets and liabilities, partially offset by \$2.6 million in non-cash charges. The net change in our operating assets and liabilities was primarily due to a net increase in prepaid expenses, accounts payable and accrued liabilities.

Cash Provided by Investing Activities

Cash provided by investing activities of \$13.6 million for the six months ended June 30, 2022 was primarily related to the \$14.0 million of proceeds from maturities of marketable securities, offset by \$0.4 million of cash used for the purchase of laboratory and computer equipment. Cash used in investing activities of \$7.2 million for the six months ended June 30, 2021 consisted primarily of \$8.7 million of proceeds from the maturities of marketable securities, offset by \$1.1 million of cash used for the purchase of marketable securities and \$0.4 million of cash used for the purchase of laboratory equipment.

Cash Used in Financing Activities

Cash used in financing activities of \$3,000 for the six months ended June 30, 2022 was related to the repurchase of early exercised options. Cash used in financing activities of \$0.1 million for the six months ended June 30, 2021 consisted primarily of \$0.4 million of cash used for the transaction costs in connection with the business combination consummated in August 2021, offset \$0.3 million of the proceeds from the exercise of options.

Contractual Obligations and Commitments

Our contractual obligations as of June 30, 2022 have not materially changed from what we presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Critical Accounting Policies, Significant Judgments and Use of Estimates

Our unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements, as well as the reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are

reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

During the six months ended June 30, 2022, there were no material changes to our critical accounting policies or in the methodology used for estimates from those described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2021.

Emerging Growth Company Status

We are an emerging growth company, or EGC, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. The JOBS Act permits companies with EGC status to take advantage of an extended transition period to comply with new or revised accounting standards, delaying the adoption of these accounting standards until they would apply to private companies. We have elected to use this extended transition period to enable us to comply with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date the Company (i) is no longer an EGC or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our unaudited condensed consolidated financial statements may not be comparable to companies that comply with the new or revised accounting standards as of public company effective dates.

In addition, we intend to rely on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if, as an EGC, we intend to rely on such exemptions, we are not required to, among other things: (i) provide an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act; (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act; (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board; and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer’s compensation to median employee compensation.

We will remain an EGC under the JOBS Act until the earliest of (i) the last day of the fiscal year (a) of 2025, (b) the year in which we have total annual gross revenue of at least \$1.07 billion, or (c) the year in which we are deemed to be a large accelerated filer; or (ii) the date on which we have issued more than \$1 billion in non-convertible debt securities during the prior three-year period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are not required to provide the information otherwise required under this item.

Item 4. Controls and Procedures.

Management’s Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on the evaluation of our disclosure controls and procedures as required by Rule 13a-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures were not effective at the reasonable assurance level as a result of the material weakness described below.

Material Weakness

As previously reported, in connection with the audit of our financial statements for the year ended December 31, 2020, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. This material weakness continued to exist as of June 30, 2022. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness that we identified relates to a lack of sufficient accounting and financial reporting personnel with requisite knowledge and experience in application of GAAP and SEC rules.

To respond to the material weakness, we have devoted, and plan to continue to devote, significant effort and resources to the remediation and improvement of our internal control over financial reporting. We are in the process of implementing measures designed to improve our internal control over financial reporting and remediate the control deficiencies that led to the material weakness, including hiring additional accounting personnel, obtaining advisory services from professional consultants with GAAP and SEC reporting experience in their industry, research materials and documents and increased communication among our personnel and third-party professionals with whom we consult regarding complex accounting applications and expanding the capabilities of the existing accounting and financial personnel through continuous training and education in the accounting and reporting requirements under GAAP and the SEC rules and regulations. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate

and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings. We are not currently a party to or aware of any proceedings that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 1A. Risk Factors.

As a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act), we are not required to provide the information called for by this Item 1A. Risk factors describing the major risks to our business can be found under Item 1A, “Risk Factors”, in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

All unregistered sales of our securities during the six months ended June 30, 2022, were previously disclosed in a Current Report on Form 8-K.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
2.1†	Business Combination Agreement, dated as of April 15, 2021, by and among CHFV, Perseverance Merger Sub Inc., and Surrozen, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K (File No. 001-39635), filed with the SEC on April 15, 2021).
3.1	Certificate of Incorporation of Surrozen, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-39635), filed with the SEC on August 17, 2021).
3.2	Bylaws of Surrozen, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K (File No. 001-39635), filed with the SEC on August 17, 2021).
4.1	Specimen Warrant Certificate (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-1/A (File No. 333-249394), filed with the SEC on October 13, 2020).
4.2	Warrant Agreement, dated as of November 18, 2020, between Consonance-HFW Acquisition Corp. and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-39635), filed with the SEC on November 25, 2020).
4.3	Specimen Unit Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1/A (File No. 333-249394), filed with the SEC on October 13, 2020).
4.4	Specimen Ordinary Share Certificate (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1 (File No. 333-249394), filed with the SEC on October 13, 2020).
4.5	Certificate of Corporate Domestication of Consonance-HFW Acquisition Corp. (incorporated by reference to Exhibit 4.5 to the Current Report on Form 8-K (File No. 001-39635), filed with the SEC on August 17, 2021).
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 – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

+ Indicates management contract or compensatory plan or arrangement.

† Schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the SEC upon request.

†† The Company has redacted provisions or terms of this Exhibit pursuant to Regulation S-K Item 601(b)(10). The Company agrees to furnish an unredacted copy of the Exhibit to the SEC upon its request.

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.

SURROZEN, INC.

Date: August 11, 2022

By: /s/ Craig Parker
Craig Parker
President and Chief Executive Officer and Director
(Principal Executive Officer)

Date: August 11, 2022

By: /s/ Charles Williams
Charles Williams
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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

I, Craig Parker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Surrozen, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 11, 2022

By: _____ /s/ Craig Parker
Craig Parker
President and Chief Executive Officer and Director
(Principal Executive Officer)

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

I, Charles Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Surrozen, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 11, 2022

By: _____ /s/ Charles Williams
Charles Williams
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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

In connection with the quarterly report of Surrozen, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Craig Parker, President and Chief Executive Officer and Director of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 11, 2022

By: _____ /s/ Craig Parker
Craig Parker
President and Chief Executive Officer and Director
(Principal Executive Officer)

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

In connection with the quarterly report of Surrozen, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Williams, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 11, 2022

By: _____ /s/ Charles Williams
Charles Williams
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
