

**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 March 31, 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: 001-40672

RANI THERAPEUTICS HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
2051 Ringwood Avenue
San Jose, California
(Address of principal executive offices)

86-3114789
(I.R.S. Employer
Identification No.)

95131
(Zip Code)

Registrant's telephone number, including area code: **(408) 457-3700**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value \$0.0001 per share	RANI	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	<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 May 9, 2022, the registrant had 24,488,633 shares of Class A common stock, \$0.0001 par value per share, outstanding, 24,671,683 shares of Class B common stock, \$0.0001 par value per share, outstanding and no shares of Class C common stock, \$0.0001 par value per share, outstanding. Certain holders of units of the registrant's consolidated subsidiary, Rani Therapeutics, LLC, who do not hold shares of the registrant's Class B common stock can exchange their units of Rani Therapeutics, LLC for 1,387,471 shares of the registrant's Class A common stock.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and consolidated financial position, business strategy, product candidates, planned preclinical studies and clinical trials, results of clinical trials, research and development costs, manufacturing costs, regulatory approvals, development and advancement of our oral delivery technology, timing and likelihood of success, as well as plans and objectives of management for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other important factors that are in some cases beyond our control and may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “would,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “believe,” “estimate,” “predict,” “potential,” “seek,” “aim,” or “continue” or the negative of these terms or other similar expressions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- the progress and focus of our current and future clinical trials in the United States and abroad, and the reporting of data from those trials;
- our ability to advance product candidates into and successfully complete clinical trials;
- the beneficial characteristics, safety, efficacy, and therapeutic effects of our product candidates;
- our potential and ability to successfully manufacture and supply our product candidates for clinical trials and for commercial use, if approved;
- our ability to develop RaniPill HC or any redesign and conduct additional preclinical and clinical studies of any future design of the RaniPill capsule to accommodate target payloads that are larger than the payload capacity of the RaniPill capsule currently used for our product candidates;
- our ability to further develop and expand our platform technology;
- our ability to utilize our technology platform to generate and advance additional product candidates;
- the accuracy of our estimates regarding expenses, future revenue, capital requirements, and needs for additional financing;
- our financial performance;
- our plans relating to commercializing our product candidates, if approved;
- our ability to selectively enter into strategic partnership and the expected potential benefits thereof;
- the implementation of our strategic plans for our business and product candidates;
- our ability to continue to scale and optimize our manufacturing processes by expanding our use of automation;
- our estimates of the number of patients in the United States who suffer from the indications we target and the number of patients that will enroll in our clinical trials;
- the size of the market opportunity for our product candidates in each of the indications we target;
- our ability to continue to innovate and expand our intellectual property by developing novel formulations and new applications of the RaniPill capsule;
- our plans and ability to obtain or protect intellectual property rights, including extensions of existing patent terms where available;
- the scope of protection we are able to establish and maintain for intellectual property rights, including our technology platform and product candidates;

- the sufficiency of our existing cash and cash equivalents to fund our future operating expenses and capital expenditure requirements;
- our expectations regarding the impact of the COVID-19 pandemic and the conflict between Ukraine and Russia on our business;
- developments relating to our competitors and our industry, including competing product candidates and therapies; and
- our expectations regarding the period during which we will qualify as an emerging growth company under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”).

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions described in the section titled “Risk Factors” and elsewhere in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2022. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, or otherwise.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and you are cautioned not to unduly rely upon these statements.

RANI THERAPEUTICS HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,839	\$ 117,453
Prepaid expenses	1,421	2,142
Total current assets	109,260	119,595
Property and equipment, net	4,890	4,612
Operating lease right-of-use asset	1,159	—
Total assets	<u>\$ 115,309</u>	<u>\$ 124,207</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,265	\$ 1,080
Related party payable	140	126
Accrued expenses	2,101	1,434
Operating lease liability, current portion	650	—
Total current liabilities	4,156	2,640
Operating lease liability, net current portion	509	—
Total liabilities	4,665	2,640
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value - 20,000 shares authorized; none issued and outstanding as of March 31, 2022 and December 31, 2021	—	—
Class A common stock, \$0.0001 par value - 800,000 shares authorized; 24,387 and 19,712 issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	2	2
Class B common stock, \$0.0001 par value - 40,000 shares authorized; 24,773 and 29,290 issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	3	3
Class C common stock, \$0.0001 par value - 20,000 shares authorized; none issued and outstanding as of March 31, 2022 and December 31, 2021	—	—
Additional paid-in capital	67,933	55,737
Accumulated deficit	(14,554)	(8,331)
Total stockholders' equity attributable to Rani Therapeutics Holdings, Inc.	53,384	47,411
Non-controlling interest	57,260	74,156
Total stockholders' equity	110,644	121,567
Total liabilities and stockholders' equity	<u>\$ 115,309</u>	<u>\$ 124,207</u>

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

RANI THERAPEUTICS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2022	2021
Contract revenue	\$ —	\$ 756
Operating expenses		
Research and development	7,591	3,347
General and administrative	6,189	2,607
Total operating expenses	<u>\$ 13,780</u>	<u>\$ 5,954</u>
Loss from operations	(13,780)	(5,198)
Other income (expense), net		
Interest income	15	47
Interest expense and other, net	—	(188)
Change in estimated fair value of preferred unit warrant	—	(216)
Loss before income taxes	(13,765)	(5,555)
Income tax expense	(63)	(43)
Net loss and comprehensive loss	<u>\$ (13,828)</u>	<u>\$ (5,598)</u>
Net loss attributable to non-controlling interest	(7,605)	(5,598)
Net loss attributable to Rani Therapeutics Holdings, Inc.	<u>\$ (6,223)</u>	<u>\$ —</u>
Net loss per Class A common share attributable to Rani Therapeutics Holdings, Inc., basic and diluted	<u>\$ (0.29)</u>	
Weighted-average Class A common shares outstanding—basic and diluted	<u>21,409</u>	

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

RANI THERAPEUTICS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY/CONVERTIBLE PREFERRED UNITS
AND MEMBERS' DEFICIT
(in thousands)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid In Capital	Accumulated Deficit	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	19,712	\$ 2	29,290	\$ 3	\$ 55,737	\$ (8,331)	\$ 74,156	\$ 121,567
Effect of exchanges of Paired Interests and non-corresponding Class A Units of Rani LLC	4,675	—	(4,517)	—	—	—	—	—
Non-controlling interest adjustment for changes in proportionate ownership in Rani LLC	—	—	—	—	10,928	—	(10,928)	—
Equity-based compensation	—	—	—	—	1,268	—	1,637	2,905
Net loss	—	—	—	—	—	(6,223)	(7,605)	(13,828)
Balance at March 31, 2022	<u>24,387</u>	<u>\$ 2</u>	<u>24,773</u>	<u>\$ 3</u>	<u>\$ 67,933</u>	<u>\$ (14,554)</u>	<u>\$ 57,260</u>	<u>\$ 110,644</u>

	Convertible Preferred		Common		Accumulated Deficit	Total Members' Deficit
	Units	Amount	Units	Amount		
Balance at December 31, 2020	26,746	\$ 184,714	46,890	\$ 664	\$ (114,003)	\$ (113,339)
Issuance of Series E preferred units	884	6,320	—	—	—	—
Exercise of warrant for common units	—	—	6	13	—	13
Equity-based compensation	—	—	—	453	—	453
Net loss	—	—	—	—	(5,598)	(5,598)
Balance at March 31, 2021	<u>27,630</u>	<u>\$ 191,034</u>	<u>46,896</u>	<u>\$ 1,130</u>	<u>\$ (119,601)</u>	<u>\$ (118,471)</u>

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

RANI THERAPEUTICS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (13,828)	\$ (5,598)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	111	136
Equity-based compensation expense	2,905	453
Change in fair value of preferred unit warrant liability	—	216
Non-cash operating lease expense	157	—
Other	—	67
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	721	27
Accounts payable	78	385
Accrued expenses	639	821
Operating lease liabilities	(157)	—
Related party payable	14	201
Deferred revenue	—	(756)
Net cash used in operating activities	(9,360)	(4,048)
Cash flows from investing activities		
Purchases of property and equipment	(254)	(99)
Net cash used in investing activities	(254)	(99)
Cash flows from financing activities		
Proceeds from issuance of preferred units, net of issuance costs	—	6,320
Proceeds from exercise of warrants for common units	—	13
Payment of deferred offering costs	—	(302)
Principal and interest repayments from related party for note receivable	—	1,720
Net cash provided by financing activities	—	7,751
Net (decrease) increase in cash and cash equivalents	(9,614)	3,604
Cash and cash equivalents, beginning of period	117,453	73,058
Cash and cash equivalents, end of period	\$ 107,839	\$ 76,662
Supplemental disclosures of non-cash investing and financing activities		
Property and equipment purchases included in accounts payable and accrued expenses	\$ 135	\$ 58
Exchanges of Paired Interests and non-corresponding Class A Units of Rani LLC	\$ 73,160	\$ —
Deferred financing costs included in accrued expenses	\$ —	\$ 483

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

RANI THERAPEUTICS HOLDINGS, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Business

Description of Business

Rani Therapeutics Holdings, Inc. (“Rani Holdings”) was formed as a Delaware corporation in April 2021 for the purpose of facilitating an initial public offering (“IPO”) of its Class A common stock, and to facilitate certain organizational transactions and to operate the business of Rani Therapeutics, LLC (“Rani LLC”) and its consolidated subsidiary, Rani Management Services, Inc. (“RMS”). Rani Holdings and its consolidated subsidiaries, Rani LLC and RMS are collectively referred to herein as “Rani” or the “Company.”

The Company is a clinical stage biotherapeutics company focusing on advancing technologies to enable the administration of biologics orally, to provide patients, physicians, and healthcare systems with a convenient alternative to painful injections. The Company is advancing a portfolio of oral biologic therapeutics using its proprietary delivery technology, the RaniPill capsule. The Company is headquartered in San Jose, California and operates in one segment.

Initial Public Offering and Organizational Transactions

In August 2021, the Company closed its IPO and sold 7,666,667 shares of its Class A common stock, including shares issued pursuant to the exercise in full of the underwriters’ option, for cash consideration of \$11.00 per share and received approximately \$73.6 million in net proceeds, after deducting underwriting discounts, offering costs and commissions. The Company used the proceeds from the IPO to purchase 7,666,667 newly issued economic nonvoting Class A units (“Class A Units”) of Rani LLC.

In connection with the IPO, the Company was party to the following organizational transactions (the “Organizational Transactions”):

- Amended and restated Rani LLC’s operating agreement (the “Rani LLC Agreement”) to appoint the Company as the sole managing member of Rani LLC and effectuated an exchange of all outstanding (i) convertible preferred units, automatic or net exercised warrants to purchase preferred units and common units, and common units of Rani LLC, into Class A Units and an equal number of voting noneconomic Class B units (“Class B Units”) and (ii) all Profits Interests into Class A Units. In connection with the closing of the IPO, each LLC interest was exchanged 1 for 0.5282 as determined and predicated on the initial public offering price of the Company’s Class A common stock;
- Amended and restated the Company’s certificate of incorporation in July 2021, to provide for the issuance of (i) Class A common stock, each share of which entitles its holders to one vote per share, (ii) Class B common stock, each share of which entitles its holders to 10 votes per share on all matters presented to the Company’s stockholders, (iii) Class C common stock, which has no voting rights, except as otherwise required by law and (iv) preferred stock;
- Exchanged 12,047,925 shares of Class A common stock for existing Class A Units of Rani LLC held by certain individuals and entities (the “Former LLC Owners”) on a one-for-one basis;
- Issued 29,290,391 shares of Class B common stock to certain individuals and entities that continued to hold Class A Units in Rani LLC after the IPO (the “Continuing LLC Owners”) in return for an equal amount of Rani LLC Class B Units;
- Entered into a Registration Rights Agreement with certain of the Continuing LLC Owners.

The Continuing LLC Owners are entitled to exchange, subject to the terms of the Rani LLC Agreement, the Class A Units they hold in Rani LLC, together with the shares they hold of the Company Class B common stock (together referred to as a “Paired Interest”), in return for shares of the Company’s Class A common stock on a one-for-one basis provided that, at the Company’s election, the Company has the ability to effect a direct exchange of such Class A common stock or make a cash payment equal to a volume weighted average market price of one share of Class A common stock for each Paired Interest redeemed. Any shares of Class B common stock will be cancelled on a one-for-one basis if, at the election of the Continuing LLC Owners, the Company redeems or exchanges such Paired Interest pursuant to the terms of the Rani LLC Agreement. As of March 31, 2022, certain individuals who continue to own interests in Rani LLC but do not hold shares of the Company’s Class B common stock (“non-corresponding Class A Units”) have the ability to exchange their non-corresponding Class A Units of Rani LLC for 1,387,471 shares of the Company’s Class A common stock.

Liquidity

The Company has incurred recurring losses since its inception, including net losses of \$13.8 million for the three months ended March 31, 2022. As of March 31, 2022, the Company had an accumulated deficit of \$14.6 million and for the three months ended March 31, 2022 had negative cash flows from operations of \$9.4 million. The Company expects to continue to generate operating losses and negative operating cash flows for the foreseeable future as it continues to develop the RaniPill capsule. The Company expects that its cash and cash equivalents of \$107.8 million as of March 31, 2022 will be sufficient to fund its operations through at least twelve months from the date the condensed consolidated financial statements are issued. The Company expects to finance its future operations with its existing cash and through strategic financing opportunities that could include, but are not limited to, future offerings of its equity, collaboration or licensing agreements, or the incurrence of debt. However, there is no guarantee that any of these strategic or financing opportunities will be executed or realized on favorable terms, if at all, and some could be dilutive to existing stockholders and holders of interests in the Company. The Company will not generate any revenue from product sales unless, and until, it successfully completes clinical development and obtains regulatory approval for the RaniPill capsule. If the Company obtains regulatory approval for the RaniPill capsule, it expects to incur significant expenses related to developing its internal commercialization capability to support manufacturing, product sales, marketing, and distribution.

The Company's ability to raise additional capital through either the issuance of equity or debt, is dependent on a number of factors including, but not limited to, the market interest of the Company, which itself is subject to a number of development and business risks and uncertainties, as well as the uncertainty that the Company would be able to raise such additional capital at a price or on terms that are favorable to the Company. Market volatility resulting from the novel coronavirus disease ("COVID-19") pandemic or other factors could also adversely impact the Company's ability to access capital when and as needed.

2. Summary of Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company operates and controls all of the business and affairs of Rani LLC, and through Rani LLC and its subsidiary, conducts its business. Because the Company manages and operates the business and controls the strategic decisions and day-to-day operations of Rani LLC and also has a substantial financial interest in Rani LLC, the Company consolidates the financial results of Rani LLC, and a portion of its net loss is allocated to the non-controlling interests in Rani LLC held by the Continuing LLC Owners. All intercompany accounts and transactions have been eliminated in consolidation.

The Organizational Transactions were considered transactions between entities under common control. As a result, the condensed consolidated financial statements for periods prior to the IPO and the Organizational Transactions have been adjusted to combine the previously separate entities for presentation purposes.

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and pursuant to Form 10-Q of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements include all adjustments necessary to fairly state the financial position and the results of the Company's operations and cash flows for interim periods in accordance with U.S. GAAP. All such adjustments are of a normal, recurring nature except for the adoption of the new lease accounting standard. Operating results for the three months ended March 31, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022 or for any future period.

The consolidated balance sheet as of December 31, 2021 included herein was derived from the audited consolidated financial statements as of that date. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the 2021 consolidated financial statements and notes included in the Company's Annual Report on Form 10-K filed with the SEC on March 31, 2022.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the Company's condensed consolidated financial statements and accompanying notes. These estimates and assumptions are based on current facts, historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Estimates include, but are not limited to equity-based compensation expense, accrued research and development costs and, until the occurrence of the Company's IPO, the fair value of Profits Interests and preferred unit warrants. Actual results may differ materially and adversely from these estimates.

Significant Accounting Policies

A description of the Company's significant accounting policies is included in the audited consolidated financial statements within its Annual Report on Form 10-K for the year ended December 31, 2021. Except as noted below, there have been no material changes in the Company's significant accounting policies during the three months ended March 31, 2022.

Concentrations of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains accounts in federally insured financial institutions in excess of federally insured limits. The Company also holds money market funds that are not federally insured. However, management believes the Company is not exposed to significant credit risk due to the financial strength of the depository institutions in which these deposits are held and of the money market funds and other entities in which these investments are made.

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The extent to which the COVID-19 pandemic will further directly or indirectly impact the Company's results of operation and financial condition has been and will continue to be driven by many factors, most of which are beyond the Company's control and ability to forecast. Because of these uncertainties, the Company cannot estimate how long or to what extent COVID-19 will impact the Company's operations.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying values of the Company's cash equivalents, prepaid expenses, accounts payable, and accruals approximate their fair value due to their short-term nature.

Leases

Prior to January 1, 2022, the Company had one cancelable operating lease agreement for its corporate headquarters and recognized related rent expense on a straight-line basis over the term of the lease. The Company's lease agreement contained termination and renewal options. The Company did not assume termination nor renewals options in its determination of the lease term

unless they were deemed to be reasonably certain at the renewal of the lease. The Company began recognizing rent expense on the date that it obtained the legal right to use and control the leased space.

Subsequent to the adoption of the new leasing standard on January 1, 2022, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present at the inception of the arrangement and if such a lease is classified as a financing lease or operating lease. The Company has elected not to recognize on the balance sheet leases with terms of one year or less. For any arrangement that is considered to be a lease with a term greater than one year, the Company recognizes a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the Company's condensed consolidated balance sheet as of March 31, 2022.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease contract. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the expected lease term. In determining the net present value of lease payments, the interest rate implicit in lease contracts is typically not readily determinable. As such, the Company utilizes the appropriate incremental borrowing rate ("IBR"), which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Certain adjustments to the ROU asset may be required for items such as initial direct costs paid or incentives received and impairment charges if we determine the ROU asset is impaired. The Company considers a lease term to be the noncancelable period during which it has the right to use the underlying asset, including any periods where it is reasonably certain the Company will exercise the option to extend the contract. Periods covered by an option to extend are included in the lease term if the lessor controls the exercise of that option.

The operating lease ROU assets also include any lease payments made and exclude lease incentives. Lease expense is recognized on a straight-line basis over the expected lease term. The Company has elected to not separate lease and non-lease components for its leased assets and accounts for all lease and non-lease components of its agreements as a single lease component. The lease components resulting in a ROU asset have been recorded on the condensed consolidated balance sheet and amortized as lease expense on a straight-line basis over the lease term.

Tax Receivable Agreement

In August 2021, in connection with the IPO and Organizational Transactions, the Company entered into a tax receivable agreement ("TRA") with certain of the Continuing LLC Owners. The TRA provides that the Company pay to such Continuing LLC Owners, 85% of the amount of tax benefits, if any, it is deemed to realize (calculated using certain assumptions) as a result of (i) increases in the tax basis of assets of Rani LLC resulting from (a) any future redemptions or exchanges of Paired Interests or non-corresponding Class A Units of Rani LLC and (b) payments under the TRA and (ii) certain other benefits arising from payments under the TRA (collectively the "Tax Attributes").

A liability for the payable to parties subject to the TRA, and a reduction to stockholders' equity, is accrued when (i) an exchange of a Paired Interest or non-corresponding Class A Units of Rani LLC has occurred and (ii) when it is deemed probable that the Tax Attributes associated with the exchange will be used to reduce the Company's taxable income based on the contractual percentage of the benefit of Tax Attributes that the Company expects to receive over a period of time (Note 10).

Comprehensive Loss

Comprehensive loss is defined as a change in equity of a business enterprise during a period, resulting from transactions and other events and/or circumstances from non-owner sources. The Company did not have any other comprehensive loss for any of the periods presented, and therefore comprehensive loss was the same as the Company's net loss.

Net Loss Per Class A Common Share Attributable to Rani Holdings

Basic net loss per Class A common share attributable to Rani Holdings is computed by dividing net loss attributable to the Company by the weighted average number of Class A common shares outstanding during the period, without consideration of potential dilutive securities. Diluted net loss per Class A common share is computed giving effect to all potentially dilutive shares. Diluted net loss per Class A common share for all periods presented is the same as basic loss per share as the inclusion of potentially issuable shares would be antidilutive. Net loss per share is not presented for the three months ended March 31, 2021 as the Company did not have any economic interests prior to the date of the IPO and Organizational Transactions through which it was given ownership in Rani LLC. Losses prior to the IPO and Organizational Transactions would have been allocated to the original members of Rani LLC. The basic and diluted net loss per Class A common share attributable to Rani Holdings is applicable only for the periods following the IPO and Organizational Transactions and represents the periods that the Company had Class A common shares outstanding.

Non-Controlling Interest

Non-controlling interest ("NCI") represents the portion of income or loss, net assets and comprehensive loss of the Company's consolidated subsidiary that is not allocable to Rani Holdings based on the Company's percentage of ownership of Rani LLC.

In August 2021, based on the Organizational Transactions, Rani Holdings became the sole managing member of Rani LLC. As of March 31, 2022, Rani Holdings held approximately 48% of the Class A Units of Rani LLC, and approximately 52% of the outstanding Class A Units of Rani LLC are held by the Continuing LLC Owners. Therefore, the Company reports NCI based on the Class A Units of Rani LLC held by the Continuing LLC Owners on its condensed consolidated balance sheet as of March 31, 2022. Income or loss attributed to the NCI in Rani LLC is based on the Class A Units outstanding during the period for which the income or loss is generated and is presented on the condensed consolidated statements of operations and comprehensive income or loss.

Future exchanges of Paired Interests and non-corresponding Class A Units of Rani LLC will result in a change in ownership and reduce or increase the amount recorded as NCI and increase or decrease additional paid-in-capital when Rani LLC has positive or negative net assets, respectively. From the date of the Organizational Transactions to March 31, 2022, there were 4,517,105 exchanges of Paired Interests and 158,051 exchanges of non-corresponding Class A Units of Rani LLC for an equal number of shares of the Company's Class A common stock.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-02, Leases ("Topic 842"), as subsequently amended, to improve financial reporting and disclosures about leasing transactions. The Company adopted this standard on January 1, 2022 using the modified retrospective approach and elected the package of practical expedients permitted under transition guidance, which allowed the Company to carry forward its historical assessments of: 1) whether contracts are or contain leases, 2) lease classification and 3) initial direct costs, where applicable. The Company did not elect the practical expedient allowing the use-of-hindsight which would require the Company to reassess the lease term of its leases based on all facts and circumstances through the effective date and did not elect the practical expedient pertaining to land easements as this is not applicable to the current contract portfolio. The Company elected the post-transition practical expedient to not separate lease components from non-lease components for all existing lease classes. The Company also elected a policy of not recording leases on its condensed balance sheets when the leases have a term of twelve months or less and the Company is not reasonably certain to elect an option to purchase the leased asset.

The adoption of this standard resulted in the recognition of a ROU asset and lease liabilities of \$1.3 million, respectively. The adoption of the standard had no impact on the Company's condensed consolidated statements of operations and comprehensive loss or to its cash flows from or used in operating, financing, or investing activities on its condensed consolidated statements of cash flows. No cumulative-effect adjustment within accumulated deficit was required to be recorded as a result of adopting this standard.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* ("ASU 2016-13") to require the measurement of expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. As a result of the Company having elected the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act, and assuming the Company continues to be

considered an emerging growth company, ASU 2016-13 will be effective for the Company on January 1, 2023. The Company has not yet determined the potential effects of ASU 2016-13 on its condensed consolidated financial statements and disclosures.

3. Fair Value Measurements

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis and indicates the level of inputs used in such measurements (in thousands):

	As of March 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 105,795	\$ —	\$ —	\$ 105,795
Total assets	\$ 105,795	\$ —	\$ —	\$ 105,795

	As of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 115,595	\$ —	\$ —	\$ 115,595
Total assets	\$ 115,595	\$ —	\$ —	\$ 115,595

Money market funds are highly liquid and actively traded marketable securities that generally transact at a stable \$1.00 net asset value representing its estimated fair value.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy for any of the periods presented.

The Company held a Level 3 liability associated with preferred unit warrants that were issued in conjunction with a loan and security Agreement. These preferred unit warrants were settled with Class A common stock as part of the IPO and Organizational Transactions.

The following tables set forth a summary of the changes in the fair value of the Company's liability measured using Level 3 inputs (in thousands):

	Three Months Ended March 31,	
	2022	2021
Balance at beginning of period	\$ —	\$ 320
Change in estimated fair value of Series E warrants	—	216
Balance at end of period	\$ —	\$ 536

4. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	March 31, 2022	December 31, 2021
Payroll and related	\$ 1,250	\$ 202
Accrued preclinical and clinical trial costs	389	621
Accrued professional fees	323	213
Other	139	398
Total accrued expenses	\$ 2,101	\$ 1,434

5. Evaluation Agreement

Takeda

Takeda Pharmaceutical Company, Limited ("Takeda") was collaborating with the Company to conduct research on the use of the RaniPill capsule for the oral delivery of factor VIII ("FVIII") therapy for patients with hemophilia A. The agreement granted Takeda a right of first negotiation to a worldwide, exclusive license under the Company's intellectual property related to a

FVIII-RaniPill therapeutic. Takeda paid the Company up-front payments of \$5.9 million upon execution of and subsequent modifications to the agreement. Upon the initial evaluation services being completed, Takeda had an option to pay the Company \$3.0 million to perform later stage evaluation services. Takeda also had the ability to terminate the agreement at any time by providing 30 days written notice after the effective date of the agreement. Unless terminated early, the agreement term ended upon the expiration of the right of first negotiation period which is 120 days after the completion of the evaluation services. The Takeda agreement could be terminated for cause by either party based on uncured material breach by the other party or bankruptcy of the other party. Upon early termination, all ongoing activities under the agreement and all mutual collaboration, development and commercialization licenses and sublicenses would terminate.

The Company identified one material promise under the Takeda agreement, the obligation to perform services to evaluate if Takeda's FVIII therapy can be orally delivered using the RaniPill capsule ("Research and Development Services"), which was concluded to be a single performance obligation.

In May 2021, the Company received written notice from Takeda as to their intent to terminate the contract for convenience. Due to the delivery of the termination notice, the Company determined that there were no further enforceable rights and obligations under the agreement beyond May 2021 and the remaining \$2.0 million of deferred revenue was recognized in 2021.

For the three months ended March 31, 2022, no contract revenue related to the Takeda agreement was recognized. For three months ended March 31, 2021, the Company recognized contract revenue related to the Takeda agreement of \$0.8 million. There was no deferred revenue as of March 31, 2022 nor December 31, 2021.

6. Related Party Transactions

InCube Labs, LLC ("ICL") is wholly-owned by the Company's founder and Chairman and his family. The founder and Chairman is the father of the Company's Chief Executive Officer. The Company's Chief Scientific Officer is also the brother of the founder and Chairman and thus uncle of the Company's Chief Executive Officer.

Services agreements

In June 2021, Rani LLC entered into a service agreement with ICL effective retrospectively to January 1, 2021, and subsequently amended such agreement in March 2022 (as amended, the "Rani LLC-ICL Service Agreement"), pursuant to which Rani LLC and ICL agreed to provide personnel services to the other upon requests. Under the amendment in March 2022, Rani LLC has a right to occupy certain facilities leased by ICL in Milpitas, California and San Antonio, Texas ("Occupancy Services") for general office, research and development, and light manufacturing. The Rani LLC-ICL Service Agreement has a twelve-month term and will automatically renew for a successive twelve-month periods unless terminated; except that the Occupancy Services in Milpitas, California have a term until February 2023, with the potential for two annual renewals, subject to approval by ICL upon a nine months' notice of renewal prior to the end of the lease term, and the Occupancy Services in San Antonio, Texas continue until either party gives six months' notice of termination. Except for the Occupancy Services, Rani LLC or ICL may terminate services under the Rani LLC-ICL Service Agreement upon 60 days' notice to the other party. The Rani LLC-ICL Service Agreement specifies the scope of services to be provided as well as the methods for determining the costs of services. Costs are billed or charged on a monthly basis by ICL or Rani LLC, respectively.

In June 2021, RMS entered into a service agreement with ICL (the "RMS-ICL Service Agreement") effective retrospectively to January 1, 2021, pursuant to which ICL agreed to rent a specified portion of its facility in San Jose, California to RMS. Additionally, RMS and ICL agreed to provide personnel services to the other upon requests based on rates specified in the RMS-ICL Service Agreement. The RMS-ICL Service Agreement has a twelve-month term and will automatically renew for successive twelve-month periods unless terminated. RMS or ICL may terminate services under the RMS-ICL Service Agreement upon 60 days' notice to the other party, except for occupancy which requires six months' notice. The RMS-ICL Service Agreement specifies the scope of services to be provided as well as the methods for determining the costs of services. Costs are billed or charged on a monthly basis by ICL or RMS, respectively, as well as allocations of expenses based upon RMS's utilization of ICL's facilities and equipment.

The table below details the amounts charged by ICL for services and rent, net of the amount that the Company charged ICL, which is included in the condensed consolidated statements of operations and comprehensive loss (in thousands):

	Three Months Ended March 31,	
	2022	2021
Research and development	\$ 239	\$ 33
General and administrative	63	182
Total	\$ 302	\$ 215

The Company's eligible employees are permitted to participate in ICL's 401(k) Plan ("401(k) Plan"). Participation in the 401(k) Plan is offered for the benefit of the employees, including the Company's named executive officers, who satisfy certain eligibility requirements.

As of March 31, 2022, all of the Company's facilities are owned or leased by an entity affiliated with the Company's Chairman (Note 7). The Company pays for the use of these facilities through its services agreements with ICL.

Financing activity

From inception to the first half of 2017, the Company advanced funds to ICL, and ICL made payments directly to certain vendors on behalf of Rani. Rani has reimbursed ICL for all such payments at cost on a monthly basis.

In March 2021, an outstanding notes receivable balance totaling \$1.7 million, including all accrued interest, was fully repaid by ICL.

During 2020 and 2021, a related party of the Company, and its affiliates, purchased 2,100,800 common units of Rani LLC and 7,880,120 Series E Preferred Units of Rani LLC. As part of the Organizational Transactions the common units and Series E Preferred Units were exchanged for 5,277,729 shares of the Company's Class A common stock. In connection with the IPO and subsequent thereto, the same related party purchased an additional 6,458,904 shares of the Company's Class A common stock for total gross proceeds of \$71.1 million.

Exclusive License, Intellectual Property and Common Unit Purchase Agreement

The Company, through Rani LLC, and ICL entered into an exclusive license and an intellectual property agreement and common unit purchase agreement in 2012. Pursuant to the common unit purchase agreement, the Company issued 46.0 million common units to ICL in return for rights to exclusive commercialization, development, use and sale of certain products and services related to the RaniPill capsule technology. ICL also granted the Company a fully-paid, royalty-free, sublicensable, exclusive license under the intellectual property made by ICL during the course of providing services to the Company related to the RaniPill capsule technology. Such rights were not recorded on the Company's condensed consolidated balance sheet as the transaction was considered a common control transaction.

In June 2021, ICL and the Company, through Rani LLC, entered into an Amended and Restated Exclusive License Agreement which replaced the 2012 Exclusive License Agreement between ICL and Rani LLC, as amended in 2013, and terminated the 2012 Intellectual Property Agreement between ICL and Rani LLC, as amended in June 2013. Under the Amended and Restated Exclusive License Agreement, the Company has a fully paid, exclusive license under certain scheduled patents related to optional features of the device and certain other scheduled patents to exploit products covered by those patents in the field of oral delivery of sensors, small molecule drugs or biologic drugs including, any peptide, antibody, protein, cell therapy, gene therapy or vaccine. The Company covers patent-related expenses and, after a certain period, the Company will have the right to acquire four specified United States patent families from ICL by making a one-time payment of \$0.3 million to ICL for each United States patent family that the Company desires to acquire, up to \$1.0 million in the aggregate. This payment will not become an obligation until the fifth anniversary of the Amended and Restated Exclusive License Agreement. The Amended and Restated Exclusive License Agreement will terminate when there are no remaining valid claims of the patents licensed under the Amended and Restated Exclusive License Agreement. Additionally, the Company may terminate the Amended and Restated Exclusive License Agreement in its entirety or as to any particular licensed patent upon notification to ICL of such intent to terminate.

Non-Exclusive License Agreement between Rani and ICL ("Non-Exclusive License Agreement")

In June 2021, the Company, through Rani LLC, entered into the Non-Exclusive License Agreement with ICL a related party, pursuant to which the Company granted ICL a non-exclusive, fully-paid license under specified patents that were assigned from

ICL to the Company. Additionally, the Company agreed not to license these patents to a third party in a specific field outside the field of oral delivery of sensors, small molecule drugs or biologic drugs including, any peptide, antibody, protein, cell therapy, gene therapy or vaccine, if ICL can prove that it or its sublicensee has been in active development of a product covered by such patents in that specific field. ICL may grant sublicenses under this license to third parties only with the Company's prior approval. The Non-Exclusive License Agreement will continue in perpetuity unless earlier terminated.

Intellectual Property Agreement with Mir Imran (the "Mir Agreement")

In June 2021, the Company, through Rani LLC, entered into the Mir Agreement, pursuant to which the Company and Mir Imran agreed that the Company would own all intellectual property conceived (a) using any of the Company's people, equipment, or facilities or (b) that is within the field of oral delivery of sensors, small molecule drugs or biologic drugs including, any peptide, antibody, protein, cell therapy, gene therapy or vaccine. Neither the Company nor Mir Imran may assign the Mir Agreement to any third party without the prior written consent of the other party. The initial term of the Mir Agreement is three years, which can be extended upon mutual consent of the parties. The Mir Agreement may be terminated by either party for any reason within the initial three year term upon providing three months' notice to the other party.

Secondary Sales Transactions

In February 2021, one of the Company's named executive officers and then member of the Board of Managers of Rani LLC, and a current member of the Board of Managers of Rani LLC sold a total of 210,000 common units to a third-party investor at \$7.1471 per unit. The Company determined that the sales price was above fair value of such units and as a result recorded equity-based compensation expense of \$0.5 million for which \$0.2 million was recorded as general and administrative expense and \$0.3 million was recorded as research and development expense. The \$0.5 million represents the difference between the sales price and fair value of the common units.

Tax Receivable Agreement

Certain parties to the TRA, entered into in August 2021 pursuant to the IPO and Organizational Transactions are related parties of the Company. The TRA provides that the Company pay to such entities and individuals 85% of the amount of tax benefits, if any, it is deemed to realize from exchanges of Paired Interests (Note 2). During the three months ended March 31, 2022, these parties to the TRA exchanged 2,309,490 Paired Interests that resulted in tax benefits subject to the TRA (Note 10).

Registration Rights Agreement

In connection with the IPO, the Company entered into a Registration Rights Agreement. ICL and its affiliates are parties to this agreement. The Registration Rights Agreement provides certain registration rights whereby, at any time following the IPO and the expiration of any related lock-up period, ICL and its affiliates can require the Company to register under the Securities Act of 1933, as amended (the "Securities Act") shares of Class A common stock issuable to ICL and its affiliates upon, at the Company's election, redemption or exchange of their Paired Interests. The Registration Rights Agreement also provides for piggyback registration rights. In March 2022, certain holders of our Class A common stock considered to be related parties were made parties to the Registration Rights Agreement.

Rani LLC Agreement

The Company operates its business through Rani LLC and its subsidiary. In connection with the IPO, the Company and the Continuing LLC Owners, including ICL and its affiliates, entered into the Rani LLC Agreement. The governance of Rani LLC, and the rights and obligations of the holders of LLC Interests, are set forth in the Rani LLC Agreement. As Continuing LLC Owners, ICL and its affiliates are entitled to exchange, subject to the terms of the Rani LLC Agreement, Paired Interests for Class A common stock of the Company; provided that, at the Company's election, the Company may effect a direct exchange of such Class A common stock or make a cash payment equal to a volume weighted average market price of one share of Class A common stock for each Paired Interest redeemed.

During the three months ended March 31, 2022, entities affiliated with ICL exchanged 2,309,490 Paired Interests for an equal number of shares of the Company's Class A common stock.

7. Leases

The Company pays for the use of its office, laboratory and manufacturing facility in San Jose, California as part of the RMS-ICL Service Agreement. The RMS-ICL Service Agreement has a twelve-month term and will automatically renew for successive twelve-month periods unless RMS or ICL terminate occupancy under the RMS-ICL Service Agreement upon six months' notice. As of March 31, 2022, the Company determined it to be reasonably certain that it would exercise its renewal option for a successive twelve-month period and this has been considered in the determination of the right-of-use assets and lease liabilities associated with the RMS-ICL Service Agreement. At March 31, 2022, the RMS-ICL Service Agreement had a remaining term of 1.8 years.

Under the Rani LLC-ICL Service Agreement amended in March 2022, Rani LLC has a right to occupy certain facilities leased by ICL in Milpitas, California and San Antonio, Texas for general office, research and development, and light manufacturing. The Rani LLC-ICL Service Agreement has a twelve-month term and will automatically renew for a successive twelve-month periods unless terminated; except that the Occupancy Services in Milpitas, California have a term until February 2023, with the potential for two annual renewals, subject to approval by ICL upon a nine months' notice of renewal prior to the end of the lease term, and the Occupancy Services in San Antonio, Texas continue until either party gives six months' notice of termination. As of March 31, 2022, the renewal option for the facility in Milpitas, California was not deemed reasonably certain to be exercised and the Occupancy Services were considered short term.

The Company's leases are accounted for as operating leases and require certain fixed payments of real estate taxes and insurance in addition to future minimum lease payments, and certain variable payments of common area maintenance costs and building utilities. Variable lease payments are expensed in the period in which the obligation for those payments is incurred. These variable lease costs are payments that vary in amount beyond the commencement date, for reasons other than passage of time. Total operating lease expense incurred with ICL was \$0.3 million and \$0.2 million for the three months ended March 31, 2022 and 2021, respectively. Short term lease expense are included in the total operating lease expense and not immaterial for the periods presented. Variable lease payments are excluded in the total operating lease expense and immaterial for the periods presented.

The Company used its IBR as the discount rate when measuring operating lease liabilities. The discount rate associated with the RMS-ICL Service Agreement is 5.0%.

Supplemental information on the Company's condensed consolidated balance sheet as of March 31, 2022 and statements of cash flow related to leases was as follows (in thousands):

	<u>March 31,</u> <u>2022</u>
Balance sheet	
Operating lease right-of-use assets	\$ 1,159
Operating lease liability, current portion	\$ 650
Operating lease liability, net current portion	509
Total operating lease liability	\$ 1,159
	<u>March 31,</u> <u>2022</u>
Cash flows	
Cash paid for amounts included in lease liabilities:	
Operating cash flows used for operating leases	\$ 173

As of March 31, 2022, minimum annual rental payments under the Company's operating lease agreement is as follows (in thousands):	
Year ending December 31,	
2022 (remaining nine months)	\$ 518
2023	690
Total undiscounted future minimum lease payments	\$ 1,208
Less: Imputed interest	(49)
Total operating lease liability	\$ 1,159
Less: Operating lease liability, current portion	650
Operating lease liability, net current portion	\$ 509

Operating lease in the table above includes future minimum lease payments for the RMS-ICL Service Agreement. Future minimum lease payments of the Rani LLC-ICL Service Agreement for fiscal years 2022 (remaining nine months) and 2023 totaled \$0.4 million and \$0.1 million, respectively.

8. Stockholders' Equity / Members' Deficit

Prior to the Organizational Transactions, Rani LLC was authorized to issue 101,000,000 common units, of which 10,850,000 had been reserved for issuance as Profits Interests and 32,620,000 were reserved for six separate classes, the Series A convertible preferred units (the "Series A units"), the Series B convertible preferred units (the "Series B units"), the Series C convertible preferred units (the "Series C units"), the Series C-1 convertible preferred units (the "Series C-1 units"), the Series D convertible preferred units (the "Series D units"), and the Series E convertible preferred units (the "Series E units"), collectively the "Preferred Units".

The members of the Rani LLC who held these common and Preferred Units were not liable, solely by reason of being a member, for the debts, obligations, or liabilities of the Company whether arising in contract or tort; under a judgment, decree, or order of a court; or otherwise. The members were also not obligated to make capital contributions to Rani LLC and Rani LLC would have dissolved only upon a written consent of a majority of the members.

The Company's Profits Interests were subject to either a combination of service, market, or performance vesting conditions. Vested Profits Interests were treated as common units for purposes of distributions.

In February 2022 and March 2022, certain of the Continuing LLC Owners executed an exchange of 4,517,105 Paired Interests and 158,051 non-corresponding Class A Units of Rani LLC in return for an equal number of shares of the Company's Class A common stock. The corresponding shares of the Company's Class B common stock included in the exchange of Paired Interests were subsequently cancelled and retired pursuant to the terms of the Rani LLC Agreement.

9. Equity-Based Compensation

Stock Options

A summary of stock option activity during the periods indicated is as follows:

	Number of Stock Option Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2021	2,300,819	\$ 14.12	9.55	\$ 976
Granted	1,081,437	\$ 13.38	9.96	\$ 299
Forfeited	(6,500)	\$ 26.78		
Balance at March 31, 2022	3,375,756	\$ 13.86	9.53	\$ 5,677
Exercisable at March 31, 2022	133,775	\$ 9.44	9.21	\$ 543
Nonvested at March 31, 2022	3,241,981	\$ 14.04	9.54	\$ 5,134

As of March 31, 2022, there was \$27.8 million of unrecognized equity-based compensation expense related to stock options which is expected to be recognized over a weighted-average period of approximately 3.3 years.

Restricted Stock Units

A summary of RSU activity during the periods indicated is as follows:

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value per Share
Balance at December 31, 2021	596,500	\$ 19.56
Granted	443,400	\$ 13.21
Forfeited	(43,400)	\$ 19.56
Balance at March 31, 2022	996,500	\$ 16.73

As of March 31, 2022, there was \$13.6 million of unrecognized equity-based compensation expense related to RSUs which is expected to be recognized over a weighted-average period of approximately 2.6 years.

Restricted Stock Awards

A summary of RSA activity during the periods indicated is as follows:

	Number of Restricted Stock Awards	Weighted Average Grant-Date Fair Value per Share
Balance at December 31, 2021	113,173	\$ 6.15
Vested	(16,810)	\$ 6.17
Balance at March 31, 2022	<u>96,363</u>	<u>\$ 6.15</u>

As of March 31, 2022, there was \$0.3 million of unrecognized equity-based compensation expense related to RSAs which is expected to be recognized over a weighted-average period of approximately 1.4 years. The total fair value of the RSAs that vested in 2022 was approximately \$0.2 million.

Equity-Based Compensation Expense

The following table summarizes the components of equity-based compensation expense resulting from the grant of stock options, RSUs and RSAs, and a secondary sales transaction entered into in February 2021, recorded in the Company's condensed consolidated statement of operations and comprehensive loss (in thousands):

	Three Months Ended March 31,	
	2022	2021
Research and development	\$ 1,246	\$ 226
General and administrative	1,659	226
Total equity-based compensation	<u>\$ 2,905</u>	<u>\$ 452</u>

10. Commitments and Contingencies

Legal Proceedings

In the ordinary course of business, the Company may be subject to legal proceedings, claims and litigation as the Company operates in an industry susceptible to patent legal claims. The Company accounts for estimated losses with respect to legal proceedings and claims when such losses are probable and estimable. Legal costs associated with these matters are expensed when incurred. The Company is currently involved in several opposition proceedings at the European Patent Office, all of which were asserted against us by Novo Nordisk AS. The ultimate outcome of this matter as a loss is not probable nor is there any amount that is reasonably estimable. However, the outcome of the opposition proceedings could impact the Company's ability to commercialize its products in Europe.

Tax Receivable Agreement

The Company is party to a TRA with certain of the Continuing LLC Owners (Note 2). As of March 31, 2022, the Company has not recorded a liability under the TRA related to the income tax benefits originating from the exchanges of Paired Interest or non-corresponding Class A Units of Rani LLC as it is not probable that the Company will realize such tax benefits. To the extent the Company is able to realize the income tax benefits associated with the exchanges of Paired Interest or non-corresponding Class A Units of Rani LLC subject to the TRA, the TRA payable would range from zero to \$19.9 million at March 31, 2022.

The amounts payable under the TRA will vary depending upon a number of factors, including the amount, character, and timing of the taxable income of the Company in the future. Should the Company determine that the payment of the TRA liability becomes probable at a future date based on new information, any changes will be recorded on the Company's condensed consolidated statement of operations and comprehensive loss at that time.

11. Long-Term Debt

Convertible Notes

In September 2020, Rani LLC, entered into a secured convertible loan agreement (the “Loan and Security Agreement” or the “Loan”) with Avenue Venture Opportunity Fund L.P. (“Avenue”), whereby Rani LLC could borrow up to a maximum of \$10.0 million, with \$3.0 million being immediately available. The remaining \$7.0 million available could be borrowed if Avenue received evidence of at least \$40.0 million of net cash proceeds from the sale or issuance of securities to existing investors, or upfront payments in connection with strategic partnerships by March 31, 2021. Rani LLC opted not to draw down this additional amount, and the option has since expired undrawn. In exchange for access to this facility, Rani LLC agreed to issue warrants exercisable into Rani LLC preferred units amounting to \$0.9 million; Rani LLC subsequently granted 118,929 Series E warrants with an exercise price of \$7.1471 per unit.

In July 2021, the Company repaid, in full, the \$3.0 million of principal and approximately \$0.5 million of final payment and fees under the Loan and Security Agreement resulting in a \$0.7 million loss on extinguishment of debt recorded in the Company's condensed consolidated statement of operations and comprehensive loss in 2021. Avenue Capital also waived their right to convert the outstanding principal into Series E Preferred Units.

Paycheck Protection Program Loan

In April 2020, the Company received a \$1.3 million small business loan under the Paycheck Protection Program (“PPP Loan”) as part of the CARES Act. The PPP Loan was due to mature in April 2022, and bore interest at a rate of 1.0% per annum. The PPP Loan was evidenced by a promissory note, which contained customary events of default relating to, among other things, payment defaults and breaches of representations and warranties. The PPP Loan could be prepaid at any time prior to maturity with no prepayment penalties.

The Company used all proceeds from the PPP Loan to retain employees, maintain payroll and make lease and utility payments. In September 2021, the Company repaid in full the \$1.3 million of principal and interest related to the PPP Loan.

12. Income Taxes

The Company is the managing member of Rani LLC and, as a result, consolidates the financial results of Rani LLC and its taxable subsidiary RMS in the condensed consolidated financial statements. Rani LLC is a pass-through entity for United States federal and most applicable state and local income tax purposes following the IPO and Organizational Transactions. As an entity classified as a partnership for tax purposes, Rani LLC is not subject to United States federal and certain state and local income taxes. Any taxable income or loss generated by Rani LLC is passed through to, and included in the taxable income or loss of, its members, including the Company. The Company is taxed as a corporation and pays corporate federal, state and local taxes with respect to income allocated to the it, based on the its economic interest in Rani LLC. The Company's tax provision also includes the activity of RMS, which is taxed as a corporation for United States federal and state income tax purposes.

The Company's effective income tax rate was (0.10)% and (0.21)% for the three months ended March 31, 2022 and 2021, respectively. As a result of the February 2022 and March 2022 exchanges (Note 8), the Company recorded a \$17.4 million deferred tax asset related to income tax benefit associated with the basis of the net assets of Rani LLC. Because of the Company's history of operating losses, the Company believes that recognition of the deferred tax assets arising from such future income tax benefits is currently not likely to be realized and, accordingly, has recognized a full valuation allowance on its deferred tax assets.

There were no material changes to uncertain tax positions for the three months ended March 31, 2022 and 2021, and the Company does not anticipate material changes within the next 12 months.

13. Net Loss Per Share

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

	<u>Three Months Ended</u> <u>March 31,</u> <u>2022</u>
Numerator:	
Net loss per Class A common share attributable to Rani Therapeutics Holdings, Inc.	\$ (6,223)
Denominator:	
Weighted average Class A common share outstanding—basic and diluted	21,409
Net loss per Class A common share attributable to Rani Therapeutics Holdings, Inc.—basic and diluted	\$ (0.29)

The following table shows the total outstanding securities considered anti-dilutive and therefore excluded from the computation of diluted net loss per Class A common share attributable to Rani Holdings:

	<u>Three Months Ended</u> <u>March 31,</u> <u>2022</u>
Paired Interests	24,773,286
Stock options	3,375,756
Class A Units of Rani LLC exchangeable for Class A common stock	1,387,471
Restricted stock units	996,500
Restricted stock awards	96,363
	<u>30,629,376</u>

Shares of Class B common stock do not share in the Company's earnings and are not participating securities. Accordingly, separate presentation of loss per share of Class B common stock under the two-class method has not been provided. The outstanding shares of Class B common stock were determined to be anti-dilutive for the three months ended March 31, 2022. Therefore, they are not included in the computation of net loss per Class A common share attributable to Rani Holdings.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission ("SEC"). Some of the information contained in this discussion and analysis or set forth elsewhere in this document, includes forward looking statements that involve risks, uncertainties, and assumptions. Our actual results could differ materially from those discussed in or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021. Please also see the section titled "Forward Looking Statements."

The following discussion contains references to calendar year 2021 and the three months ended March 31, 2022 and 2021, respectively, which represents the condensed consolidated financial results of Rani Therapeutics Holdings, Inc. (the "Company") and its subsidiaries for the year ended December 31, 2021 and the three months ended March 31, 2022 and 2021, respectively. Unless we state otherwise or the context otherwise requires, the terms "we," "us," "our," and "Rani" and similar references refers to the Company and its consolidated subsidiaries.

Overview

We are a clinical stage biotherapeutics company focusing on advancing technologies to enable the administration of biologics orally, to provide patients, physicians, and healthcare systems with a convenient alternative to painful injections. We are advancing a portfolio of oral biologic therapeutics using our proprietary delivery technology.

We have developed and clinically tested a drug-agnostic oral delivery platform, the RaniPill capsule, which can deliver any drug, including large molecules such as peptides, proteins, and antibodies. The current RaniPill capsule can deliver up to a 3 mg dose of drug with high bioavailability. We are also developing a high-capacity version known as the RaniPill HC, which is in preclinical stage and which is intended to enable delivery of drug payloads up to 20 mg with high bioavailability. Our current RaniPill capsule is optimized to orally deliver a variety of biologic therapeutics, and we are advancing development of the RaniPill HC to address biologics with higher dosing requirements. Together, we believe that the current RaniPill capsule and RaniPill HC could enable us to deliver most biologics currently on the market via a convenient, oral daily dose.

Since our inception in 2012, we have devoted the majority of our resources to research and development, manufacturing automation and scaleup, and establishing our intellectual property portfolio. To date, we have financed our operations primarily through the initial public offering ("IPO"), private placements of preferred units, issuance of convertible promissory notes, and contract revenue generated from our evaluation agreements.

We do not have any products approved for sale, and we have not yet generated any revenue from sales of a commercial product. Our ability to generate product revenue sufficient to achieve profitability, if ever, will depend on the successful development of the RaniPill capsule, which we expect will take a number of years. Given our stage of development, we have not yet established a commercial organization or distribution capabilities, and we have no experience as a company in marketing drugs or a drug-delivery platform. When, and if, any of our product candidates are approved for commercialization, we plan to develop a commercialization infrastructure for those products in the United States, Europe, Asia, and potentially in certain other key markets. We may also rely on partnerships to provide commercialization infrastructure, including sales, marketing, and commercial distribution.

As is common with biotechnology companies, we rely on third-party suppliers for the supply of raw materials and active pharmaceutical ingredients ("APIs") and drug substances required for the production of our product candidates. In addition, we work with third parties to manufacture and develop biologics for inclusion in the current RaniPill capsule and RaniPill HC. Design work, prototyping and pilot manufacturing are performed in-house, and we have utilized third-party engineering firms to assist with the design of manufacturing lines that support our supply of the current RaniPill capsule and RaniPill HC. Certain of our suppliers of components and materials are single source suppliers. We believe our vertically integrated manufacturing strategy will offer significant advantages, including rapid product iteration, control over our product quality and the ability to rapidly scale our manufacturing capacity. This capability also allows us to develop future generations of products while maintaining the confidentiality of our intellectual property. Our vertically integrated manufacturing strategy will result in material future capital outlays and fixed costs related to constructing and operating a manufacturing facility. We have and plan to continue to invest in automated manufacturing production lines for the current RaniPill capsule and RaniPill HC. Those assets deemed to have an alternative future

use have been capitalized as property and equipment while those projects related to our assets determined to not have an alternative future use have been expensed as research and development costs.

COVID-19 Business Impact

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The extent to which the COVID-19 pandemic will further directly or indirectly impact our results of operation and financial condition has been and will continue to be driven by many factors, most of which are beyond our control and ability to forecast. Because of these uncertainties, we cannot estimate how long or to what extent COVID-19 will impact our operations.

Organizational Transactions

The Company was incorporated in April 2021 and formed for the purpose of facilitating an IPO of its Class A common stock, and to facilitate certain organizational transactions ("Organizational Transactions") and to operate the business of Rani Therapeutics, LLC ("Rani LLC") and its consolidated subsidiary. In connection with the IPO, we established a holding company structure with the Company as the holding company and its principal asset being the Class A common units ("Class A Units") of Rani LLC that it owns. As the sole managing member of Rani LLC, the Company operates and controls all of Rani LLC's operations, and through Rani LLC and its subsidiary, conducts all of Rani LLC's business and the financial results of Rani LLC and its consolidated subsidiary are included in the condensed consolidated financial statements of the Company.

Rani LLC has been, and after the IPO continues to be, treated as a pass-through entity for U.S. federal and state income tax purposes and accordingly has not been subject to U.S. federal or state income tax. The wholly owned subsidiary of Rani LLC, Rani Management Services, Inc. ("RMS"), which was incorporated in 2019, is taxed as a corporation for U.S. federal and most applicable state, local income tax and foreign tax purposes. As a result of its ownership of interests in Rani LLC ("LLC Interests"), the Company is subject to U.S. federal, state and local income taxes with respect to its allocable share of any taxable income of Rani LLC and will be taxed at the prevailing corporate tax rates. In addition to tax expenses, we also incur expenses related to our operations and may be required to make payments under the Tax Receivable Agreement with certain of the individuals and entities that continue to hold interests in Rani LLC after the IPO (the "Continuing LLC Owners"). The Continuing LLC Owners are entitled to exchange, subject to the terms of the Rani LLC Agreement, the Class A Units they hold in Rani LLC, together with the shares they hold of our Class B common stock (together referred to as a "Paired Interest"), in return for shares of our Class A common stock on a one-for-one basis provided that, at our election, we may effect a direct exchange of such Class A common stock or make a cash payment equal to a volume weighted average market price of one share of Class A common stock for each Paired Interest redeemed. Any shares of Class B common stock will be cancelled on a one-for-one basis if, at the election of the Continuing LLC Owners, we redeem or exchange such Paired Interest pursuant to the terms of the Rani LLC Agreement. These exchanges and redemptions may result in increases in the tax basis of the assets of Rani LLC that otherwise would not have been available. Increases in tax basis resulting from such exchanges may reduce the amount of income tax that the Company would otherwise be required to pay in the future. This tax basis may also decrease the gains (or increase the losses) on future dispositions of certain assets to the extent tax basis is allocated to those assets. Due to the uncertainty of various factors, we cannot estimate the likely tax benefits we will realize as a result of exchanges, and the resulting amounts we will likely pay out to the Continuing LLC Owners pursuant to the Tax Receivable Agreement; however, we estimate that such payments may be substantial in the event we are profitable. Certain individuals who continue to own interests in Rani LLC but do not hold shares of the Company's Class B common stock ("non-corresponding Class A Units") have the ability to exchange their non-corresponding Class A Units of Rani LLC for 1,387,471 shares of the Company's Class A common stock.

Components of Results of Operations

Contract Revenue

To date, we have not generated any revenue from commercial product sales and do not expect to generate any revenue from the sale of commercial products in the foreseeable future. Our only revenue to date has been derived from evaluation agreements, which has been recorded as contract revenue. As of March 31, 2022, we had no active evaluation agreements, and therefore we expect that our revenue for the next several years will be derived from any new agreements that may be executed in the future.

Our ability to generate commercial product revenue and to become profitable will depend upon our ability to successfully develop, obtain regulatory approval for and commercialize the RaniPill capsule and RaniPill HC. Because of the numerous risks and uncertainties associated with product development, regulatory approval and commercialization, we are unable to predict the amount, timing or whether we will be able to generate any commercial product revenue.

Operating Expenses

Our operating expenses consisted of research and development and general and administrative activities.

Research and Development Expense

Research and development expense consists primarily of direct and indirect costs incurred in connection with our research and development activities to develop the RaniPill capsule and RaniPill HC. These expenses include:

External expenses, consisting of:

- expenses associated with contract research organizations ("CROs"), for managing and conducting clinical trials;
- expenses associated with laboratory supplies, drug material for clinical trials, developing and manufacturing of the RaniPill capsule, RaniPill HC and other materials;
- expenses associated with preclinical studies performed by third parties; and
- expenses associated with consulting, legal fees for patent matters, advisors, and other external services.

Internal expenses, consisting of:

- expenses including salaries, bonuses, equity-based compensation and benefits for personnel engaged in the research and development functions;
- expenses associated with service and repair of equipment, equipment depreciation, and allocated facility costs for research and development; and
- other research and development costs related to compliance with quality and regulatory requirements.

We expense research and development costs as incurred. Costs for external development activities are recognized based on an evaluation of the progress to completion of specific tasks using information provided to us by our vendors. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, and are reflected in our financial statements as prepaid or accrued research and development expenses. Nonrefundable advance payments that we make for goods or services to be received in the future for use in research and development activities are recorded as prepaid expenses. Such amounts are recognized as an expense as the goods are delivered or the related services are performed, or until it is no longer expected that the goods will be delivered, or the services rendered. Until future commercialization is considered probable and the future economic benefit is expected to be realized, we do not capitalize pre-launch inventory costs.

Costs of property and equipment related to scaling-up our manufacturing capacity for clinical trials and to support commercialization are capitalized as property and equipment unless the related asset does not have an alternative future use. The historical focus of our research and development has been on the RaniPill delivery platform and not tracked costs on a project-by-project basis associated with different drug compounds.

At this time, we cannot reasonably estimate or know the nature, timing, and estimated costs of the efforts that will be necessary to complete the development of, and obtain regulatory approval for, the RaniPill capsule and RaniPill HC. We expect our research and development expenses to increase significantly in the foreseeable future as we continue to invest in activities related to testing and developing the RaniPill capsule and RaniPill HC, as our product candidates advance into later stages of development, as we begin to conduct larger clinical trials, as we seek regulatory approvals for the RaniPill capsule and RaniPill HC upon successful completion of clinical trials, and incur expenses associated with hiring additional personnel to support the research and development efforts. The process of conducting the necessary clinical research to obtain regulatory approval is costly and time-consuming, the successful development of the RaniPill capsule and RaniPill HC is highly uncertain, and we may never succeed in achieving regulatory approval for the RaniPill capsule and RaniPill HC.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel-related costs (including salaries, bonuses, equity-based compensation, and benefits) for personnel in executive, finance, accounting, legal, corporate and business development, and other administrative functions. General and administrative expenses also include legal fees relating to corporate matters, professional fees paid for accounting, auditing, consulting, tax, and administrative consulting services, insurance costs, travel, and facilities, which include direct depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs.

We anticipate that our general and administrative expenses will increase significantly in the foreseeable future as additional administrative personnel and services are required to manage and support the development of the RaniPill capsule and RaniPill HC. We also anticipate that we will incur increased expenses associated with operating as a public company, including costs of accounting, audit, legal, regulatory and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer liability insurance, and investor and public relations.

Other Income (Expense), Net

Other income (expense), net primarily consists of interest income earned on our cash and cash equivalents.

Non-Controlling Interest

Non-controlling interest ("NCI") represents the portion of income or loss, net assets and comprehensive loss of our consolidated subsidiary that is not allocable to the Company based on its percentage of ownership of Rani LLC.

In August 2021, based on the Organizational Transactions, the Company became the sole managing member of Rani LLC. As of March 31, 2022, the Company held approximately 48% of the Class A Units of Rani LLC, and approximately 52% of the outstanding Class A Units of Rani LLC are held by the Continuing LLC Owners. Therefore, we report NCI based on the Class A Units of Rani LLC held by the Continuing LLC Owners on our condensed consolidated balance sheet as of March 31, 2022. Income or loss attributed to the NCI in Rani LLC is based on the Class A Units outstanding during the period for which the income or loss is generated and is presented on the condensed consolidated statements of operations and comprehensive income or loss.

Future exchanges of Paired Interests and non-corresponding Class A Units of Rani LLC will result in a change in ownership and reduce or increase the amount recorded as NCI and increase or decrease additional paid-in-capital when Rani LLC has positive or negative net assets, respectively. From the date of the Organizational Transactions to March 31, 2022, there were 4,517,105 exchanges of Paired Interests and 158,051 exchanges of non-corresponding Class A Units of Rani LLC for an equal number of shares of our Class A common stock.

Tax Receivable Agreement

In August 2021, in connection with the IPO and Organizational Transactions, we entered into a tax receivable agreement ("TRA") with certain of the Continuing LLC Owners. The TRA provides that we pay to such Continuing LLC Owners, 85% of the amount of tax benefits, if any, it is deemed to realize (calculated using certain assumptions) as a result of (i) increases in the tax basis of assets of Rani LLC resulting from (a) any future redemptions or exchanges of Paired Interests or non-corresponding Class A Units of Rani LLC and (b) payments under the TRA and (ii) certain other benefits arising from payments under the TRA (collectively the "Tax Attributes").

A liability for the payable to parties subject to the TRA, and a reduction to stockholders' equity, is accrued when (i) an exchange of a Paired Interest or non-corresponding Class A Units of Rani LLC has occurred and (ii) when it is deemed probable that the Tax Attributes associated with the exchange will be used to reduce our taxable income based on the contractual percentage of the benefit of Tax Attributes that we expect to receive over a period of time.

Relationship with InCube Labs, LLC

Services Agreements

In June 2021, Rani LLC entered into a service agreement with InCube Labs, LLC ("ICL") effective retrospectively to January 1, 2021, and subsequently amended such agreement in March 2022 (as amended, the "Rani LLC-ICL Service Agreement"), pursuant to which Rani LLC and ICL agreed to provide personnel services to the other upon requests. Under the amendment in March 2022, Rani LLC has a right to occupy certain facilities leased by ICL in Milpitas, California and San Antonio, Texas ("Occupancy Services") for general office, research and development, and light manufacturing. The Rani LLC-ICL Service Agreement has a twelve-month term and will automatically renew for a successive twelve-month periods unless terminated; except that the Occupancy Services in Milpitas, California have a term until February 2023, with the potential for two annual renewals, subject to approval by ICL upon a nine months' notice of renewal prior to the end of the lease term, and the Occupancy Services in San Antonio, Texas continue until either party gives six months' notice of termination. Except for the Occupancy Services, Rani LLC or ICL may terminate services under the Rani LLC-ICL Service Agreement upon 60 days' notice to the other party. The Rani LLC-ICL Service Agreement specifies the scope of services to be provided as well as the methods for determining the costs of services. Costs are billed or charged on a monthly basis by ICL or Rani LLC, respectively.

In June 2021, RMS entered into a service agreement with ICL (the “RMS-ICL Service Agreement”) effective retrospectively to January 1, 2021, pursuant to which ICL agreed to rent a specified portion of its facility in San Jose, California to RMS. Additionally, RMS and ICL agreed to provide personnel services to the other upon requests based on rates specified in the RMS-ICL Service Agreement. The RMS-ICL Service Agreement has a twelve-month term and will automatically renew for successive twelve-month periods unless terminated. RMS or ICL may terminate services under the RMS-ICL Service Agreement upon 60 days’ notice to the other party, except for occupancy which requires six months’ notice. The RMS-ICL Service Agreement specifies the scope of services to be provided as well as the methods for determining the costs of services. Costs are billed or charged on a monthly basis by ICL or RMS, respectively, as well as allocations of expenses based upon RMS’s utilization of ICL’s facilities and equipment.

The table below details the amounts charged by ICL for services and rent, net of the amount that RMS charged ICL, which is included in the condensed consolidated statements of operations and comprehensive loss (in thousands):

	Three Months Ended March 31,	
	2022	2021
Research and development	\$ 239	\$ 33
General and administrative	63	182
Total	\$ 302	\$ 215

As of March 31, 2022, our eligible employees were permitted to participate in ICL’s 401(k) Plan (“401(k) Plan”). Participation in the 401(k) Plan was offered for the benefit of our employees, including our named executive officers, who satisfy certain eligibility requirements. Subsequently, in April 2022, the Company established its own 401(k) Plan, with participation offered for the benefit of the employees, including the Company’s named executive officers, who satisfy certain eligibility requirements.

As of March 31, 2022, all of our facilities are owned or leased by an entity affiliated with our Chairman. Rani LLC pays for the use of these facilities through our services agreements with ICL.

Financing activity

In March 2021, an outstanding notes receivable balance totaling \$1.7 million, including all accrued interest, was fully repaid by ICL.

Exclusive License Agreement

In June 2021, we and ICL entered into an Amended and Restated Exclusive License Agreement which replaces the 2012 Exclusive License Agreement, as amended in 2013, and terminates the Intellectual Property Agreement, as amended in June 2013. Under the Amended and Restated Exclusive License Agreement, we have a fully paid, exclusive license under certain scheduled patents related to optional features of the device and certain other scheduled patents to exploit products covered by those patents in the field of oral delivery of sensors, small molecule drugs or biologic drugs including, any peptide, antibody, protein, cell therapy, gene therapy or vaccine. We will cover patent-related expenses and, after a certain period, we will have the right to acquire four specified United States patent families from ICL by making a one-time payment of \$0.3 million to ICL for each United States patent family that we desire to acquire, up to \$1.0 million in the aggregate. This payment will not become an obligation until the fifth anniversary of the Amended and Restated Exclusive License Agreement. The Amended and Restated Exclusive License Agreement will terminate when there are no remaining valid claims of the patents licensed under the Amended and Restated Exclusive License Agreement. Additionally, we may terminate the Amended and Restated Exclusive License Agreement in its entirety or as to any particular licensed patent upon notification to ICL of such intent to terminate.

Non-Exclusive License Agreement between Rani and ICL (“Non-Exclusive License Agreement”)

In June 2021, we entered into the Non-Exclusive License Agreement with ICL, pursuant to which we granted ICL a non-exclusive, fully-paid license under specified patents that were assigned from ICL to us. Additionally, we agreed not to license these patents to a third party in a specific field outside the field of oral delivery of sensors, small molecule drugs or biologic drugs including, any peptide, antibody, protein, cell therapy, gene therapy or vaccine, if ICL can prove that it or its sublicensee has been in active development of a product covered by such patents in that specific field. ICL may grant sublicenses under this license to third parties only with our prior approval. The Non-Exclusive License Agreement will continue in perpetuity unless terminated.

Intellectual Property Agreement with Mir Imran (the “Mir Agreement”)

In June 2021, we entered into the Mir Agreement, pursuant to which we and Mir Imran agreed that we would own all intellectual property conceived (a) using any of our people, equipment, or facilities or (b) that is within the field of oral delivery of sensors, small molecule drugs or biologic drugs including, any peptide, antibody, protein, cell therapy, gene therapy or vaccine. Neither us nor Mir Imran may assign the Mir Agreement to any third party without the prior written consent of the other party. The initial term of the Mir Agreement is three years, which can be extended upon mutual consent of the parties. The Mir Agreement may be terminated by either party for any reason within the initial three year term upon providing three months’ notice to the other party.

Tax Receivable Agreement

ICL is party to the TRA, entered into in August 2021 pursuant to the IPO and Organizational Transactions. The TRA provides that we pay to such entities and individuals 85% of the amount of tax benefits, if any, it is deemed to realize from exchanges of Paired Interests. During the three months ended March 31, 2022, entities affiliated with ICL exchanged 2,309,490 Paired Interests that resulted in tax benefits subject to the TRA.

Registration Rights Agreement

In connection with the IPO, we entered into a Registration Rights Agreement with the Continuing LLC Owners, including ICL. The Registration Rights Agreement provides the Continuing LLC Owners certain registration rights whereby, at any time following the IPO and the expiration of any related lock-up period, the Continuing LLC Owners can require us to register under the Securities Act shares of Class A common stock issuable to them upon, at our election, redemption or exchange of their LLC Interests. The Registration Rights Agreement also provides for piggyback registration rights for the Continuing LLC Owners.

Rani LLC Agreement

We operate our business through Rani LLC and its subsidiary. In connection with the IPO, we and the Continuing LLC Owners, including ICL, entered into the Fifth Amended and Restated LLC Agreement of Rani LLC (the “Rani LLC Agreement”). The governance of Rani LLC, and the rights and obligations of the holders of LLC Interests, are set forth in the Rani LLC Agreement. As a Continuing LLC Owner, ICL is entitled to exchange, subject to the terms of the Rani LLC Agreement, Paired Interests for our Class A common stock; provided that, at our election, we may effect a direct exchange of such Class A common stock or make a cash payment equal to a volume weighted average market price of one share of Class A common stock for each Paired Interest redeemed.

During the three months ended March 31, 2022, entities affiliated with ICL exchanged 2,309,490 Paired Interests for the Company’s Class A common stock.

Results of Operations

The results of operations presented below should be reviewed in conjunction with the condensed consolidated financial statements and notes included elsewhere in this Quarterly Report on Form 10-Q. For information with respect to recent accounting pronouncements that are of significance or potential significance to us, see “Note 2. Summary of Significant Accounting Policies” in the “Notes to the Unaudited Condensed Consolidated Financial Statements” contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Comparison of the three months ended March 31, 2022 and 2021

The following table summarizes our results of operations (in thousands):

	Three Months Ended March 31,		
	2022	2021	Change
Contract revenue	\$ —	\$ 756	* %
Operating expenses			
Research and development	7,591	3,347	126.8
General and administrative	6,189	2,607	137.4
Total operating expenses	\$ 13,780	\$ 5,954	131.4 %
Loss from operations	(13,780)	(5,198)	165.1
Other income (expense), net			
Interest income	15	47	(68.1)
Interest expense and other, net	—	(188)	*
Change in estimated fair value of preferred unit warrant	—	(216)	*
Loss before income taxes	(13,765)	(5,555)	147.8
Income tax expense	(63)	(43)	46.5
Net loss and comprehensive loss	\$ (13,828)	\$ (5,598)	147.0 %
Net loss attributable to non-controlling interest	(7,605)	(5,598)	35.9
Net loss attributable to Rani Therapeutics Holdings, Inc.	\$ (6,223)	\$ —	* %

* No comparable result in the period

Contract Revenue

For the three months ended March 31, 2022, no contract revenue related to the Takeda agreement was recognized. For three months ended March 31, 2021, the Company recognized contract revenue related to the Takeda agreement of \$0.8 million.

Research and Development Expenses

The following table reflects our research and development costs by nature of expense (in thousands):

	Three Months Ended March 31,	
	2022	2021
Payroll, equity-based compensation and related benefits	\$ 5,423	\$ 2,195
Third-party services	1,060	187
Facilities, materials and supplies	970	683
Other	138	282
Total	\$ 7,591	\$ 3,347

Research and development expenses were \$7.6 million for the three months ended March 31, 2022, compared to \$3.3 million for the three months ended March 31, 2021. The change in research and development expense was attributed to an increase of \$3.2 million in salaries and related benefit costs due to higher headcount, which includes \$1.2 million of equity-based compensation, an increase in third-party services of \$0.9 million and laboratory supplies of \$0.3 million.

General and Administrative Expenses

General and administrative expenses were \$6.2 million for the three months ended March 31, 2022, compared to \$2.6 million for the three months ended March 31, 2021. During the three months ended March 31, 2022, the change in general and

administrative expenses was attributed to an increase of \$2.2 million in salaries and related benefit costs due to higher headcount, which includes \$1.7 million of equity-based compensation. Additionally, facility costs increased \$0.7 million attributable to insurance, and professional and consulting services expense increased by \$0.4 million.

Other Income (Expense), Net

Other expense, net, was immaterial for the three months ended March 31, 2022. Other expense, net, was \$0.4 million for the three months ended March 31, 2021, which was primarily due to \$0.2 million in interest expense on the debt and \$0.2 million due to the increase in the estimated fair value of the Series E preferred unit warrants.

Liquidity and Capital Resources

Source of Liquidity

We have not generated any revenue from commercial product sales and have incurred significant operating losses and negative cash flows from operations. We have not yet commercialized any products, and we do not expect to generate revenue from sales of commercial products for several years, if at all. We anticipate that we will continue to incur net losses for the foreseeable future. Since our inception, we have devoted substantially all of our resources on organizing and staffing our company, business planning, research and development activities, including the RaniPill platform design, drug formulation, preclinical studies, clinical trials, manufacturing automation and scale up, establishing our intellectual property portfolio, and providing general and administrative support for these operations. To date, we have financed our operations primarily through an IPO, private placements of Rani LLC preferred units and the issuance of convertible promissory notes, with aggregate gross proceeds of \$282.4 million, as well as contract revenue generated from evaluation agreements. In August 2021, we raised net proceeds of \$73.6 million from the IPO. As of March 31, 2022, we had cash and cash equivalents of \$107.8 million.

Since our inception, we have incurred significant losses and negative cash flows from operations. Our net losses were \$13.8 million and \$5.6 million for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, we had an accumulated deficit of \$14.6 million. We expect to continue to incur significant losses for the foreseeable future, and our net losses may fluctuate significantly from period to period, depending on the timing of and expenditures on our planned research and development activities. Until such time as we can generate sufficient revenue from commercial product sales, if ever, we expect to finance our operations through a combination of equity offerings and debt financings, or other capital sources, which may include strategic collaborations or other arrangements with third parties. We may be unable to raise additional funds or to enter into such agreements or arrangements on favorable terms, or at all. If we are unable to raise capital or enter into such agreements as and when needed, we may have to significantly delay, scale back or discontinue the development or commercialization of one or more of our product candidates. Insufficient liquidity may also require us to relinquish rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose.

Tax Receivable Agreement

We entered into a Tax Receivable Agreement with certain of the Continuing LLC Owners in August 2021 in connection with the IPO. The Tax Receivable Agreement provides for our payment to certain of the Continuing LLC Owners of 85% of the amount of tax benefits, if any, that we are deemed to realize as a result of any basis adjustments and certain other tax benefits arising from payments under the Tax Receivable Agreement. We will have in effect an election under Section 754 of the Code effective for each taxable year in which a redemption or exchange (including deemed exchange) of LLC Interests for shares of our Class A common stock or cash occurs. These Tax Receivable Agreement payments are not conditioned upon any continued ownership interest in either the Company or Rani LLC by such Continuing LLC Owners. The rights of such Continuing LLC Owners under the Tax Receivable Agreement are assignable to transferees of their LLC Interests (other than us as transferee pursuant to subsequent redemptions (or exchanges) of the transferred LLC Interests). We expect to benefit from the remaining 15% of tax benefits, if any, that we may realize.

As of March 31, 2022, we have not recorded a liability under the TRA related to the income tax benefits originating from the exchanges of Paired Interest or non-corresponding Class A Units of Rani LLC as it is not probable that the Company will realize such tax benefits. To the extent the Company is able to realize the income tax benefits associated with the exchanges of Paired Interest or non-corresponding Class A Units of Rani LLC subject to the TRA, the TRA payable would range from zero to \$19.9 million at March 31, 2022.

The amounts payable under the TRA will vary depending upon a number of factors, including the amount, character, and timing of the taxable income of the Company in the future. Should the Company determine that the payment of the TRA liability

becomes probable at a future date based on new information, any changes will be recorded on the Company's condensed consolidated statement of operations and comprehensive loss at that time.

Future Funding Requirements

Based on our current operating plan, we estimate that our existing cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements through at least the next twelve months. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we expect. Because of the numerous risks and uncertainties associated with the development of the RaniPill capsule and RaniPill HC and because the extent to which we may enter into strategic collaborations or other arrangements with third parties for development of the RaniPill capsule and RaniPill HC is unknown, we are unable to estimate the timing and amounts of increased capital outlays and operating expenses associated with completing the research and development of our product candidates.

To date, we have not generated any commercial product revenue. We do not expect to generate any commercial product revenue unless and until we obtain regulatory approval and commercialize any of our commercial product candidates, and we do not know when, or if at all, that will occur. We will continue to require additional capital to develop our product candidates and fund operations for the foreseeable future. Our primary uses of cash are to fund our operations, which consist primarily of research and development expenses related to our programs, manufacturing automation and scaleup, and general and administrative expenses. We expect our expenses to continue to increase in connection with our ongoing activities as we continue to advance the RaniPill capsule and RaniPill HC. In addition, we expect to incur additional costs operating as a public company.

We may seek to raise capital through equity offerings or debt financings, collaboration agreements, or other arrangements with other companies, or through other sources of financing. Adequate additional funding may not be available to us on acceptable terms or at all. Our failure to raise capital as and when needed could have a negative impact on our consolidated financial condition and our ability to pursue our business strategies. We anticipate that we will need to raise substantial additional capital, the requirements of which will depend on many factors, including:

- the progress, costs, trial design, results of and timing of our preclinical studies and clinical trials;
- the progress, costs, and results of our research pipeline;
- the willingness of the U.S. Food and Drug Administration (“FDA”), or other regulatory authorities to accept data from our clinical trials, as well as data from our completed and planned clinical trials and preclinical studies and other work, as the basis for review and approval of the RaniPill capsule and RaniPill HC for various indications;
- the outcome, costs, and timing of seeking and obtaining FDA, and any other regulatory approvals;
- the number and characteristics of product candidates that we pursue;
- our ability to manufacture sufficient quantities of the RaniPill capsules;
- our need to expand our research and development activities;
- the costs associated with manufacturing our product candidates, including establishing commercial supplies and sales, marketing, and distribution capabilities;
- the costs associated with securing and establishing commercial infrastructure;
- the costs of acquiring, licensing, or investing in businesses, product candidates, and technologies;
- 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 engineering personnel;
- the effect of competing drugs and product candidates and other market developments;
- the timing, receipt, and amount of sales from our potential products, if approved;
- our ability to establish strategic collaborations;
- our need to implement additional internal systems and infrastructure, including financial and reporting systems;
- security breaches, data losses or other disruptions affecting our information 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 disruptions to and volatility in the credit and financial markets in the United States and worldwide from the COVID-19 pandemic.

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, 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. If we raise funds through collaborations, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs, product candidates or grant licenses on terms that may not be favorable to us. 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. In addition, our ability to raise additional capital may be adversely impacted by potential worsening global economic conditions and the recent disruptions to and volatility in the credit and financial markets in the United States and worldwide resulting from the ongoing COVID-19 pandemic.

Cash Flows

The following table summarizes our cash flows for the periods presented (in thousands):

	Three Months Ended March 31,	
	2022	2021
Net cash used in operating activities	\$ (9,360)	\$ (4,048)
Net cash used in investing activities	(254)	(99)
Net cash provided by financing activities	—	7,751
Net (decrease) increase in cash and cash equivalents	<u>\$ (9,614)</u>	<u>\$ 3,604</u>

Operating Activities

Net cash used in operating activities for the three months ended March 31, 2022 was \$9.4 million, which was primarily attributable to a net loss of \$13.8 million, partially offset by the equity-based compensation expense of \$2.9 million. Additionally there was a decrease of \$0.7 million in prepaid expenses and other assets due to amortization of director and officer liability insurance, as a result of becoming a publicly traded company, and an increase in accrued expenses of \$0.6 million.

Net cash used in operating activities for the three months ended March 31, 2021 was \$4.0 million, which was primarily attributable to a net loss of \$5.6 million, non-cash depreciation and amortization of \$0.1 million, change in the fair value of preferred unit warrant liability of \$0.2 million, and equity-based compensation expense from a secondary sales transaction of \$0.5 million, partially offset by an increase in operating assets and liabilities of \$0.7 million.

Investing Activities

For the three months ended March 31, 2022 and 2021, net cash used in investing activities was \$0.3 million and \$0.1 million, respectively, consisting solely of purchases of property and equipment.

Financing Activities

For the three months ended March 31, 2022, there were no financing activities.

For the three months ended March 31, 2021, cash provided by financing activities was approximately \$7.8 million, consisting of the proceeds from the sale and issuance of our Series E Preferred Units for net proceeds of \$6.3 million, and \$1.7 million of principal payments received from our related party note receivable, partially offset by deferred offering costs of \$0.3 million.

Contractual Obligations and Other Commitments

Rani LLC pays for the use of our facilities through the Rani LLC-ICL Service Agreement and RMS-ICL Service Agreement. As of March 31, 2022, the future aggregate minimum lease payments associated with our service agreements with ICL for fiscal years 2022 (remaining nine months) and 2023 totaled \$0.9 million and \$0.8 million, respectively.

In addition, we enter into agreements in the normal course of business with contract research organizations for clinical trials and with vendors for preclinical studies and other services and products for operating purposes, which are generally cancelable upon written notice.

Critical Accounting Policies and Estimates

This discussion and analysis of financial condition and results of operation is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions. 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 from these estimates under different assumptions or conditions.

For further information on our significant accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 31, 2022.

Recently Adopted Accounting Standards

For a description of the expected impact of recent accounting pronouncements, see “Note 2. Summary of Significant Accounting Policies” in the “Notes to the Unaudited Condensed Consolidated Financial Statements” contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other Information

JOBS Act Accounting Election

We are an “emerging growth company” within the meaning of the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). The JOBS Act permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We are electing to use this extended transition period and we will therefore comply with new or revised accounting standards on the earlier of (i) when they apply to private companies; or (ii) when we lose our emerging growth company status. As a result, our financial statements may not be comparable with companies that comply with public company effective dates for accounting standards. We also rely on other exemptions provided by the JOBS Act, including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act unless we cease to be an emerging growth company.

We will remain an emerging growth company until the earliest of (1) December 31, 2026 (the last day of the fiscal year following the fifth anniversary of the closing of our initial public offering), (2) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.07 billion, (3) the last day of the fiscal year in which we are deemed to be a “large accelerated filer” as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which would occur if the market value of our Class A common stock held by non-affiliates exceeded \$700.0 million as of the last business day of the second fiscal quarter of such year or (4) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15(d)-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 31, 2022.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the three months ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon 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; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in litigation or other legal proceedings. We are not currently a party to any litigation or legal proceedings that, in the opinion of our management, are likely to have a material adverse effect on our business. 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

There have been no material changes to the risk factors disclosed under the heading “Risk Factors” in our most recent Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following is a list of all exhibits filed or furnished as part of this report:

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of the Registrant as currently in effect (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, as amended, filed with the SEC on July 26, 2021).
3.2	Amended and Restated Bylaws of the Registrant as currently in effect (incorporated by reference to Exhibit 3.4 to the Registrant's Registration Statement on Form S-1, as amended, filed with the SEC on July 9, 2021).
4.1	Specimen Class A common stock certificate of the Registrant (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, as amended, filed with the SEC on July 26, 2021).
4.2	Description of Securities (incorporated by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K, filed with the SEC on March 31, 2022).
10.1	Amendment No. 1 to Service Agreement, dated March 21, 2022, by and between Rani Therapeutics, LLC and InCube Labs, LLC (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K, filed with the SEC on March 31, 2022).
10.2+*	Employment Agreement, dated April 12, 2022, by and between Rani Therapeutics, LLC and Eric Groen.
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 and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because 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.
†	The certifications attached as Exhibit 32.1 which accompanies this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.
+	Indicates management contract or compensatory plan.

SIGNATURES

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

Rani Therapeutics Holdings, Inc.

Date: May 11, 2022

By: _____
Talat Imran
Chief Executive Officer
(Principal Executive Officer)

Date: May 11, 2022

By: _____
Svai Sanford
Chief Financial Officer
(Principal Financial and Accounting Officer)

RANI THERAPEUTICS, LLC

April 12, 2022

Eric Groen VIA EMAIL

Re: Employment Agreement

Dear Eric:

You are currently employed by **RANI MANAGEMENT SERVICES, INC.** ("**RMS**") under the terms of an offer letter between you and RMS dated July 29, 2021 (the "**Offer Letter**"). Your employment is being transitioned to Rani Therapeutics, LLC (the "**Company**") and this employment agreement (the "**Agreement**") reflects your new employment terms. Once you accept this Agreement by signing and returning it to the Company, this Agreement shall supersede and replace your Offer Letter in its entirety. This Agreement, together with the other documents and agreements referenced herein, shall then govern the terms of your employment with the Company.

1. EMPLOYMENT BY THE COMPANY.

(a) Position. You will continue to serve as the Company's General Counsel.

(b) Duties and Location. You will continue to perform those duties and responsibilities as are customary for the position of General Counsel and as may be directed by the Chief Executive Officer of the Company, to whom you will report. Your primary office location will be the Company's offices in San Jose, California. Notwithstanding the foregoing, the Company reserves the right to reasonably require you to perform your duties at places other than your primary office location from time to time, and to require reasonable business travel. Subject to the terms of this Agreement, the Company may modify your job title, duties, and reporting relationship as it deems necessary and appropriate in light of the Company's needs and interests from time to time.

(c) Outside Activities. Throughout your employment with the Company, you may engage in civic and not-for-profit activities so long as such activities do not interfere with the performance of your duties hereunder or present a conflict of interest with the Company. During your employment by the Company, except on behalf of the Company, you will not directly or indirectly serve as an officer, director, stockholder, employee, partner, proprietor, investor, joint venturer, associate, representative or consultant of any other person, corporation, firm, partnership or other entity whatsoever known by you to compete with the Company (or is planning or preparing to compete with the Company), anywhere in the world, in any line of business engaged in (or planned to be engaged in) by the Company; provided, however, that you may purchase or otherwise acquire up to (but not more than) one percent (1%) of any class of securities of any enterprise (but without participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange.

2. COMPENSATION AND BENEFITS.

(a) **Base Salary.** You are currently receiving a base salary of \$375,000 per year. Effective April 1, 2022, your base salary will be automatically increased to \$390,000 per year. In all cases, your base salary will be paid on the Company's ordinary payroll cycle, less applicable payroll deductions and withholdings. As an exempt salaried employee, you will be required to work the Company's normal business hours, and such additional time as appropriate for your work assignments and position, and you will not be entitled to overtime compensation.

(b) **Employee Benefits.** As a regular full-time employee, you will be eligible to participate in the Company's standard employee benefits offered to executive level employees, as in effect from time to time and subject to the terms and conditions of the benefit plans and applicable Company policies. A full description of these benefits is available upon request. Subject to the terms of this Agreement, the Company may change your compensation and benefits from time to time in its discretion.

(c) **Annual Bonus.** You are also eligible to earn an annual bonus with a new target amount equal to 75% of your annual base salary. The terms of this bonus will be determined in the sole discretion of the Board of Directors of Rani Therapeutics Holdings, Inc. or the Compensation Committee thereof.

(d) **Equity Compensation.** During the term of your employment, you will be eligible to participate in the Rani Therapeutics Holdings, Inc. 2021 Equity Incentive Plan or any successor plan, subject to the terms of the Plan or successor plan, as determined by the Board of Directors of Rani Therapeutics Holdings, Inc. or its Compensation Committee, in its discretion.

(e) **Severance and Change in Control Benefit Plan.** You will be eligible to participate in the Rani Therapeutics Holdings, Inc. Severance and Change in Control Plan (the "**Severance Plan**") subject to the terms and conditions of the Severance Plan and your Participation Agreement (as defined in the Severance Plan). You acknowledge that any right to severance provided by other agreements or promises made to you by anyone, whether oral or written, is hereby extinguished.

(f) **Expenses.** The Company will reimburse you for reasonable travel, entertainment or other expenses incurred by you in furtherance of or in connection with the performance of your duties hereunder, in accordance with the Company's expense reimbursement policies and practices as in effect from time to time.

3. CONFIDENTIAL INFORMATION. As a Company employee, you will be expected to continue to abide by Company rules and policies including those rules and policies regarding the protection of the Company's confidential information. You are also required to execute the Company's standard form of Confidentiality Agreement, to be provided to you.

4. AT-WILL EMPLOYMENT RELATIONSHIP. Your employment relationship with the Company is at will. Accordingly, you may terminate your employment with the Company at any time and for any reason whatsoever simply by notifying the Company; and the Company may terminate your employment at any time, with or without cause or advance notice.

5.COMPLIANCE WITH OR EXEMPTION FROM SECTION 409A. It is intended that the benefits set forth in this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Internal Revenue Code of 1986, as amended, (the “**Code**”) (Section 409A, together with any state law of similar effect, “**Section 409A**”) provided under Treasury Regulations 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9). With respect to reimbursements or in-kind benefits provided to you hereunder (or otherwise) that are not exempt from Section 409A, the following rules shall apply: (i) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during any one of your taxable years shall not affect the expenses eligible for reimbursement, or in-kind benefit to be provided in any other taxable year, (ii) in the case of any reimbursements of eligible expenses, reimbursement shall be made on or before the last day of your taxable year following the taxable year in which the expense was incurred, (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

6. DISPUTE RESOLUTION.

(a) Arbitration Agreement. To ensure the rapid and economical resolution of disputes that may arise in connection with your employment with the Company, you and the Company agree that any and all disputes, claims, or causes of action, in law or equity, including but not limited to statutory claims, arising from or relating to the enforcement, breach, performance, or interpretation of this Agreement, your employment with the Company, or the termination of your employment, shall be resolved pursuant to the Federal Arbitration Act, 9 U.S.C. § 1-16, to the fullest extent permitted by law, by final, binding and confidential arbitration conducted by JAMS, Inc. or its successor (“**JAMS**”), under JAMS’ then applicable rules and procedures for employment disputes before a single arbitrator (available upon request and also currently available at <http://www.jamsadr.com/rules-employment-arbitration/>). **You acknowledge that by agreeing to this arbitration procedure, both you and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.**

(b) Individual Claims. All claims, disputes, or causes of action under this section, whether by you or the Company, must be brought in an individual capacity, and shall not be brought as a plaintiff (or claimant) or class member in any purported class or representative proceeding, nor joined or consolidated with the claims of any other person or entity. The arbitrator may not consolidate the claims of more than one person or entity, and may not preside over any form of representative or class proceeding. To the extent that the preceding sentences regarding class claims or proceedings are found to violate applicable law or are otherwise found unenforceable, any claim(s) alleged or brought on behalf of a class shall proceed in a court of law rather than by arbitration. This paragraph shall not apply to any action or claim that cannot be subject to mandatory arbitration as a matter of law, including, without limitation, claims brought pursuant to the California Private Attorneys General Act of 2004, as amended, the California Fair Employment and Housing Act, as amended, and the California Labor Code, as amended, to the extent such claims are not permitted by applicable law to be submitted to mandatory arbitration and such applicable law(s) are not preempted by the Federal Arbitration Act or otherwise invalid (collectively, the “**Excluded Claims**”). In the event you intend to bring multiple claims, including one of the Excluded Claims listed above, the Excluded Claims may be publicly filed with a court, while any other claims will remain subject to mandatory arbitration.

(c) **Process.** You will have the right to be represented by legal counsel at any arbitration proceeding. Questions of whether a claim is subject to arbitration under this agreement shall be decided by the arbitrator. Likewise, procedural questions which grow out of the dispute and bear on the final disposition are also matters for the arbitrator. The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written statement signed by the arbitrator regarding the disposition of each claim and the relief, if any, awarded as to each claim, the reasons for the award, and the arbitrator's essential findings and conclusions on which the award is based. The arbitrator shall be authorized to award all relief that you or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS arbitration fees in excess of the administrative fees that you would be required to pay if the dispute were decided in a court of law.

(d) **Injunctive Relief.** Nothing in this letter agreement is intended to prevent either you or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration. Any awards or orders in such arbitrations may be entered and enforced as judgments in the federal and state courts of any competent jurisdiction.

8.MISCELLANEOUS. This Agreement, together with the other agreements referenced herein, forms the complete and exclusive statement of your employment agreement with the Company or its affiliates. It supersedes any other agreements or promises made to you by anyone, whether oral or written, including but not limited to the Offer Letter. Changes in your employment terms, other than those changes expressly reserved to the Company's or the Board's discretion in this Agreement, require a written modification approved by the Company and signed by a duly authorized officer of the Company (other than you). This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination shall not affect any other provision of this Agreement and the provision in question shall be modified so as to be rendered enforceable in a manner consistent with the intent of the parties insofar as possible under applicable law. This Agreement shall be construed and enforced in accordance with the laws of the State of California without regard to conflicts of law principles. Any ambiguity in this Agreement shall not be construed against either party as the drafter. Any waiver of a breach of this Agreement, or rights hereunder, shall be in writing and shall not be deemed to be a waiver of any successive breach or rights hereunder. This Agreement may be delivered and executed via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal E-SIGN Act of 2000, Uniform Electronic Transactions Act or other applicable law) or other transmission method and shall be deemed to have been duly and validly delivered and executed and be valid and effective for all purposes.

SIGNATURE PAGE FOLLOWS

Please sign and date this Agreement and return a signed copy to me on or before April 15, 2022 to confirm your acceptance of this Agreement.

RANI THERAPEUTICS, LLC

/s/ Svai Sanford

Svai Sanford
Chief Financial Officer

Accepted and Agreed:

/s/ Eric Groen April 15, 2022

Eric Groen Date
5

CERTIFICATION

I, Talat Imran, certify that:

1. I have reviewed this Form 10-Q of Rani Therapeutics Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) 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
 - (c) 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: May 11, 2022

/s/ Talat Imran
Talat Imran
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Svai Sanford, certify that:

1. I have reviewed this Form 10-Q of Rani Therapeutics Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) 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
 - (c) 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: May 11, 2022

/s/ Svai Sanford
Svai Sanford
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Talat Imran, Chief Executive Officer of Rani Therapeutics Holdings, Inc. (the “Company”), and Svai Sanford, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2022, to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 11, 2022

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 11th day of May, 2022.

/s/ Talat Imran
Talat Imran
Chief Executive Officer
(Principal Executive Officer)

/s/ Svai Sanford
Svai Sanford
Chief Financial Officer
(Principal Financial and Accounting Officer)

“This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Rani Therapeutics Holdings, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.”
