UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

OR

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

For the transition period from _____ to _____

Commission file number 001-40646

ABSCI CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**85-3383487**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
18105 SE Mill Plain Blvd **Vancouver, WA**	**98683**
(Address of Principal Executive Offices)	(Zip Code)

(360) 949-1041
Registrant's telephone number, including area code

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock. $0.0001 par value	ABSI	The Nasdaq Global Select Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

The registrant had outstanding 92,503,336 shares of $0.0001 par value common stock as of April 24, 2023.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Risk Factors”. Forward-looking statements can often be identified by the use of terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue” or the negative of these terms or other comparable terminology. In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking. In particular, these forward-looking statements include, but are not limited to:

- our expectations regarding our further development of, successful application of, and the rate and degree of market acceptance of, our Integrated Drug Creation platform, including progress towards fully *in silico* biologic drug discovery;
- our expectations regarding our ability to leverage our Integrated Drug Creation platform to shorten preclinical development of biologics;
- our expectations regarding the markets for our services and technologies, including the growth rate of the biologics market;
- our ability to attract new partners and enter into technology development agreements that contain milestone and royalty obligations in favor of us;
- our potential to receive revenue from the achievement of milestones and from royalties on net sales under agreements with our partners with respect to products originating from our Integrated Drug Creation platform;
- our ability to enter into license agreements for our existing Active Programs with those partners who do not have current milestone payment and royalty obligations to us;
- our ability to manage and grow our business by expanding our relationships with existing partners or introducing our Integrated Drug Creation platform to new partners and developing lead drug candidates for our internal drug discovery efforts;
- our expectations regarding our current and future partners’ continued development of, and ability to commercialize, biologic drugs generated utilizing our platform;
- our estimates of our expenses, ongoing losses, future revenue, capital requirements and our need for or ability to obtain additional funding before we can expect to generate additional revenue;
- our estimates of the sufficiency of our cash and cash equivalents and short-term investments;
- our ability to establish, maintain or expand collaborations, partnerships or strategic relationships;
- our ability to provide our partners with a full biologic drug discovery and cell line development solution from target to Investigational New Drug application IND-ready, including non-standard amino acid incorporation capabilities;
- our ability to obtain, maintain and enforce intellectual property protection for our platform, products and technologies, the duration of such protection and our ability to operate our business without infringing on the intellectual property rights of others;
- our ability to attract, hire and retain key personnel and to manage our growth effectively;
- our expectations regarding use of our cash and cash equivalents and short-term investments, including the proceeds from our initial public offering;

- our financial performance and that of companies in our industry and the financial markets generally;
- the volatility of the trading price of our common stock;
- our competitive position and the development of and projections relating to our competitors or our industry;
- the impact of laws and regulations;
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act of 2012 (JOBS Act); and
- global economic conditions, including market volatility, acts of war and civil and political unrest, and our expectations about market trends and effects from inflation.

We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, and expectations disclosed in the forward-looking statements we make. Moreover, we operate in a competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, collaborations, joint ventures, or investments we may make or enter into.

You should read this Quarterly Report and the documents that we file with the Securities and Exchange Commission, or the SEC, with the understanding that our actual future results may be materially different from what we expect. The forward-looking statements contained in this Quarterly Report are made as of the date of this Quarterly Report, and we do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

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

Except as otherwise indicated, references in this Quarterly Report on Form 10-Q to “Absci,” the “Company,” “we,” “us” and “our” refer to Absci Corporation and its subsidiaries.

Trademarks

This Quarterly Report on Form 10-Q contains references to our trademarks and service marks and to those belonging to third parties. Absci®, SoluPro® and SoluPure® are our registered trademarks with the U.S. Patent and Trademark Office. We also use various other trademarks, service marks and trade names in our business, including the Absci logo, HiPrBind, Bionic proteins, Translating Ideas into Drugs, Bionic SoluPro, Integrated Drug Creation, Unlimit with us, Denovium, and Denovium Engine. All other trademarks, service marks or trade names referred to in this Quarterly Report on Form 10-Q are the property of their respective owners. Solely for convenience, the trademarks and trade names in this Quarterly Report on Form 10-Q may be referred to with or without the ® and ™ symbols, but references which omit the ® and ™ symbols should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

Availability of Other Information about Absci

Investors and others should note that we routinely communicate with investors and the public using our website (www.absci.com) and our investor relations website (investors.absci.com) free of charge, including without limitation, through the posting of investor presentations, SEC filings (including amendments and exhibits to such filings as soon as reasonably practicable after filed with or furnished to the SEC), press releases, public conference calls and webcasts on these websites, as well as on Twitter, LinkedIn and YouTube. The information that we post on these websites and social media outlets could be deemed to be material information. As a result, investors, the media, and others interested in Absci are encouraged to review this

information on a regular basis. The contents of our website and social media postings, or any other website that may be accessed from our website or social media postings, shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

Part I. Financial Information

Item 1. Financial Statements

ABSCI CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share data)	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,409	$ 59,955
Restricted cash	15,027	15,023
Short-term investments	132,849	104,476
Receivables under development arrangements, net	1,326	1,550
Prepaid expenses and other current assets	4,706	5,859
Total current assets	165,317	186,863
Operating lease right-of-use assets	5,106	5,319
Property and equipment, net	50,166	52,723
Intangibles, net	50,780	51,622
Goodwill	21,335	21,335
Restricted cash, long-term	1,882	1,864
Other long-term assets	1,222	1,282
TOTAL ASSETS	$ 295,808	$ 321,008
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,933	$ 2,412
Accrued expenses	18,089	20,481
Long-term debt	3,078	2,946
Operating lease obligations	1,712	1,690
Financing lease obligations	2,030	2,296
Deferred revenue	359	445
Total current liabilities	27,201	30,270
Long-term debt - net of current portion	7,190	7,984
Operating lease obligations - net of current portion	6,881	7,317
Finance lease obligations - net of current portion	347	750
Deferred tax, net	224	238
Other long-term liabilities	—	35
TOTAL LIABILITIES	41,843	46,594
Commitments (See Note 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized as of March 31, 2023 and December 31, 2022; 0 shares issued and outstanding as of March 31, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value; 500,000,000 shares authorized as of March 31, 2023 and December 31, 2022; 92,481,972 and 92,411,103 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	9	9
Additional paid-in capital	573,335	570,454
Accumulated deficit	(319,284)	(295,929)
Accumulated other comprehensive loss	(95)	(120)
TOTAL STOCKHOLDERS' EQUITY	253,965	274,414
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 295,808	$ 321,008

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

ABSCI CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the Three Months Ended March 31,	
(In thousands, except for share and per share data)	**2023**	**2022**
Revenues		
Technology development revenue	$ 1,269	$ 454
Collaboration revenue	—	365
Total revenues	1,269	819
Operating expenses		
Research and development	12,657	15,827
Selling, general and administrative	9,593	10,889
Depreciation and amortization	3,504	2,906
Total operating expenses	25,754	29,622
Operating loss	(24,485)	(28,803)
Other income (expense)		
Interest expense	(321)	(195)
Other income, net	1,458	125
Total other income (expense), net	1,137	(70)
Loss before income taxes	(23,348)	(28,873)
Income tax expense	(7)	(621)
Net loss	$ (23,355)	$ (29,494)
Net loss per share: Basic and diluted	$ (0.26)	$ (0.33)
Weighted-average common shares outstanding: Basic and diluted	91,479,452	90,272,205
Comprehensive loss:		
Net loss	$ (23,355)	$ (29,494)
Foreign currency translation adjustments	(14)	(10)
Unrealized gain on investments	39	—
Comprehensive loss	$ (23,330)	$ (29,504)

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

ABSCI CORPORATION
UNAUDITED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except for share and per share data)	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances - December 31, 2022	92,411,103	$ 9	$ 570,454	$ (295,929)	$ (120)	$ 274,414
Issuance of shares under stock plans, net of shares withheld for tax payments	171,899	—	229	—	—	229
Stock-based compensation	—	—	2,652	—	—	2,652
Forfeiture of common stock	(101,030)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	(14)	(14)
Unrealized gain on investments	—	—	—	—	39	39
Other	—	—	—	—	—	—
Net loss	—	—	—	(23,355)	—	(23,355)
Balances - March 31, 2023	92,481,972	$ 9	$ 573,335	$ (319,284)	$ (95)	$ 253,965

(In thousands, except for share and per share data)	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances - December 31, 2021	92,648,036	$ 9	$ 557,136	$ (191,025)	$ (13)	$ 366,107
Issuance of shares under stock plans, net of shares withheld for tax payments	187,151		213	—	—	213
Stock-based compensation	—	—	3,680	—	—	3,680
Foreign currency translation adjustments	—	—	—	—	(10)	(10)
Net loss	—	—	—	(29,494)	—	(29,494)
Balances - March 31, 2022	92,835,187	$ 9	$ 561,029	$ (220,519)	$ (23)	$ 340,496

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

ABSCI CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
(In thousands)	**2023**	**2022**
Cash Flows From Operating Activities		
Net loss	(23,355)	(29,494)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,504	2,906
Deferred income taxes	(14)	616
Stock-based compensation	2,652	3,740
Change in fair value of contingent consideration	—	750
Accretion of discount on short-term investments	(832)	—
Other	(338)	—
Changes in operating assets and liabilities:		
Receivables under development arrangements	247	1,074
Prepaid expenses and other current assets	1,153	1,801
Operating lease right-of-use assets and liabilities	(201)	(86)
Other long-term assets	60	—
Accounts payable	(482)	637
Accrued expenses and other liabilities	(2,427)	(4,531)
Deferred revenue	(86)	1,438
Net cash used in operating activities	(20,119)	(21,149)
Cash Flows From Investing Activities		
Purchases of property and equipment	(280)	(6,857)
Investment in short-term investments	(69,073)	—
Proceeds from maturities of short-term investments	42,000	—
Proceeds from sales of property and equipment	52	—
Net cash used in investing activities	(27,301)	(6,857)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(662)	(600)
Principal payments on finance lease obligations	(671)	(671)
Proceeds from issuance of common stock, net of issuance costs	229	213
Net cash used in financing activities	(1,104)	(1,058)
Net decrease in cash, cash equivalents, and restricted cash	(48,524)	(29,064)
Cash, cash equivalents and restricted cash - Beginning of year	76,842	279,926
Cash, cash equivalents, and restricted cash - End of period	$ 28,318	$ 250,862
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Cash paid for amounts included in the measurement of operating lease liabilities	596	565
Property and equipment purchases included in accounts payable	126	3,282

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

1. Organization and nature of operations

Absci Corporation (the “Company”) is a generative AI drug creation company harnessing deep learning and synthetic biology to expand the therapeutic potential of proteins. Absci leverages its integrated drug creation platform (the “Integrated Drug Creation Platform”) to identify novel drug targets and create promising biotherapeutic candidates. The Company was organized in the State of Oregon in August 2011 as a limited liability company and converted to a limited liability company (“LLC”) in Delaware in April 2016. In October 2020, the Company converted from a Delaware LLC to a Delaware corporation. The Company’s headquarters are located in Vancouver, Washington.

Unaudited Interim Financial Information

We prepared our interim condensed consolidated financial statements that accompany these notes in conformity with U.S. GAAP, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 31, 2022.

We have made estimates and judgments affecting the amounts reported in our condensed consolidated financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. The interim financial information is unaudited and reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. This report should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2022 where we include additional information about our critical accounting estimates.

2. Summary of significant accounting policies

Basis of presentation

The condensed consolidated financial statements are prepared in accordance with U.S. GAAP as defined by the Financial Accounting Standards Board (“FASB”). The condensed consolidated financial statements include the Company’s wholly-owned subsidiaries and entities under its control. The Company has eliminated all intercompany transactions and accounts.

There have been no material changes in the accounting policies from those disclosed in the audited consolidated financial statements and the related notes included in the Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 30, 2022.

3. Revenue recognition

Contract balances

Contract assets are generated when contractual billing schedules differ from revenue recognition timing and the Company records a contract asset when it has an unconditional right to consideration. As of March 31, 2023 and December 31, 2022, contract assets were $1.3 million and $1.1 million, respectively.

Contract liabilities are recorded in deferred revenue when cash payments are received or due in advance of the satisfaction of performance obligations. As of March 31, 2023 and December 31, 2022, contract liabilities were $0.4 million and $0.4 million, respectively. During the three months ended March 31, 2023 and 2022, the Company recognized $0.1 million and $0.4 million, respectively, as revenue that had been included in deferred revenue at the beginning of the period.

4. Investments

Cash equivalents, marketable securities and deposits are classified as available-for-sale and are, therefore, recorded at fair value on the condensed consolidated balance sheet, with any unrealized gains and losses reported in accumulated other comprehensive income (loss), which is reflected as a separate component of stockholders’ equity in the Company’s condensed consolidated balance sheet, until realized. The Company

considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The amortized cost and fair value of investments are as follows (in thousands):

	March 31, 2023			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair market value
Assets				
Money market funds	$ 5,497	$ —	$ —	$ 5,497
Certificates of deposit	58,169	—	—	58,169
U.S. treasury bills	74,682	7	(9)	74,680
Total	$ 138,348	$ 7	$ (9)	$ 138,346
Classified as:				
Cash equivalents				$ 5,497
Short-term investments				132,849
Long-term investments				—
Total				$ 138,346

	December 31, 2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair market value
Assets				
Money market funds	$ 5,050	$ —	$ —	$ 5,050
Certificates of deposit	27,740	—	—	27,740
U.S. treasury bills	76,777	2	(43)	76,736
Total	$ 109,567	$ 2	$ (43)	$ 109,526
Classified as:				
Cash equivalents				$ 5,050
Short-term investments				104,476
Long-term investments				—
Total				$ 109,526

Investments held as of March 31, 2023 consist of cash equivalents with contractual maturities of three months or less and U.S. treasury bills with original maturities between four and six months. Proceeds from maturities of U.S. treasury bills were $42.0 million for the three months ended March 31, 2023. There were no realized gains and losses on securities for the three months ended March 31, 2023. Unrealized gains and losses on securities were primarily due to changes in interest rates.

The fair values of investments in an unrealized loss position are as follows (in thousands):

	March 31, 2023			
	Less than 12 Months		12 Months or Greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. treasury bills	$ 54,009	$ (9)	—	—
Total	$ 54,009	$ (9)	$ —	$ —

	December 31, 2022			
	Less than 12 Months		12 Months or Greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. treasury bills	$ 61,845	$ (43)	—	—
Total	$ 61,845	$ (43)	$ —	$ —

The Company does not intend to sell securities that are in an unrealized loss position and believes that it is not more likely than not that it will be required to sell these securities before recovery of amortized cost. The Company held no investments as of March 31, 2022.

5. Property and equipment, net

Property and equipment consist of the following (in thousands):

	March 31, 2023	December 31, 2022
Construction in progress	$ 39	$ 293
Lab Equipment	34,400	34,168
Software	298	298
Furniture, Fixtures and Other	6,308	6,307
Leasehold Improvements	26,921	26,860
Total Cost	67,966	67,926
Less accumulated depreciation and amortization	(17,800)	(15,203)
Property and equipment, net	$ 50,166	$ 52,723

Depreciation expense was $2.7 million and $2.1 million for the three months ended March 31, 2023 and 2022, respectively.

6. Intangibles, net

Intangible assets are as follows (in thousands):

	March 31, 2023			December 31, 2022		
	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
Denovium Engine	2,507	(1,101)	1,406	2,507	(975)	1,532
Monoclonal antibody library	46,300	(4,218)	42,082	46,300	(3,640)	42,660
Developed software platform and the related methods patents	8,300	(1,008)	7,292	8,300	(870)	7,430
Intangible assets, net	$ 57,107	$ (6,327)	$ 50,780	$ 57,107	$ (5,485)	$ 51,622

Amortization expense related to intangible assets was $0.8 million and $0.8 million for the three months ended March 31, 2023 and 2022, respectively, and is reflected within depreciation and amortization expense on the condensed consolidated statement of operations and comprehensive loss.

Future amortization expense for the Company's intangible assets as of March 31, 2023 are estimated as follows (in thousands):

Years Ending December 31:	
2023 (nine months remaining)	$ 2,528
2024	3,370
2025	3,370
2026	2,897
2027	2,868

7. Long-term debt and other borrowings

Equipment Financing

In 2022, the Company received a total of $12.0 million of proceeds from equipment financing arrangements. Terms of the agreements require monthly payments over 42-48 month maturities with imputed interest rates ranging 8%-10%. All outstanding principal and accrued and unpaid interest are due and payable at maturity. These loans are secured by certain tangible assets of the Company, include certain financial covenants, and contain subjective acceleration clauses that allow for outstanding amounts under the agreement to become immediately due in the event of a material adverse change in the Company's business condition or change in control. The Company was in compliance with all applicable financial covenants as of March 31, 2023.

The carrying amount of the long-term debt approximates fair value.

8. Commitments and contingencies

As of March 31, 2023, future lease payments are secured by irrevocable standby letters of credit totaling $1.9 million. The irrevocable standby letters of credit are expected to be pledged for the full lease terms which extend through 2024 and 2028 for each of the Company's facility leases.

The Company is not currently party to any material claims or legal proceedings. At each reporting date, the Company evaluates whether or not a potential loss or a potential range of loss is both probable and reasonably estimable.

9. Stock-based compensation

The Company grants stock options, restricted stock units, and stock appreciation rights ("SARs") under the 2021 Stock Option and Incentive Plan ("2021 Plan") as awards to incentivize employee service. On January 1,

2023, the number of shares of common stock reserved for future issuance under the 2021 Plan was increased by 4,620,555 shares pursuant to an automatic annual increase. As of March 31, 2023, 7,356,956 shares were available for issuance under the 2021 Plan.

Total stock-based compensation expense related to all of the Company's stock-based awards was recorded in the condensed consolidated statements of operations and comprehensive loss as follows (in thousands):

	For the Three Months Ended March 31,	
	2023	2022
Research and development	$ 1,193	$ 1,423
Selling, general and administrative	1,473	2,357
Total stock-based compensation expense	$ 2,666	$ 3,780

Stock Options

Stock options generally vest 25% after one year from the date of the grant with the remainder vesting monthly over the following three-year period. Certain options have alternative vesting schedules including ratably over 1-4 years and immediate vesting. The Company recognizes forfeitures as they occur and uses the straight-line expense recognition method. Activity for stock options is shown below:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands $)
Outstanding at December 31, 2022	11,429,399	$ 4.49	8.4	$ 2,949
Granted	6,744,860	2.05		
Exercised	(54,774)	1.10		36
Canceled/Forfeited	(545,645)	3.72		
Expired	(60,273)	7.25		
Outstanding at March 31, 2023	17,513,567	3.58	8.9	1,861
Exercisable at March 31, 2023	3,697,451	$ 3.81	7.1	$ 1,376
Vested and expected to vest as of March 31, 2023	17,513,567	$ 3.58	8.9	$ 1,861

The aggregate intrinsic value of outstanding stock options as of March 31, 2023 was calculated based on the fair value of common stock of $1.75 per share.

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2023 and 2022 was $1.46 and $4.49, respectively. The grant date fair value of options vested during the three months ended March 31, 2023 and 2022 was $3.5 million and $0.8 million, respectively. As of March 31, 2023, total unrecognized stock-based compensation related to stock options was $31.2 million, which the Company expects to recognize over a remaining weighted average period of 3.0 years.

Determination of Fair Value

The estimated grant-date fair value of all the Company's stock options was calculated using the Black-Scholes option pricing model, based on the following assumptions:

	For the Three Months Ended March 31,	
	2023	2022
Expected term (in years)	5.3-6.1	5.7-7.0
Volatility	79%-80%	63%-67%
Risk-free interest rate	3.4%-4.2%	0.8%-2.2%
Dividend Yield	—%	—%

Restricted Stock

Activity for the shares of restricted stock is shown below:

	Number of shares
Unvested as of December 31, 2022	1,013,308
Forfeitures	(101,030)
Vested	(120,751)
Unvested as of March 31, 2023	791,527

As of March 31, 2023, there was $1.8 million of unrecognized compensation expense related to the outstanding shares of restricted stock expected to be recognized over a remaining weighted-average period of 1.8 years.

Stock Appreciation Rights

In January 2021, the Company issued SARs that are contingent upon a liquidity event that is not probable of occurrence; accordingly, no compensation expense has been recognized for these awards. The aggregate intrinsic value of the 394,736 SARs outstanding as of March 31, 2023 is $0.7 million based on the Company's closing stock price of $1.75 per share as reported on the Nasdaq Global Select Market on such date.

Under the Company's 2020 Stock Option and Grant Plan and 2021 Plan, the Company has also granted a limited quantity of cash-settled SARs to certain employees and consultants based outside the United States. As of March 31, 2023, 202,570 of these SARs were outstanding with a weighted average exercise price of $4.34 per share. The fair value is remeasured at the end of each reporting period based on the Company's stock price, with remeasurements reflected as an adjustment to compensation expense in the condensed consolidated statements of operations and comprehensive loss for such period. As of March 31, 2023 and December 31, 2022, the Company had recognized no liability for SARs classified within other long-term liabilities on the condensed consolidated balance sheets.

Employee Stock Purchase Plan

In July 2021, the Company's Board of Directors adopted the 2021 Employee Stock Purchase Plan ("2021 ESPP"), which was subsequently approved by the Company's stockholders and became effective in connection with the Company's initial public offering. The ESPP allows eligible employees to purchase shares of the Company's common stock through payroll deductions of up to 15% of their regular compensation at a discount of 85% of the fair market value of the Company's common stock on the first day or last day, whichever is less, of the applicable offering period, subject to any plan limitations. A total of 903,750 shares of common stock were reserved for issuance under the 2021 ESPP. On January 1, 2023, the number of shares of common stock reserved for issuance under the 2021 ESPP was increased by 924,111 shares pursuant to an automatic annual increase. As of March 31, 2023, 1,713,090 shares were available for issuance under the 2021 ESPP.

10. Fair Value Measurements

The Financial Accounting Standards Board ("FASB") has defined fair value to establish a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

When quoted market prices are available in active markets, the fair value of assets and liabilities is estimated within Level 1 of the valuation hierarchy.

If quoted prices are not available, then fair values are estimated by using pricing models, quoted prices of assets and liabilities with similar characteristics, or discounted cash flows, within Level 2 of the valuation hierarchy. In cases where Level 1 or Level 2 inputs are not available, the fair values are estimated by using inputs within Level 3 of the hierarchy.

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2023 and December 31, 2022 (in thousands):

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Debt Securities:				
Money market funds	$ 5,497	$ —	$ —	$ 5,497
Certificates of deposit	58,169	—	—	58,169
U.S. treasury bills	74,680	—	—	74,680
Total assets	$ 138,346	$ —	$ —	$ 138,346
Liabilities:				
Contingent consideration	$ —	$ —	$ 12,750	$ 12,750
Total liabilities	$ —	$ —	$ 12,750	$ 12,750

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Debt Securities:				
Money market funds	$ 5,050	$ —	$ —	$ 5,050
Certificates of deposit	27,740	—	—	27,740
U.S. treasury bills	76,736	—	—	76,736
Total assets	$ 109,526	$ —	$ —	$ 109,526
Liabilities:				
Contingent consideration	$ —	$ —	$ 12,750	$ 12,750
Total liabilities	$ —	$ —	$ 12,750	$ 12,750

The following table provides reconciliation for all liabilities measured at fair value using significant unobservable inputs (Level 3) for the three months ended March 31, 2023 (in thousands):

	Contingent consideration	Total liabilities
Balance at December 31, 2022	$ 12,750	$ 12,750
Change in fair value during 2023	—	—
Balance at March 31, 2023	$ 12,750	$ 12,750

We review trading activity and pricing for our available-for-sale securities as of the measurement date.

The contingent consideration liability is related to the acquisition of Totient, Inc. and is included in accrued expenses on the condensed consolidated balance sheet as of March 31, 2023. The fair value estimate is based on a probability-weighted approach. Changes in fair value of the contingent consideration liability are included within research and development expense on the condensed consolidated statement of operations. The contingent consideration of $15.0 million held in escrow shall be paid upon the achievement of specific milestones and is included in restricted cash on the condensed consolidated balance sheet as of March 31, 2023.

There are significant judgments, assumptions and estimates inherent in the determination of the fair value of each of the instruments described above. In the future, depending on the valuation approaches used and the expected timing and weighting of each, the inputs described above, or other inputs, may have a greater or lesser impact on the Company's estimates of fair value.

11. Net loss per share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period.

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

	For the Three Months Ended March 31,	
	2023	2022
Numerator:		
Net loss	$ (23,355)	$ (29,494)
Denominator:		
Weighted-average common shares outstanding	91,479,452	90,272,205
Net loss per share, basic and diluted	$ (0.26)	$ (0.33)

The common stock issuable upon the conversion or exercise of the following dilutive securities has been excluded from the diluted net loss per share calculation because their effect would have been anti-dilutive. Diluted net loss per share, therefore, does not differ from basic net loss per share for the periods presented.

Potentially dilutive securities not included in the calculation of diluted net loss per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares):

	For the Three Months Ended March 31,	
	2023	2022
Stock options	13,770,552	9,485,792
Restricted stock units	34,546	28,785
Unvested restricted stock	876,859	2,481,050

12. Income taxes

The Company's effective income tax rate from continuing operations was 0.0% and 2.2% for the three months ended March 31, 2023 and 2022, respectively. The difference between the effective rate and the statutory rate is primarily attributed to the change in the valuation allowance against net deferred tax assets.

The Company estimates an annual effective income tax rate based on projected results for the year and applies this rate to income before taxes to calculate income tax expense. When applicable, the income tax provision also includes adjustments for discrete tax items. Any refinements made due to subsequent information that affects the estimated annual effective income tax rate are reflected as adjustments in the current period.

The Company recognizes the effect of income tax positions only if those positions are "more likely than not" of being sustained. As of March 31, 2023, the Company has $1.5 million of unrecognized tax benefits. Interest and penalties accrued on unrecognized tax benefits are recorded as tax expense within the condensed consolidated financial statements. The Company does not expect a significant increase or decrease to the total amounts of unrecognized tax benefits within the next twelve months.

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

Overview

We are a generative AI drug creation company harnessing deep learning and synthetic biology to expand the therapeutic potential of proteins. We leverage our Integrated Drug Creation platform to identify novel drug targets and create encouraging biotherapeutic candidates. We believe our approach enables us, and our partners, to develop novel biologics that are optimized for many traits at disruptive speed.

We couple our powerful deep learning AI models, built to understand and predict determinants of protein function, with our proprietary synthetic biology capabilities, which include high-throughput single-cell assays that can evaluate billions of drug sequence variants, each within its production cell line, for target binding affinity, protein quality, and production level (titer). This combination of *in silico* modeling with wet lab testing allows us to generate immense real-world datasets that we harness to train and refine our deep learning models. These models guide our protein and cell line designs and enable *in silico* optimization of multiple attributes. Our target platform technology (formerly "Totient") uses machine learning computational methods to evaluate patient tissue samples and, without biological bias, identify disease-relevant fully human antibodies and their disease- and tissue-specific molecular targets. In addition to the direct utility of these antibodies and targets as drug discovery assets, these data comprising antibody-epitope recognition elements expand our AI models' training sets and may improve predictive capabilities for future discovery campaigns.

Through iterative AI predictions, wet lab validation, and AI training, we enable a virtuous cycle that we believe will accelerate us toward fully *in silico* biologic drug discovery. Our unique Integrated Drug Creation approach has the potential to significantly shorten preclinical development timelines and expand therapeutic possibilities.

Our goal is to become the technology leader in biologic drug creation. Our business model is to use our platform for the rapid creation of biologic drug candidates by:

Establishing partnerships with stakeholders in the drug development life cycle: We develop drug candidates for partners, including those who are responsible for preclinical and clinical testing of biologics generated by our platform. Our partnerships will provide us with the opportunity to participate in the future success of the biologics generated utilizing our platform, through potential clinical, regulatory and commercial milestone payments as well as royalties on net sales of approved products. We aim to assemble economic interests in a diversified portfolio of partners' biologics across multiple indications.

Developing our own drug discovery pipeline: We intend to develop drug candidates for our own drug discovery pipeline. With the ability to find both targets and lead candidates, we intend to develop promising lead candidates to up to the investigational drug application IND stage or later. This will increase the value of our assets and serve as further validation of our platform. We may enter into clinical trials and/or manufacturing partnerships to advance a lead candidate.

Total revenue was $1.3 million for the three months ended March 31, 2023 compared to $0.8 million for the three months ended March 31, 2022, due to timing of project-based milestones achieved and the mix of ongoing programs utilizing our Integrated Drug Creation platform. For the three months ended March 31, 2023 and 2022, we incurred net losses of $23.4 million and $29.5 million, respectively. Research and development expenses decreased by $3.2 million, or 20%, for the three months ended March 31, 2023 compared to the three months ended March 31, 2022. As of March 31, 2023, we had an accumulated deficit of $319.3 million and cash and cash equivalents and short-term investments totaling $144.3 million.

We expect to continue to incur significant expenses in connection with our ongoing activities, including as we:

- implement an effective business development strategy to drive adoption of our Integrated Drug Creation platform by new and existing partners;

- continue to engage in research and development efforts and scale our technology development activities to meet potential demand at a reasonable cost;
- develop, acquire, in-license or otherwise obtain technologies that enable us to expand our platform capabilities;
- attract, retain and motivate highly qualified personnel;
- implement operational, financial and management information systems; and
- continue to operate as a public company.

Our corporate headquarters and primary research and development facilities are located in Vancouver, Washington in a 77,974 square foot facility that includes general administrative office space and laboratory space. Our AI Research Lab is located in New York, New York and our Innovation Center is located in Zug, Switzerland. Additionally, we have research and development presence in Belgrade, Serbia.

Key Factors Affecting Our Results of Operations and Future Performance

We believe that our future financial performance will be primarily driven by multiple factors as described below, each of which presents growth opportunities for our business. These factors also pose important challenges that we must successfully address in order to sustain our growth and improve our results of operations. Our ability to successfully address these challenges is subject to various risks and uncertainties, including those described in the section of this Quarterly Report titled “Risk Factors”.

- **Establish new partnerships:** Our potential to grow revenue and long-term earnings will require us to successfully identify and establish technology development arrangements with new partners. We have been expanding and expect to continue to expand our business development team and our capabilities to find new partners.
- **Increase the number of programs under existing partnerships:** The execution of our long-term strategy relies substantially on the value our partners believe can be recognized from our programs. Our continued growth depends on our ability to expand the scope of our existing partnerships and add new molecules for Discovery or CLD partnerships with current partners.
- **Successfully complete our technology development activities and enter licensing arrangements with our partners:** Our business model depends upon entering into licensing arrangements with our partners to advance the drug candidates which we generate through clinical development to commercialization. Both our ability to successfully complete technology development activities to meet the needs of a partner, and the partner’s prioritization of the subject program, impact the likelihood and timing of any election by a partner to enter into a licensing arrangement. There is no assurance that a partner will elect to license.
- **Our partners successfully developing and commercializing the drug candidates generated with our technology:** Our business model is dependent on the eventual progression of biologic drug candidates discovered or initially developed utilizing our Integrated Drug Creation platform into clinical trials and commercialization. Given the nature of our relationships with our partners, we do not control the progression, clinical development, regulatory strategy, public disclosure or eventual commercialization, if approved, of these product candidates. As a result, our future success and our potential eligibility to receive milestone payments and royalties are entirely dependent on our partners’ efforts over which we have no control. The timing and scope of any approval that may be required by the U.S. Food and Drug Administration (FDA), or any other regulatory body, for drugs that are developed based on molecules discovered and/or manufactured using our Integrated Drug Creation platform technologies can significantly impact our results of operations and future performance.
- **Continued significant investments in our research and development of new technologies and platform expansion:** We are seeking to further refine and expand our platform and the scope of our capabilities, which may or may not be successful. This includes, but is not limited to, novel target identification, *de novo* discovery, incorporation of non-standard amino acids (Bionic protein creation), and application of artificial intelligence across our Integrated Drug Creation platform. We may also invest significantly in developing our own proprietary lead drug candidates and advancing

them through preclinical, or later, validation. We expect to incur significant expenses to advance these research and development efforts or to invest in or acquire complementary technologies, but these efforts may not be successful.

- **Create our proprietary asset pipeline.** We intend to selectively create our own lead drug candidates and advance them up to the IND stage or later. In some cases we may out-license or transfer drug candidates for clinical advancement by a partner, with the expectation of a greater share in the economics relative to the milestones and royalties we may secure for our core platform technology development licenses.
- **Drive commercial adoption of our Integrated Drug Creation platform capabilities:** Driving the adoption of our Integrated Drug Creation platform across existing and new markets will require significant investment. We plan to further invest in research and development to support the expansion of our platform capabilities including new molecules to existing partners or help deliver our platform to new markets.

Key Business Metrics

We continue to identify key business metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. Currently, given our stage of development, we believe that the following metrics are the most important for understanding our current business trajectory. These metrics may change or may be substituted for additional or different metrics as our business develops. For example, as our business matures and to the extent drug candidates generated with our technologies enter clinical development, or as we may enter partnerships addressing programs over multiple years, or as certain programs may be discontinued by partners, we anticipate updating these metrics to reflect such changes.

	March 31, 2023	December 31, 2022
Partners, Cumulative [1]	20	19
Programs, Cumulative [2]	48	47
Active Programs [3]	17	16

[1] Partners represents the unique number of partners with whom we have executed technology development agreements. We view this metric as an indication of our ability to execute our business development activities and level of our market penetration.

[2] Programs represents the number of molecules we have addressed or are addressing with our platform. We view this metric as an indication of the robustness of our technology and the commercial success of our platform.

[3] Active Programs represents the number of programs that are subject to ongoing technology development activities intended to determine if the program can be pursued by our partner for future clinical development, as well as any program for which our partner obtains and maintains a license to our technology to advance the program after completion of the technology development phase. There is no assurance, however, that our partners will advance any drug candidates that are currently the subject of Active Programs into further preclinical or clinical development or that our partners will elect to license our technologies upon completion of the technology development phase in a timely manner, or at all. In light of the inherent risks and uncertainties associated with drug development, we anticipate that our partners may from time to time abandon or terminate the development of one or more drug candidates generated from our platform. As we are notified of such terminations, we will remove the subject programs from our Active Programs count.

We classify our applications into two key categories: Discovery and Cell Line Development (“CLD”). We define “Discovery” as any projects for which we are evaluating variants of the protein-of-interest, which may include generation of the production cell line, and we define CLD as a program for which the production cell line alone is the goal of the partnership.

As of March 31, 2023, we had drug candidates in 17 Active Programs across six current partners' preclinical or clinical pipelines. We have negotiated license agreements, or expect to negotiate license agreements upon completion of certain technology development activities, with potential downstream milestone payments and royalties for all Active Programs.

We have 14 Active Programs comprising Discovery applications consisting of three through our agreement with Merck & Co., Inc., three through our agreement with EQRx, seven with an undisclosed biotechnology company, and one with an undisclosed biotechnology company leveraging our platform capabilities to optimize pharmacokinetic properties for a Phase II candidate. Three Active Programs are focused on developing production cell lines for drug candidates that our partners are developing. Two of these CLD Active Programs are preclinical and one is in Phase 3 (PhaseBio Pharmaceuticals' drug candidate, bentracimab, assumed by SFJ Pharmaceuticals, Inc. in January 2023).

Exclusive of our 17 Active Programs with partners, we have utilized our platform to perform technology development activities related to 31 additional molecules. These programs include both internal research programs and technology development programs with third parties intended to demonstrate our platform's capabilities as we address successively broader ranges of biologics and modalities. We have not transferred technology or granted licenses related to these programs.

We have not negotiated terms for a sufficient number of royalty- and milestone-bearing licenses to enable us to make accurate predictions regarding our potential revenue and financial performance.

Components of Results of Operations

Revenue

Our revenue currently consists primarily of fees earned from our partners in conjunction with technology development agreements (TDAs) and partnership agreements, which are delineated as technology development revenue in our results of operations. These fees are earned and paid at various points throughout the terms of these agreements including upfront, upon the achievement of specified project-based milestones, and throughout the program.

We expect revenue to increase over time as we enter into additional partnership agreements and as our partnerships continue to include more drug discovery activities. We expect revenue to increase over time as we grant licenses to our partners for the clinical and commercial use of intellectual property rights to the biological assets we create, and as the partners advance product candidates into and through clinical development and commercialization. We expect that our revenue will fluctuate from period to period due to the timing of executing additional partnerships, the uncertainty of the timing of milestone achievements and our dependence on the program decisions of our partners.

Operating Expenses

Research and Development

Research and development expenses include the cost of materials, personnel-related costs (comprised of salaries, benefits and share-based compensation) for personnel performing research and development functions, consulting fees, equipment and allocated facility costs (including occupancy and information technology). These expenses are exclusive of depreciation and amortization. Research and development activities consist of continued development of our Integrated Drug Creation platform, internal pipeline, target discovery and technology development for partners. We derive improvements to our platform from each type of activity. Research and development efforts apply to our platform broadly and across programs.

We expect research and development expenses to continue to increase in absolute dollars over the long-term as we enter into additional partnerships, continue to invest in platform enhancements, and develop our internal pipeline.

Selling, General, and Administrative

Selling, general, and administrative expenses include personnel-related costs (comprised of salaries, benefits and share-based compensation) for executive, business development, alliance management, legal, finance, marketing and other administrative functions. Marketing and business development expenses include costs associated with attending conferences and all promotion efforts of our Integrated Drug Creation platform. Professional service expenses such as external legal expenses, accounting and tax service expenses, and other

consultants, and allocated facilities costs (including occupancy and information technology) are also included within selling, general and administrative expenses. These expenses are exclusive of depreciation and amortization.

We expect our selling costs to increase in absolute dollars as we continue to grow our business development efforts and increase marketing activities to drive awareness and adoption of our platform. We expect selling costs to fluctuate as a percentage of total revenue due to the timing and magnitude of these expenses, and to decrease as a percentage of total revenue in the long term.

We expect general and administrative expenses to stabilize as we more effectively control costs associated with operating as a public company, including expenses related to legal, accounting, regulatory, maintaining compliance with exchange listing and requirements of the U.S. Securities and Exchange Commission (SEC), director and officer insurance premiums and investor relations. We expect these expenses to vary from period to period as a percentage of revenue in the near term, and to decrease as a percentage of revenue in the long term.

We have a comprehensive intellectual property portfolio directed towards the many aspects of our Integrated Drug Creation platform, including those related to our proprietary cell lines and protein expression technologies, non-standard amino acid technology, proprietary screening assays, antibody discovery methods, and generative AI models. We regularly file patent applications to protect innovations arising from our research and development. We also hold trademarks and trademark applications in the United States and foreign jurisdictions. Costs to secure and defend our intellectual property are expensed as incurred and are classified as selling, general and administrative expenses.

Depreciation and amortization

Depreciation and amortization expense consists of the depreciation expense of our property and equipment and amortization of our intangibles. Our equipment is used most actively as part of our lab operations.

We expect depreciation expense to stabilize following the completion of the build-out of our primary facility, though it may fluctuate in the future in line with continued growth and compute demands in absolute dollars if we purchase additional equipment.

Other Income (Expense)

Interest Expense

Interest expense, net, consists primarily of interest related to borrowings under our term debt and financed laboratory equipment.

Other Income

Other income consists primarily of interest income from our investments.

Results of Operations

The results of operations presented below should be reviewed in conjunction with our condensed consolidated financial statements and notes included elsewhere in this Quarterly Report. The following tables set forth our results of operations for the periods presented (In thousands):

	For the Three Months Ended March 31,	
	2023	**2022**
Revenues		
Technology development revenue	$ 1,269	$ 454
Collaboration revenue	—	365
Total revenues	1,269	819
Operating expenses		
Research and development	12,657	15,827
Selling, general and administrative	9,593	10,889
Depreciation and amortization	3,504	2,906
Total operating expenses	25,754	29,622
Operating loss	(24,485)	(28,803)
Other income (expense)		
Interest expense	(321)	(195)
Other income, net	1,458	125
Total other income (expense), net	1,137	(70)
Loss before income taxes	(23,348)	(28,873)
Income tax expense	(7)	(621)
Net loss	$ (23,355)	$ (29,494)

Comparison of the Three Months Ended March 31, 2023 and 2022

The following table summarizes our results of operations for the three months ended March 31, 2023 and 2022 (In thousands, except for percentages):

Revenue

	For the Three Months Ended March 31,			
	2023	**2022**	**$ Change**	**% Change**
Revenues				
Technology development revenue	$ 1,269	$ 454	$ 815	180 %
Collaboration revenue	—	365	(365)	(100)%
Total revenues	$ 1,269	$ 819	$ 450	55 %

Total revenue was $1.3 million for the three months ended March 31, 2023, representing an increase of approximately $0.5 million, or 55%, compared to $0.8 million for the three months ended March 31, 2022.

Technology development revenue increased by $0.8 million, or 180%, for the three months ended March 31, 2023 compared to the three months ended March 31, 2022, driven by a combination of overall program progress, the timing of project-based milestones achieved, and the mix of ongoing programs activity.

Operating Expenses

The following table summarizes our operating expenses for the three months ended March 31, 2023 and 2022 (In thousands, except for percentages):

	For the Three Months Ended March 31,			
	2023	**2022**	**$ Change**	**% Change**
Operating expenses				
Research and development	$ 12,657	$ 15,827	$ (3,170)	(20)%
Selling, general and administrative	9,593	10,889	(1,296)	(12)%
Depreciation and amortization	3,504	2,906	598	21 %
Total operating expenses	$ 25,754	$ 29,622	$ (3,868)	(13)%

Research and development

Research and development expenses decreased by $3.2 million, or 20%, for the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The decrease was primarily attributable to a decrease in laboratory operational costs of $2.2 million and the remeasurement of acquisition-related contingent consideration in the prior year.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses decreased by $1.3 million, or 12%, for the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The decrease was primarily driven by decreased stock-based compensation of $0.9 million and decreased administrative costs of $0.8 million, offset by increased personnel costs in the amount of $0.4 million.

Depreciation and amortization

Depreciation and amortization expense increased by $0.6 million, or 21%, for the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The increase was primarily due to increased leasehold improvements.

Other Income (Expense)

The following table summarizes our other income (expense) for the three months ended March 31, 2023 and 2022 (In thousands, except for percentages):

	For the Three Months Ended March 31,			
	2023	**2022**	**$ Change**	**% Change**
Other income (expense)				
Interest expense	$ (321)	$ (195)	$ (126)	65 %
Other income, net	1,458	125	1,333	1066 %
Total other income (expense), net	$ 1,137	$ (70)	$ 1,207	(1724)%

Interest Expense

Interest expense was $0.3 million for the three months ended March 31, 2023 compared to $0.2 million for the three months ended March 31, 2022, representing a increase of $0.1 million, or 65%.

Other income, net

Other income, net, was $1.5 million income for the three months ended March 31, 2023 compared to $0.1 million income for the three months ended March 31, 2022, representing a change of $1.3 million, or 1066% primarily attributable to increases in investment income from short-term investments.

Liquidity and Capital Resources

Overview

As of March 31, 2023, we had $144.3 million of cash and cash equivalents and short-term investments.

We have incurred net operating losses since inception. As of March 31, 2023, our accumulated deficit was $319.3 million. To date, we have funded operations through issuances and sales of equity securities and debt, in addition to revenue generated from our technology development agreements. We believe that our cash and cash equivalents and short-term investments will be sufficient to meet our operating expenses, working capital and capital expenditure needs over at least the next 12 months following the date of this filing.

Our future capital requirements will depend on many factors, including, but not limited to our ability to raise additional capital through equity or debt financing, our ability to successfully secure additional partnerships under contract with new partners and increase the number of programs covered under contracts with existing partners, the successful preclinical and clinical development by our partners of product candidates generated using our Integrated Drug Creation platform and the successful commercialization by our partners of any such product candidates that are approved. If we are unable to execute on our business plan and adequately fund operations, or if our business plan requires a level of spending in excess of cash resources, we may be required to negotiate partnerships in which we receive greater near-term payments at the expense of potential downstream revenue. Alternatively, we may need to seek additional equity or debt financing, which may not be available on terms acceptable to us or at all. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants restricting our ability to take specific actions, such as incurring additional debt, selling or licensing our assets, making product acquisitions, making capital expenditures, or declaring dividends. If we are unable to generate sufficient revenue or raise additional capital when desired, our business, financial condition, results of operations and prospects would be adversely affected.

Sources of Liquidity

Since our inception, we have financed our operations primarily from the issuance and sale of our redeemable convertible preferred stock, issuances of equity securities, borrowings under long-term debt agreements, and to a lesser extent, cash flow from operations.

Initial Public Offering

In July 2021, we completed our initial public offering (IPO) and issued 14.4 million shares of our common stock, including 1.9 million shares pursuant to the full exercise of the underwriters' option to purchase additional shares, at a price of $16.00 per share and received net proceeds of $210.1 million from the IPO.

Equipment Financing

In 2022, we received a total of $12.0 million of proceeds from equipment financing arrangements. Terms of the agreements require monthly payments over 42-48 month periods with imputed interest rates ranging from 8%-10%. As of March 31, 2023, the combined outstanding balance on these agreements is $10.3 million.

Shelf Registration Statement on Form S-3

On August 24, 2022, we filed a shelf registration statement on Form S-3 (the Shelf Registration Statement) with the SEC relating to the registration of up to an aggregate of $250.0 million in shares of our common stock, preferred stock, debt securities, warrants and units or any combination thereof. The Shelf Registration Statement was declared effective by the SEC on September 2, 2022. To date, we have not issued any securities or received any proceeds from the sale of any securities registered pursuant to the Shelf Registration Statement.

Cash Flows

The following summarizes our cash flows (In thousands):

	For the Three Months Ended March 31,	
	2023	2022
Net cash used in		
Operating activities	(20,119)	(21,149)
Investing activities	(27,301)	(6,857)
Financing activities	(1,104)	(1,058)
Net decrease in cash, cash equivalents, and restricted cash	$ (48,524)	$ (29,064)

Cash Flows from Operating Activities

In the three months ended March 31, 2023, net cash used in operating activities was $20.1 million and consisted primarily of a net loss of $23.4 million adjusted for non-cash items, including depreciation and amortization expense of $3.5 million, stock-based compensation of $2.7 million, and a net increase in operating assets and liabilities in the amount of $1.7 million.

In the three months ended March 31, 2022, net cash used in operating activities was $21.1 million and consisted primarily of a net loss of $29.5 million adjusted for non-cash items, including depreciation and amortization expense of $2.9 million stock-based compensation of $3.7 million, an increase to our contingent consideration liability of $0.8 million, and a net decrease in operating assets and liabilities in the amount of $0.3 million.

Cash Flows from Investing Activities

In the three months ended March 31, 2023, net cash used in investing activities was $27.3 million. The net cash used resulted primarily from purchases of short-term investments of $69.1 million, partially offset by cash provided by maturities of short-term investments of $42.0 million.

In the three months ended March 31, 2022, net cash used in investing activities was $6.9 million primarily from purchases of lab equipment and leasehold improvements as we expanded our operations and overall operating capacity.

Cash Flows from Financing Activities

In the three months ended March 31, 2023, net cash used in financing activities was $1.1 million. The net cash used resulted primarily from principal payments of $1.3 million made for financed equipment, partially offset by proceeds from stock option exercises of $0.2 million.

In the three months ended March 31, 2022, net cash used in financing activities was $1.1 million. The net cash used resulted primarily from principal payments made for financed equipment and long-term debt in the amount of $1.3 million, partially offset by proceeds from the issuance of common stock of $0.2 million.

Income taxes

Our effective income tax rate from continuing operations was 0.0% and 2.2% for the three months ended March 31, 2023 and 2022, respectively. The difference between the effective rate and the statutory rate is primarily attributed to the change in the valuation allowance against net deferred tax assets.

We estimate an annual effective income tax rate based on projected results for the year and apply this rate to income before taxes to calculate income tax expense. When applicable, the income tax provision also includes adjustments for discrete tax items. Any refinements made due to subsequent information that affects the estimated annual effective income tax rate are reflected as adjustments in the current period.

Critical Accounting Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

This report should be read in conjunction with the Consolidated Financial Statements in our 2022 Annual Report on Form 10-K where we include additional information on our business, operating segments, risk factors, critical accounting estimates, policies, and the methods and assumptions used in our estimates, among other important information. There were no material changes to our critical accounting policies and estimates during the three months ended March 31, 2023.

Emerging Growth Company Status

We are an emerging growth company, as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. Section 107 of the JOBS Act provides that an emerging growth company may take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. Section 107 of the JOBS Act provides that we can elect to opt out of the extended transition period at any time, which election is irrevocable. We have elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Subject to certain conditions, as an emerging growth company, we may rely on certain other exemptions and reduced reporting requirements, including without limitation (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board (PCAOB) regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the consolidated financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier of (a) the last day of the fiscal year in which we have total annual gross revenue of $1.235 billion or more; (b) December 31, 2026, the last day of the fiscal year following the fifth anniversary of the date of the completion of our IPO; (c) the date on which we have issued more than $1.0 billion in nonconvertible debt during the previous three years; or (d) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in our reported market risks or risk management policies since the filing of our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 30, 2023.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is

accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on its evaluation, management concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the three months ended March 31, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

We are not currently a party to any material litigation or other legal proceedings. From time to time, we may, however, in the ordinary course of business face various claims brought by third parties, and we may, from time to time, make claims or take legal actions to assert our rights. Any such claims and associated legal proceedings could, in the opinion of our management, have a material adverse effect on our business, financial condition, results of operations or prospects. 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

Factors that could cause or contribute to differences in our future financial and operating results include those discussed in the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 30, 2023. The risks described in our Annual Report and this Quarterly Report on Form 10-Q are not the only risks that we face. Additional risks not presently known to us or that we do not currently consider significant may also have an adverse effect on the Company. If any of the risks actually occur, our business, results of operations, cash flows or financial condition could suffer.

There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 30, 2023.

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

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the three months ended March 31, 2023.

Use of Proceeds

We completed our IPO pursuant to the registration statement on Form S-1 (File No. 333-257553), as amended, that was declared effective on July 21, 2021. On July 26, 2021, we sold 14,375,000 shares of our common stock, including the full exercise of the underwriters' 30-day option to purchase additional shares, at a public offering price of $16.00 per share for aggregate gross proceeds of $230.0 million. J.P. Morgan Securities LLC, Credit Suisse Securities (USA) LLC, BofA Securities, Inc., Cowen and Company, LLC, and Stifel, Nicolaus & Company, Incorporated acted as joint book-running managers for the offering.

The net proceeds of our IPO were $210.1 million, after deducting underwriting discounts and commissions of $16.1 million and offering related expenses of $3.8 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates.

As of March 31, 2023, we have used $179.5 million of the net proceeds from the IPO. Cash used since the IPO is described elsewhere in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our periodic reports filed with the SEC. There has been no material change in our planned use of the net proceeds from the IPO as described in the final prospectus for our IPO.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Absci Corporation (filed as Exhibit 3.1 to the Form 8-K, File No. 001-40646, filed by Absci Corporation on July 26, 2021 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Absci Corporation (filed as Exhibit 3.1 to the Form 8-K, File No. 001-40646, filed by Absci Corporation on December 15, 2022 and incorporated herein by reference).
4.1	Investors' Rights Agreement by and among the Registrant and certain of its stockholders dated October 19, 2020 (filed as Exhibit 4.2 to the Form S-1, File No. 333-257553, filed by Absci Corporation on June 30, 2021 and incorporated herein by reference).
31.1*	Certification of Chief 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 Chief 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 Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Chief 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*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

\+ The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the SEC 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 Form 10-Q, irrespective of any general incorporation language contained in such filing.

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.

ABSCI CORPORATION

Date: May 15, 2023

By: /s/ Gregory Schiffman

Gregory Schiffman

Chief Financial Officer (Principal Financial Officer)

Date: May 15, 2023

By: /s/ Todd Bedrick

Todd Bedrick

Chief Accounting Officer (Principal Accounting Officer)

Exhibit 31.1

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

I, Sean McClain, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 15, 2023

By: /s/ Sean McClain

Sean McClain

Founder and Chief Executive Officer

Exhibit 31.2

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

I, Gregory Schiffman, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 15, 2023

By: /s/ Gregory Schiffman

Gregory Schiffman

Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Absci Corporation (the "Company") on Form 10-Q for the period ending March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 15, 2023

By: /s/ Sean McClain

Sean McClain

Founder and Chief Executive Officer

Exhibit 32.2

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

In connection with the Quarterly Report of Absci Corporation (the "Company") on Form 10-Q for the period ending March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 15, 2023

By: /s/ Gregory Schiffman

Gregory Schiffman
Chief Financial Officer