

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 June 30, 2022

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-40646

**ABSCI CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

18105 SE Mill Plain Blvd

Vancouver, WA

(Address of Principal Executive Offices)

85-3383487

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

98683

(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 | <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 Act). Yes  No

The registrant had outstanding 92,843,545 shares of \$0.0001 par value common stock as of July 31, 2022.

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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 the markets for our services and technologies, including the growth rate of the biologics and next-generation biologics markets;
- 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;
- 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 any revenue;
- our estimates of the sufficiency of our cash and cash equivalents;
- 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, 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 potential impact of the ongoing COVID-19 pandemic, including supply chain issues arising from the pandemic and the emergence of new variants and sub variants of the virus on our business or operations;
- 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
- 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, ACE Assay, HiPrBind, Bionic Proteins, Translating Ideas into Drugs, Bionic SoluPro, Integrated Drug Creation, 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](http://www.absci.com)) and our investor relations website ([investors.absci.com](http://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. The information that we post on these websites 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, or any

other website that may be accessed from our website, 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 CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (In thousands, except for share and per share data)  | June 30,<br>2022  | December 31,<br>2021 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$ 206,021        | \$ 252,569           |
| Restricted cash  | 15,017            | 10,513               |
| Receivables under development arrangements   | 310               | 1,425                |
| Prepaid expenses and other current assets  | 6,540             | 8,572                |
| Total current assets   | 227,888           | 273,079              |
| Operating lease right-of-use assets  | 5,708             | 6,538                |
| Property and equipment, net  | 54,890            | 52,114               |
| Intangibles, net   | 53,308            | 54,992               |
| Goodwill   | 21,335            | 21,335               |
| Restricted cash, long-term   | 1,845             | 16,844               |
| Other long-term assets   | 1,341             | 1,293                |
| <b>TOTAL ASSETS</b>  | <b>\$ 366,315</b> | <b>\$ 426,195</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                   |                      |
| Current liabilities:   |                   |                      |
| Accounts payable   | \$ 5,470          | \$ 8,385             |
| Accrued expenses   | 17,054            | 17,434               |
| Long-term debt, current  | 2,135             | 2,400                |
| Operating lease obligations  | 1,584             | 1,502                |
| Financing lease obligations  | 2,651             | 2,785                |
| Deferred revenue   | 2,798             | 1,353                |
| Total current liabilities  | 31,692            | 33,859               |
| Long-term debt - net of current portion  | 7,125             | 1,124                |
| Operating lease obligations - net of current portion   | 8,175             | 8,969                |
| Finance lease obligations - net of current portion   | 1,818             | 3,231                |
| Deferred tax, net  | 1,085             | 743                  |
| Other long-term liabilities  | 227               | 12,162               |
| <b>TOTAL LIABILITIES</b>   | <b>50,122</b>     | <b>60,088</b>        |
| Commitments (See Note 8)   |                   |                      |
| <b>STOCKHOLDERS' EQUITY</b>  |                   |                      |
| Preferred stock, \$0.0001 par value; 10,000,000 shares authorized as of June 30, 2022 and December 31, 2021; 0 shares issued and outstanding as of June 30, 2022 and December 31, 2021                                     | —                 | —                    |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized as of June 30, 2022 and December 31, 2021; 92,780,988 and 92,648,036 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively | 9                 | 9                    |
| Additional paid-in capital   | 565,444           | 557,136              |
| Accumulated deficit  | (249,199)         | (191,025)            |
| Accumulated other comprehensive loss   | (61)              | (13)                 |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b>316,193</b>    | <b>366,107</b>       |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 366,315</b> | <b>\$ 426,195</b>    |

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

**ABSCI CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)**

| (In thousands, except for share and per share data)            | For the Three Months Ended June 30, |                    | For the Six Months Ended June 30, |                    |
|--|-------------------------------------|--------------------|-----------------------------------|--------------------|
|  | 2022                                | 2021               | 2022                              | 2021               |
| <b>Revenues</b>  |                                     |                    |                                   |                    |
| Technology development revenue                                 | \$ 636                              | \$ 592             | \$ 1,090                          | \$ 1,532           |
| Collaboration revenue  | 366                                 | 136                | 731                               | 259                |
| <b>Total revenues</b>  | <b>1,002</b>                        | <b>728</b>         | <b>1,821</b>                      | <b>1,791</b>       |
| <b>Operating expenses</b>                                      |                                     |                    |                                   |                    |
| Research and development                                       | 16,241                              | 11,040             | 32,068                            | 18,090             |
| Selling, general and administrative                            | 10,507                              | 5,179              | 21,396                            | 9,864              |
| Depreciation and amortization                                  | 3,141                               | 1,201              | 6,047                             | 1,677              |
| <b>Total operating expenses</b>                                | <b>29,889</b>                       | <b>17,420</b>      | <b>59,511</b>                     | <b>29,631</b>      |
| Operating loss   | (28,887)                            | (16,692)           | (57,690)                          | (27,840)           |
| <b>Other expense</b>   |                                     |                    |                                   |                    |
| Interest expense   | (211)                               | (2,009)            | (406)                             | (2,464)            |
| Other income (expense), net                                    | 148                                 | (28,114)           | 273                               | (27,950)           |
| <b>Total other expense, net</b>                                | <b>(63)</b>                         | <b>(30,123)</b>    | <b>(133)</b>                      | <b>(30,414)</b>    |
| <b>Loss before income taxes</b>                                | <b>(28,950)</b>                     | <b>(46,815)</b>    | <b>(57,823)</b>                   | <b>(58,254)</b>    |
| Income tax (expense) benefit                                   | 270                                 | 5,617              | (351)                             | 6,094              |
| <b>Net loss</b>  | <b>(28,680)</b>                     | <b>(41,198)</b>    | <b>(58,174)</b>                   | <b>(52,160)</b>    |
| Cumulative undeclared preferred stock dividends                | —                                   | (1,047)            | —                                 | (2,042)            |
| <b>Net loss applicable to common stockholders</b>              | <b>\$ (28,680)</b>                  | <b>\$ (42,245)</b> | <b>\$ (58,174)</b>                | <b>\$ (54,202)</b> |
| <b>Net loss per share attributable to common stockholders:</b> |                                     |                    |                                   |                    |
| Basic and diluted  | \$ (0.32)                           | \$ (2.39)          | \$ (0.64)                         | \$ (3.13)          |
| <b>Weighted-average common shares outstanding:</b>             |                                     |                    |                                   |                    |
| Basic and diluted  | 90,669,499                          | 17,641,147         | 90,471,950                        | 17,312,437         |
| <b>Comprehensive loss:</b>                                     |                                     |                    |                                   |                    |
| Net loss   | \$ (28,680)                         | \$ (41,198)        | \$ (58,174)                       | \$ (52,160)        |
| Foreign currency translation adjustments                       | (40)                                | (11)               | (50)                              | (11)               |
| Unrealized gain on investments                                 | 2                                   | —                  | 2                                 | —                  |
| <b>Comprehensive loss</b>                                      | <b>\$ (28,718)</b>                  | <b>\$ (41,209)</b> | <b>\$ (58,222)</b>                | <b>\$ (52,171)</b> |

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

**ABSCI CORPORATION**  
**STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS'**  
**EQUITY (DEFICIT) (UNAUDITED)**

| (In thousands, except for share and per share data) | Redeemable Convertible Preferred Stock |        | Common Stock |        | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Condensed Total Stockholders' Equity |
|---|--|--------|--------------|--------|----------------------------|---------------------|--------------------------------------|--------------------------------------|
|   | Shares                                 | Amount | Shares       | Amount |                            |                     |                                      |                                      |
| <b>Balances - December 31, 2021</b>                 | —                                      | \$ —   | 92,648,036   | \$ 9   | \$ 557,136                 | \$ (191,025)        | \$ (13)                              | \$ 366,107                           |
| Issuance of shares upon option exercise             | —                                      | —      | 187,151      | —      | 213                        | —                   | —                                    | 213                                  |
| Stock-based compensation                            | —                                      | —      | —            | —      | 3,680                      | —                   | —                                    | 3,680                                |
| Foreign currency translation adjustments            | —                                      | —      | —            | —      | —                          | —                   | (10)                                 | (10)                                 |
| Net loss  | —                                      | —      | —            | —      | —                          | (29,494)            | —                                    | (29,494)                             |
| <b>Balances - March 31, 2022</b>                    | —                                      | \$ —   | 92,835,187   | \$ 9   | \$ 561,029                 | \$ (220,519)        | \$ (23)                              | \$ 340,496                           |
| Issuance of shares upon option exercise             | —                                      | —      | 195,418      | —      | 215                        | —                   | —                                    | 215                                  |
| Repurchase of common stock                          | —                                      | —      | (249,618)    | —      | —                          | —                   | —                                    | —                                    |
| Stock-based compensation                            | —                                      | —      | —            | —      | 4,200                      | —                   | —                                    | 4,200                                |
| Foreign currency translation adjustments            | —                                      | —      | —            | —      | —                          | —                   | (40)                                 | (40)                                 |
| Unrealized gain on investments                      | —                                      | —      | —            | —      | —                          | —                   | 2                                    | 2                                    |
| Other   | —                                      | —      | 1            | —      | —                          | —                   | —                                    | —                                    |
| Net loss  | —                                      | —      | —            | —      | —                          | (28,680)            | —                                    | (28,680)                             |
| <b>Balances - June 30, 2022</b>                     | —                                      | \$ —   | 92,780,988   | \$ 9   | \$ 565,444                 | \$ (249,199)        | \$ (61)                              | \$ 316,193                           |

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



**ABSCI CORPORATION**  
**STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS'**  
**EQUITY (DEFICIT) (UNAUDITED)**

| (In thousands, except for<br>share and per share data)      | Redeemable Convertible<br>Preferred Stock |            | Common Stock |        | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Condensed<br>Total<br>Stockholders'<br>Deficit |
|---|---|------------|--------------|--------|----------------------------------|------------------------|---|--|
|   | Shares                                    | Amount     | Shares       | Amount |                                  |                        |   |  |
| <b>Balances - December 31, 2020</b>                         | 13,752,043                                | \$ 156,433 | 17,887,631   | \$ 2   | \$ 635                           | \$ (90,065)            | \$ —  | \$ (89,428)                                    |
| Issuance of Series E preferred stock, net of issuance costs | 254,886                                   | 4,944      | —            | —      | —                                | —                      | —   | —  |
| Issuance of restricted stock                                | —   | —          | 703,425      | —      | —                                | —                      | —   | —  |
| Stock-based compensation                                    | —   | —          | —            | —      | 1,519                            | —                      | —   | 1,519  |
| Issuance of shares in acquisition of Denovium               | —   | —          | 1,010,296    | —      | 368                              | —                      | —   | 368  |
| Net loss  | —   | —          | —            | —      | —                                | (10,962)               | —   | (10,962)                                       |
| <b>Balances - March 31, 2021</b>                            | 14,006,929                                | \$ 161,377 | 19,601,352   | \$ 2   | \$ 2,522                         | \$ (101,027)           | \$ —  | \$ (98,503)                                    |
| Issuance of shares upon option exercise                     | —   | —          | 62,613       | —      | 69                               | —                      | —   | 69   |
| Stock-based compensation                                    | —   | —          | —            | —      | 1,490                            | —                      | —   | 1,490  |
| Issuance of shares in acquisition of Totient                | —   | —          | 2,212,208    | —      | 13,891                           | —                      | —   | 13,891   |
| Foreign currency translation adjustments                    | —   | —          | —            | —      | —                                | —                      | (11)  | (11)   |
| Net loss  | —   | —          | —            | —      | —                                | (41,198)               | —   | (41,198)                                       |
| <b>Balances - June 30, 2021</b>                             | 14,006,929                                | \$ 161,377 | 21,876,173   | \$ 2   | \$ 17,972                        | \$ (142,225)           | \$ (11)                                       | \$ (124,262)                                   |

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

**ABSCI CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| (In thousands)  | For the Six Months Ended June 30, |            |
|---|-----------------------------------|------------|
|   | 2022                              | 2021       |
| <b>Cash Flows From Operating Activities</b>   |                                   |            |
| Net loss  | (58,174)                          | (52,160)   |
| Adjustments to reconcile net loss to net cash used in operating activities:                       |                                   |            |
| Depreciation and amortization   | 6,047                             | 1,677      |
| Deferred income taxes   | 342                               | (6,094)    |
| Stock-based compensation  | 7,949                             | 3,593      |
| Change in fair value of convertible promissory notes  | —                                 | 25,107     |
| Change in fair value of contingent consideration  | 750                               | —          |
| Gain on extinguishment of loan payable  | —                                 | (636)      |
| Other   | (105)                             | (11)       |
| Preferred stock warrant liability expense   | —                                 | 3,440      |
| Changes in operating assets and liabilities:  |                                   |            |
| Receivables under development arrangements  | 1,115                             | 1,109      |
| Prepaid expenses and other current assets   | 1,701                             | (921)      |
| Operating lease right-of-use assets and liabilities   | (277)                             | 2,653      |
| Other long-term assets  | (47)                              | (1,853)    |
| Accounts payable  | 659                               | 2,744      |
| Accrued expenses and other liabilities  | (5,132)                           | (404)      |
| Deferred revenue  | 1,444                             | (16)       |
| Net cash used in operating activities   | (43,728)                          | (21,772)   |
| <b>Cash Flows From Investing Activities</b>   |                                   |            |
| Purchases of property and equipment   | (10,745)                          | (24,111)   |
| Acquisitions, net of cash acquired  | (8,000)                           | (28,130)   |
| Proceeds from property insurance settlements  | 665                               | —          |
| Net cash used in investing activities   | (18,080)                          | (52,241)   |
| <b>Cash Flows From Financing Activities</b>   |                                   |            |
| Proceeds from issuance of redeemable convertible preferred units and stock, net of issuance costs | —                                 | 4,944      |
| Proceeds from issuance of long-term debt  | 9,407                             | —          |
| Principal payments on long-term debt  | (3,698)                           | (139)      |
| Principal payments on finance lease obligations   | (1,372)                           | (772)      |
| Proceeds from issuance of common stock, net of issuance costs                                     | 428                               | 69         |
| Proceeds from issuance of convertible promissory notes  | —                                 | 125,000    |
| Net cash (used in) provided by financing activities   | 4,765                             | 129,102    |
| Net (decrease) increase in cash, cash equivalents, and restricted cash                            | (57,043)                          | 55,089     |
| Cash, cash equivalents and restricted cash - Beginning of year                                    | 279,926                           | 71,708     |
| Cash, cash equivalents, and restricted cash - End of period                                       | \$ 222,883                        | \$ 126,797 |
| <b>Supplemental Disclosure of Cash Flow Information</b>   |                                   |            |
| Cash paid during the period for interest  | \$ 360                            | \$ 315     |
| <b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>                     |                                   |            |
| Property and equipment purchased under finance lease  | \$ —                              | \$ 1,729   |
| Right-of-use assets obtained in exchange for operating lease obligation                           | —                                 | 3,330      |
| Cash paid for amounts included in the measurement of operating lease liabilities                  | 1,141                             | 508        |
| Property and equipment purchases included in accounts payable                                     | 1,990                             | 4,187      |
| Deferred offering costs included in accounts payable  | —                                 | 825        |

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

**ABSCI CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## **1. Organization and nature of operations**

Absci Corporation (the “Company”) has developed an integrated drug creation platform (the “Integrated Drug Creation Platform”) by merging deep learning artificial intelligence and synthetic biology. The Integrated Drug Creation Platform enables the creation of biologics by unifying the drug discovery and cell line development processes into one process. 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 “LLC Conversion”). The Company’s headquarters are located in Vancouver, Washington.

### ***Authorized shares of common stock***

In June 2021, the Company’s board of directors (the “Board”) and stockholders increased the number of authorized shares of common stock to 78,320,000.

### ***Initial Public Offering***

In July 2021, we completed our initial public offering (the “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. Immediately prior to the completion of the IPO, all shares of redeemable convertible preferred stock then outstanding were converted into 46.3 million shares of common stock and all convertible notes issued in March 2021 were converted into 9.7 million shares of common stock.

### ***Amendments to Certificate of Incorporation or Bylaws***

In connection with the consummation of the IPO, the Company filed an amended and restated certificate of incorporation (the “Restated Certificate”) with the Secretary of State of the State of Delaware. The Board and stockholders previously approved the Restated Certificate to be filed in connection with, and to be effective upon, the consummation of the IPO. The Restated Certificate amended and restated the Company’s existing amended and restated certificate of incorporation, as amended, in its entirety to, among other things: (i) authorize 500,000,000 shares of common stock; (ii) eliminate all references to the previously-existing series of preferred stock; (iii) authorize 10,000,000 shares of undesignated preferred stock that may be issued from time to time by the Board in one or more series; (iv) establish a classified board divided into three classes, with each class serving staggered three-year terms and (v) require the approval of holders of at least 75% of the voting power of the Company’s outstanding shares of voting stock to amend or repeal certain provisions of the Restated Certificate.

### ***Stock split***

On July 16, 2021, the Board and stockholders approved an amendment to the Company’s amended and restated certificate of incorporation to effect a forward stock split of the Company’s issued and outstanding common stock at a 3.3031-to-1 ratio, which was effected on July 19, 2021. The par value and convertible preferred stock were not adjusted as a result of the forward stock split. All issued and outstanding common stock, options to purchase common stock and units, and per share and unit amounts contained in the financial statements have been retroactively adjusted to reflect the forward stock split for all periods presented. The financial statements have also been retroactively adjusted to reflect a proportional adjustment to the conversion ratio for each series of preferred stock that was effected in connection with the forward stock split.

### ***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, 2021.

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

**ABSCI CORPORATION**  
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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, 2021 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, which was filed with the SEC on March 22, 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 receivable when it has an unconditional right to consideration. As of June 30, 2022 and December 31, 2021, contract assets were \$0.1 million and \$0.6 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 June 30, 2022 and December 31, 2021, contract liabilities were \$2.8 million and \$1.4 million, respectively. During the three and six months ended June 30, 2022, the Company recognized \$0.4 million and \$0.8 million, respectively, as revenue that had been included in deferred revenue at the beginning of the period. During the three and six months ended June 30, 2021, the Company recognized \$0.1 million and \$1.1 million, respectively, as revenue that had been included in deferred revenue at the beginning of the period.

### ***KBI BioPharma, Inc. Collaboration agreement***

In December 2019, the Company executed a four-year Joint Marketing Agreement ("JMA") with KBI BioPharma, Inc. ("KBI") to co-promote technologies through joint marketing efforts. The JMA provides for a non-refundable upfront payment of \$0.8 million and milestone payments of \$2.8 million in the aggregate, of which \$2.3 million had been received as of June 30, 2022, upon the achievement of specific milestones. Upfront payments that relate to ongoing collaboration efforts required throughout the contract term such as joint marketing are recognized ratably throughout the contract term. The Company fully constrains revenue associated with the milestone payments until the specified milestones are probable of achievement. Additionally, KBI is obligated to make royalty payments to the Company during the fourth year of the JMA representing a percentage of its sales generated through the arrangement. Any costs incurred to KBI through the duration of the JMA are recognized as a reduction to collaboration revenue in the period in which they are incurred.

In September 2021, the JMA was amended to shorten the term to approximately three years, while all remaining payments, including potential royalty payments, were replaced with a one-time fee due from KBI in the amount of \$0.3 million. The Company determined the remaining services were distinct from those provided prior to the modification and therefore recognizes the total remaining transaction price prospectively over the remaining contractual term.

As of June 30, 2022 and December 31, 2021, deferred revenues related to the JMA were \$0.5 million and \$1.2 million, respectively.

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#### 4. Acquisitions

##### *Acquisition of Denovium*

In January 2021, the Company completed its acquisition of the common stock of Denovium, Inc. (“Denovium”), an artificial intelligence deep learning company focused on protein discovery and design. The Company is integrating Denovium’s technology into its Integrated Drug Creation Platform. The acquisition has been accounted for as a business combination.

Pursuant to the terms of the agreement, the Company acquired all outstanding equity of Denovium for estimated total consideration of \$3.0 million, which consists of (in thousands):

|                              |    |       |
|------------------------------|----|-------|
| Cash consideration           | \$ | 2,670 |
| Equity consideration         |    | 368   |
| Total purchase consideration | \$ | 3,038 |

Cash consideration includes a \$2.5 million upfront payment and a payment for working capital adjustments.

In addition to the \$2.5 million paid upfront, \$2.5 million was placed into escrow subject to the continued service and/or employment of Denovium’s co-founders over a one year period. This amount is not included in the total consideration and is accounted for as compensation expense over the one year service period, and was included in current restricted cash and accrued expenses on the condensed consolidated balance sheet as of December 31, 2021. The \$2.5 million deferred payment was disbursed from escrow in January 2022.

The Company issued 1,010,296 shares of its common stock to the Denovium co-founders, of which 80% or 808,238 shares is subject to a Stock Restriction Agreement and vests monthly over a four year term subject to a service condition. The fair value of these shares of \$1.5 million will be recognized as compensation cost over the four year service period. The remaining 20%, or 202,058 shares, vested immediately and is included in the total consideration.

The following table summarizes the allocation of the purchase consideration to the fair value of the assets acquired and liabilities assumed (in thousands):

|   |    |       |
|---|----|-------|
| Cash and cash equivalents                                 | \$ | 158   |
| Accounts receivable                                       |    | 59    |
| Other current assets                                      |    | 1     |
| Intangible assets   |    | 2,507 |
| Goodwill  |    | 1,055 |
| TOTAL ASSETS  |    | 3,780 |
| Accounts payable and accrued expenses                     |    | 109   |
| Deferred tax liability                                    |    | 633   |
| TOTAL LIABILITIES   |    | 742   |
| Fair value of net assets acquired and liabilities assumed | \$ | 3,038 |

Goodwill arising from the acquisition of \$1.1 million was attributable to the assembled workforce and expected synergies between the Integrated Drug Creation Platform and the Denovium Engine. The goodwill is not deductible for tax purposes. As of December 31, 2021, the Company had fully completed the analysis to assign fair values to all assets acquired and liabilities assumed.

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The following table reflects the fair values of the identified intangible assets of Denovium and their respective weighted-average estimated amortization periods.

|                 | Estimated Fair Value (in thousands) | Estimated Amortization Period (years) |
|-----------------|-------------------------------------|---------------------------------------|
| Denovium Engine | \$ 2,507                            | 5                                     |
|                 | <u>\$ 2,507</u>                     |                                       |

#### *Acquisition of Totient*

On June 4, 2021, the Company entered into a merger agreement with Totient, Inc. ("Totient"), under which, at the effective time, a wholly owned entity, or Merger Sub, merged with Totient, with Merger Sub surviving as a wholly owned subsidiary of the Company.

Pursuant to the merger agreement, at closing, Totient shareholders became eligible to receive an aggregate payment of \$55.0 million in cash, of which \$40.0 million in cash was paid at closing, subject to customary purchase price adjustments and escrow restrictions, and \$15.0 million in cash shall be paid upon the achievement of specified milestones, and 2,212,208 shares of the Company's common stock. The \$40.0 million cash consideration included \$8.0 million of deferred cash payment, due in one year. This amount was included in current restricted cash and accrued expenses on the condensed consolidated balance sheet as of December 31, 2021. The \$8.0 million of deferred cash payment was paid out in the three months ended June 30, 2022. All common stock issued is unrestricted, except for those shares granted to certain members of Totient's management, of which 25% of the shares issued were vested upon the closing of the transaction and the remaining 75% will vest over 2.5 years, in six-month installments subject to their respective continuing service relationships with the Company.

The following table summarizes the purchase price (in thousands):

|  |                  |
|--|------------------|
| Estimated cash payment to Totient stockholders                     | \$ 35,368 (i)    |
| Estimated stock payment to Totient stockholders                    | 13,891 (ii)      |
| Estimated cash payment contingent on achieving specified milestone | 12,000 (iii)     |
| <b>Total</b>   | <u>\$ 61,259</u> |

- (i) Pursuant to the merger agreement, the initial purchase price includes \$40.0 million of cash adjusted for the agreed upon working capital value which includes the payment of Totient's transaction and other expenses as well as payments to Totient stock option holders for the cancellation and extinguishment of Totient stock options.
- (ii) Pursuant to the merger agreement, 2,212,208 shares of common stock issued in payment to Totient stockholders with 1,282,747 vesting immediately and therefore included in the purchase price consideration. The remaining 929,461 shares will vest ratably, every six months over 5 equal installments of a 2.5 years service period and will be expensed over the service period. These shares are subject to stock restriction agreements that require certain former key Totient executives to maintain a continued service relationship with Absci throughout the service period.
- (iii) Represents the estimated fair value of the contingent consideration that is payable upon the achievement of the milestone of (i) Absci's entering into one or more definitive commercialization agreements, or technology partnering or licensing agreements, or collaboration agreements, with third parties using, or related to, Totient's technology, a target discovered or identified by using Totient's technology, or a peptide, protein complex or amino acid sequence assembled using Totient's technology, including any Totient product or enabled product, pursuant to which (a) Absci is entitled to receive at least \$2.0 million in aggregate upfront cash or equity payments (provided, that the minimum upfront payment under any individual agreement shall be \$1.0 million and (b) an option for a license or a license or similar right is granted to the third party; or (ii) first commercial sale of a Totient product or enabled product. The fair value estimate is based on a probability-weighted approach and will be updated as we obtain more information. The \$12.0 million of contingent consideration originally measured was adjusted to reflect the increased probability of achievement. As of June 30, 2022 the fair value is \$12.8 million and is included in accrued expenses on the condensed consolidated balance sheet as of June 30, 2022. Changes in the contingent consideration liability fair value are reflected within research and development expenses on the condensed consolidated statement of operations and comprehensive loss.

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The following table summarizes the allocation of the estimated consideration to the identifiable assets and liabilities acquired by us as of June 4, 2021 (in thousands).

|  |                  |
|--|------------------|
| Current assets:  |                  |
| Cash and cash equivalents  | \$ 1,751         |
| Prepaid expenses and other current assets                        | 189              |
| <b>Total current assets</b>                                      | <b>1,940</b>     |
| Operating lease right-of-use assets                              | 266              |
| Property and equipment, net                                      | 118              |
| Goodwill   | 20,280 (i)       |
| Intangible assets  | 54,600 (ii)      |
| Other long-term assets   | 23               |
| <b>TOTAL ASSETS</b>  | <b>77,227</b>    |
| Current liabilities:   |                  |
| Accounts payable   | 78               |
| Accrued expenses   | 6,588            |
| Operating lease obligations                                      | 122              |
| <b>Total current liabilities</b>                                 | <b>6,788</b>     |
| Operating lease obligations - net of current portion             | 144              |
| Deferred tax, net  | 9,012            |
| Other long-term liabilities                                      | 24               |
| <b>TOTAL LIABILITIES</b>   | <b>15,968</b>    |
| <b>Fair value of net assets acquired and liabilities assumed</b> | <b>\$ 61,259</b> |

- (i) Goodwill represents the excess of the estimated purchase price over the estimated fair value of Totient's identifiable assets acquired and liabilities assumed. Goodwill also reflects the requirement to record deferred tax balances for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in the business combination. Goodwill is not deductible for tax purposes.
- (ii) The estimated fair value of and useful lives of the intangible assets acquired is as follows:

|   | Estimated fair value (in thousands) <sup>(i)</sup> | Estimated useful lives (in years) <sup>(ii)</sup> |
|---|--|---|
| Monoclonal antibody library                                 | \$ 46,300  | 20  |
| Developed software platform and the related methods patents | 8,300  | 15  |
| <b>Total</b>  | <b>\$ 54,600</b>                                   |   |

- (i) The estimated fair values were categorized within Level 3 of the fair value hierarchy and were determined using an income-based approach, which was based on the present value of the future estimated after-tax cash flows attributable to each intangible asset. The significant assumptions inherent in the development of the values, from the perspective of a market participant, include the amount and timing of projected future cash flows (including revenue, regulatory success and profitability), and the discount rate selected to measure the risks inherent in the future cash flows, which was between 18%-23%. These fair values are based on the most recent estimate of the fair value available and will be updated as we obtain more information.
- (ii) The estimate of the useful life was based on an analysis of the expected use of the asset by us, any legal, regulatory or contractual provisions that may limit the useful life, the effects of obsolescence, competition and other relevant economic factors, and consideration of the expected cash flows used to measure the fair value of the intangible asset.

As of March 31, 2022, the Company had fully completed the analysis to assign fair values to all assets acquired and liabilities assumed and recorded no adjustments to the preliminary purchase price allocation in the six months ended June 30, 2022. During the year ended December 31, 2021, the Company recorded adjustments to goodwill of \$1.6 million primarily related to deferred taxes.

The Company's results of operations for the three and six months ended June 30, 2022 include the operating results of Totient within the condensed consolidated statement of operations and comprehensive loss. The operating results of Totient are included within the condensed consolidated statement of operations and

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comprehensive loss from June 4, 2021 through June 30, 2021 for the three and six months ended June 30, 2021.

Acquisition costs of \$0.9 million were included in the condensed consolidated statement of operations and comprehensive loss as selling, general and administrative for the three and six months ended June 30, 2021.

The financial information in the table below summarizes the combined results of operations of the Company and Totient on a pro forma basis, as though the companies had been combined as of January 1, 2020. These pro forma results were based on estimates and assumptions, which we believe are reasonable. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of our fiscal year 2020. The pro forma financial information includes adjustments to share-based compensation expense, amortization for acquired intangible assets, interest expense, and transaction costs, and related tax effects.

The pro forma financial information for the three and six months ended June 30, 2021 and combines our results, which include the results of Totient subsequent to June 4, 2021, and the historical results for Totient for the periods prior to acquisition.

The following table summarizes the pro forma financial information (in thousands):

|  | For the Three<br>Months Ended June<br>30, | For the Six Months<br>Ended June 30, |
|--|---|--------------------------------------|
|  | 2021                                      | 2021                                 |
| Net loss applicable to common stockholders and unitholders | \$ (47,035)                               | \$ (61,116)                          |

## 5. Cash equivalents and 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, which is reflected as a separate component of stockholders' equity in the Company's condensed consolidated balance sheet, until realized.

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

|                        | June 30, 2022  |                           |                   |
|------------------------|----------------|---------------------------|-------------------|
|                        | Amortized cost | Gross unrealized<br>gains | Fair market value |
| <b>Assets</b>          |                |                           |                   |
| Money market funds     | \$ 169         | \$ —                      | \$ 169            |
| U.S. treasury bills    | 49,831         | 2                         | 49,833            |
| Total                  | \$ 50,000      | \$ 2                      | \$ 50,002         |
| <b>Classified as:</b>  |                |                           |                   |
| Cash equivalents       |                |                           | \$ 50,002         |
| Short-term investments |                |                           | —                 |
| Long-term investments  |                |                           | —                 |
| Total                  |                |                           | \$ 50,002         |

All investments held as of June 30, 2022 were cash equivalents and had contractual maturities less than 90 days. There were no realized gains and losses on these securities for the period presented. Unrealized gains on these investments were primarily due to changes in interest rates. We did not have any investments in a continuous unrealized loss position for more than twelve months as of June 30, 2022. There were no investments held as of December 31, 2021.



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**6. Property and equipment, net**

Property and equipment as of June 30, 2022 and December 31, 2021 consists of the following (in thousands):

|  | June 30,  | December 31, |
|--|-----------|--------------|
|  | 2022      | 2021         |
| Construction in progress                       | \$ 134    | \$ 933       |
| Lab Equipment                                  | 34,161    | 27,776       |
| Software                                       | 315       | 311          |
| Furniture, Fixtures and Other                  | 5,043     | 4,804        |
| Leasehold Improvements                         | 25,958    | 24,671       |
| Total Cost                                     | 65,611    | 58,495       |
| Less accumulated depreciation and amortization | (10,721)  | (6,381)      |
| Property and equipment, net                    | \$ 54,890 | \$ 52,114    |

Depreciation expense was \$2.3 million and \$4.4 million for the three and six months ended June 30, 2022, respectively. Depreciation expense was \$0.9 million and \$1.2 million for the three and six months ended June 30, 2021, respectively.

**7. Long-term debt and other borrowings**

***Loan and Security Agreement (“LSA”)***

In June 2018, the Company signed a Loan and Security Agreement (“LSA”) with Bridge Bank (“Bank”), a division of Western Alliance Bank. The purpose of the LSA was to provide long-term financing to the Company through term loans available for borrowing in three tranches up to a maximum of \$3.0 million through December 2019 upon the attainment of certain milestones as delineated in the LSA. The first tranche of \$0.3 million was borrowed in 2018. The Company was obligated to make interest-only payments until the amortization date of June 28, 2019 and after that date to make principal and interest payments. Interest on outstanding borrowings under the LSA is charged at a rate of 6% per annum. This loan was scheduled to originally mature in May 2022, at which time all outstanding principal and accrued and unpaid interest was due and payable. This loan is secured by substantially all tangible assets of the Company; intellectual property is excluded from the secured collateral but is subject to a negative pledge in favor of the Bank.

In March 2019, the Company entered into a first amendment to the LSA that increased total borrowings to \$3.0 million and added a financial liquidity covenant. The amendment was accounted for as a debt modification and no gain or loss was recognized in the Company’s financial statements.

In May 2020, the Company entered into a second amendment to the LSA that increased total borrowings to \$5.0 million. The amortization date was extended to May 1, 2021 except, if a certain revenue and new contract bookings milestone is achieved, the amortization date is extended to November 1, 2021. The maturity date of the loan was extended to May 11, 2024. The amendment was accounted for as a debt modification and no gain or loss was recognized in the Company’s financial statements.

In August 2020, the Company entered into a third amendment to the LSA that waived an event of default due to failure to meet a financial covenant. The amendment also expanded the definition of permitted indebtedness to include Payroll Protection Plan (“PPP”) loans, and modified financial and restrictive covenants.

In February 2021, the Company entered into a fourth amendment to the LSA. This amendment gave effect to the Company’s conversion to a corporation and its purchase of Denovium, including permitting certain cash and equity consideration linked to continued employment and service requirements, and adding Denovium as co-borrower to the LSA.

In June 2021, the Company entered into a fifth amendment to the LSA. This amendment modified the term loan’s maturity date to June 16, 2023.

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In February 2022, the Company entered into a sixth amendment to the LSA. This amendment modified various definitions and terms within the agreement, with no adjustments to the financial terms.

The Company may prepay all, but not less than all, of the term loans at any time upon 10 days written notice, with a prepayment premium beginning at 1.0% initially and declining to 0% after May 11, 2022. The Company is also required to pay a final payment equal to 3% of the principal amount funded, which is payable upon the earliest to occur of (i) the maturity date, (ii) acceleration and (iii) the prepayment of the loan. As part of the second amendment, the Company paid a one time amendment fee and a pro-rated final payment in connection with the amendment. The final payment represents an additional principal payment and is accounted for as a debt discount that will be accreted through the maturity date of the loan based on the effective interest method.

In connection with entering into the LSA in June 2018, the Company entered into an agreement whereby the Company is required to pay a fee of 3.5% of the aggregate amount of term loans funded by Bank under the LSA within three business days of a sale or other disposition of substantially all of the Company's assets, a merger or consolidation, a change in control or an initial public offering. Concurrent with the second amendment, the Company and the Bank entered into an amended agreement which extended the term of the fee to May 11, 2030. This fee became payable upon completion of the Company's IPO on July 26, 2021 and was paid during the year ended December 31, 2021.

In June 2022, the Company paid off the remaining \$2.4 million outstanding balance of the LSA.

#### **Convertible Note**

In March 2021, the Company entered into a Note Purchase Agreement to issue and sell \$125.0 million convertible promissory notes (the "2021 Notes") to certain investors. The 2021 Notes accrued interest at 6% per annum. Due to certain embedded features within the 2021 Notes, the Company elected to account for these notes, including all of their embedded features, under the fair value option. The Company has elected to recognize interest expense based on the 6% per annum coupon rate of the Notes, which was included in other long-term liabilities on the condensed consolidated balance sheet through the date of the IPO. Based on the terms of the agreement, the 2021 Notes converted at an 18% discount from the offering price to the public in the IPO. Prior to the conversion, the Company recorded a final fair value adjustment of the 2021 Notes using the Company's common stock price at the IPO. Immediately prior to the completion of the IPO, all outstanding principal under the 2021 Notes and the related accrued interest expense were converted into an aggregate of 9,732,593 shares of our common stock based on an initial public offering price of \$16.00 per share.

#### **Equipment Financing**

In the three months ended June 30, 2022, the Company received \$9.4 million of proceeds from equipment financing arrangements with multiple financial institutions. 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 is due and payable at maturity. These loans are secured by certain tangible assets of the Company and include certain financial liquidity covenants. The Company was in compliance with all applicable financial covenants as of June 30, 2022.

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Future undiscounted payments for the Company's financing liabilities as of June 30, 2022 are as follows (in thousands):

|                             |          |
|-----------------------------|----------|
| Years ending December 31:   |          |
| 2022 (six months remaining) | \$ 1,339 |
| 2023                        | 3,019    |
| 2024                        | 3,019    |
| 2025                        | 2,617    |
| 2026                        | 852      |
| Thereafter                  | —        |
| Total future payments       | 10,846   |
| Less: Imputed interest      | (1,586)  |
| Total long-term debt        | \$ 9,260 |

#### 8. Commitments and contingencies

As of June 30, 2022, future lease payments are secured by irrevocable standby letters of credit totaling \$1.8 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

Prior to the LLC Conversion, the Company granted incentive units and phantom units under its 2015 Equity-Based Incentive Plan ("2015 Plan") to employees and non-employee service providers. In October 2020, in conjunction with the LLC Conversion, the Company adopted the 2020 Stock Option and Grant Plan ("2020 Plan") under which it granted stock options, restricted shares, and SARs as replacement awards for outstanding awards under the 2015 Plan and as new awards to incentivize employee service. Upon completion of the IPO, the Company adopted the 2021 Stock Option and Incentive Plan ("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 June 30, |          | For the Six Months Ended June 30, |          |
|--|-------------------------------------|----------|-----------------------------------|----------|
|  | 2022                                | 2021     | 2022                              | 2021     |
| Research and development               | 1,697                               | 851      | 3,120                             | 1,927    |
| Selling, general and administrative    | 2,550                               | 591      | 4,906                             | 1,666    |
| Total stock-based compensation expense | \$ 4,247                            | \$ 1,442 | \$ 8,026                          | \$ 3,593 |

#### Restricted Stock

Upon the LLC Conversion, the outstanding 3,329,707 incentive units were exchanged for 2,671,907 restricted shares of common stock granted under the 2020 Plan based on a ratio determined by their threshold amount and the fair value of the restricted stock. The exchange was accounted for as a probable-to-probable modification (Type I modification), and the fair value of the restricted shares did not exceed the fair value of the incentive units on the date of exchange. Accordingly, the restricted shares are measured at the grant date fair value of the incentive units. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture. In connection with its acquisitions of Denovium and Totient, the Company issued restricted shares of common stock that vest over time subject to continued service.

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Activity for the restricted shares is shown below:

|                                  | Number of shares |
|----------------------------------|------------------|
| Unvested as of December 31, 2021 | 2,585,670        |
| Repurchased                      | (249,618)        |
| Vested                           | (514,738)        |
| Unvested as of June 30, 2022     | 1,821,314        |

As of June 30, 2022, there was \$8.4 million of unrecognized compensation expense related to the restricted shares expected to be recognized over a remaining weighted-average period of 1.8 years.

During the six months ended June 30, 2022, the Company granted 68,175 shares of restricted stock units to certain employees and consultants under the 2021 Plan. As of June 30, 2022, 68,175 shares of these restricted stock units were outstanding and unvested. As of June 30, 2022, total unrecognized stock-based compensation related to these restricted stock units was \$0.5 million, which the Company expects to recognize over a remaining weighted average period of 3.1 years.

### **Phantom Units**

Phantom units generally vested at 25% after one-year with the remainder vesting quarterly over the following three-year period. Upon the occurrence of a liquidity event, 100% of phantom units would vest. A liquidity event for purposes of the phantom units meant either of the following events: (i) a person or persons acting as a group (other than a person or group that currently owns more than 50% of the voting power of the Company) acquires ownership of common units that, together with the common units held by such person or group, constitutes more than 50% of the voting power of all common units of the Company or (ii) a person or persons acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value of more than 60% of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions. Upon a liquidity event, the phantom unit holders were entitled to a payment equal to the fair value of common units less a strike price. The payment was to be made in the same form of consideration as received by other unit holders as a result of the liquidity event. Other than this payment upon a liquidity event, phantom units provided no economic value and they provided no voting rights. Due to the presence of an exercise condition that was contingent upon a liquidity event, the Company determined that it was not probable that the phantom units would become exercisable and no compensation expense has been recognized.

Activity for the phantom units is shown below:

|   | Number of Units | Weighted Average<br>Strike Price |
|---|-----------------|----------------------------------|
| Unvested as of December 31, 2020  | 1,202,435       | \$ 0.47                          |
| Granted   | —               | —                                |
| Vested  | —               | —                                |
| Exchange of Phantom Units for Cash Payment Rights, SARs, and/or Stock Options | (1,202,435)     | \$ 0.47                          |
| Unvested as of June 30, 2021  | —               | \$ —                             |

Following the LLC Conversion, the holders of phantom units were offered to exchange their awards for a combination of cash payment rights, SARs and/or stock options granted under the 2020 Plan. The exchange was accounted for as short-term inducement, with no accounting recognition prior to offer expiration in January 2021 as the exchange offer participants were able to modify their election through the expiration date. In January 2021, all participants accepted the offer. The exercisability of the SARs is contingent upon a liquidity event that is not probable of occurrence; accordingly, no compensation expense has been recognized for these awards. The stock options vest based on a service condition, generally over a 4-year term

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beginning with the vesting commencement date of the exchanged phantom units. The Company recognizes expense associated with the cash payment rights within stock-based compensation and began to make payments in February 2022 for vested rights. As cash payment rights continue to vest, payments are made monthly.

The aggregate intrinsic value of the 394,736 SARs outstanding as of June 30, 2022 is \$1.3 million based on the estimated fair value of common stock of \$3.32 per share.

### **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 2-4 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<br>Options | Weighted<br>Average Exercise<br>Price per Share | Weighted<br>Average<br>Remaining<br>Contractual Term<br>(in years) | Aggregate<br>Intrinsic Value (in<br>thousands \$) |
|---|----------------------|---|--|---|
| Outstanding at December 31, 2021                | 7,757,401            | \$ 3.72   | 9.2  | \$ 40,939   |
| Granted   | 4,281,834            | 7.23  |  |   |
| Exercised                                       | (382,569)            | 1.12  |  |   |
| Canceled/ Forfeited                             | (806,439)            | 4.60  |  |   |
| Expired   | (9,747)              | 1.12  |  |   |
| Outstanding at June 30, 2022                    | 10,840,480           | 5.14  | 8.8  | 8,313   |
| Exercisable at June 30, 2022                    | 2,629,096            | \$ 2.22   | 8.1  | \$ 4,185  |
| Vested and expected to vest as of June 30, 2022 | 10,840,480           |   | 8.8  | \$ 8,313  |

The aggregate intrinsic value was calculated based on the estimated fair value of common stock of \$3.32 per share.

The weighted-average grant date fair value of stock options granted during the three and six months ended June 30, 2022 was \$3.16 and \$4.21, respectively. The weighted-average grant date fair value of stock options granted during the three and six months ended June 30, 2021 was \$7.08 and \$3.87, respectively. The grant date fair value of options vested during the three and six months ended June 30, 2022 was \$5.0 million and \$5.8 million, respectively. The intrinsic value of options exercised, which represents the value of the Company's common stock at the time of exercise in excess of the exercise price, was \$1.8 million during the six months ended June 30, 2022. As of June 30, 2022, total unrecognized stock-based compensation related to stock options was \$34.2 million, which the Company expects to recognize over a remaining weighted average period of 3.1 years.

Under the 2020 Plan and 2021 Plan, the Company has also granted a limited quantity of cash-settled stock appreciation rights to certain international-based employees and consultants. As of June 30, 2022, 147,181 of these stock appreciation rights were outstanding with a weighted average exercise price of \$5.72. As of June 30, 2022, the Company had recognized a liability of \$0.2 million classified within other long-term liabilities on the condensed consolidated balance sheets and total unrecognized stock-based compensation related to these cash-settled stock appreciation rights was \$0.7 million, which the Company expects to recognize over a remaining weighted average period of 3.1 years. 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.

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**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 June 30, |           | For the Six Months Ended June 30, |           |
|--------------------------|-------------------------------------|-----------|-----------------------------------|-----------|
|                          | 2022                                | 2021      | 2022                              | 2021      |
| Expected term (in years) | 5.5-6.8                             | 6.0-6.1   | 5.5-7.0                           | 3.5-6.1   |
| Volatility               | 63%-64%                             | 46%       | 63%-67%                           | 45%-47%   |
| Risk-free interest rate  | 2.5%-3.0%                           | 1.2%-1.3% | 0.8%-3.0%                         | 0.3%-1.3% |
| Dividend Yield           | —%                                  | —%        | —%                                | —%        |

The fair value of each stock option was determined by the Company using the methods and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment and estimation by management.

**Expected Term**—The expected term represents the period that stock-based awards are expected to be outstanding. The Company's stock options do not have a contractual term. However, there is a constructive maturity of each stock option based on the expected exit or liquidity scenarios for the Company. The Company's historical option exercise data is limited and did not provide a reasonable basis upon which to estimate an expected term. The expected term for options was derived by using the simplified method which uses the midpoint between the average vesting term and the contractual expiration period of the stock-based award.

**Expected Volatility**—As we do not have sufficient trading history for our common stock, the expected volatility was derived from the historical stock volatilities of comparable peer public companies within the Company's industry. These companies are considered to be comparable to the Company's business over a period equivalent to the expected term of the stock-based awards.

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

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

The Company estimated the fair value of its common stock underlying the stock-based awards when performing fair value calculations using the Black-Scholes option pricing model.

In June 2021, the Company increased the number of shares of common stock reserved for future issuance under the 2020 Plan to 11,980,029. In July 2021, upon the completion of IPO, the Company adopted the 2021 Plan. The number of shares of common stock initially reserved for future issuance under the 2021 Plan was 8,133,750. On January 1, 2022, the number of shares of common stock reserved for future issuance under the 2021 Plan was increased by 4,632,401 shares pursuant to an automatic annual increase. As of June 30, 2022, 9,601,512 shares were available for issuance under the 2021 Plan.

**Employee Stock Purchase Plan**

In July 2021, the Board 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 IPO. A total of 903,750 shares of common stock were reserved for issuance under the 2021 ESPP. The first offering period has not commenced as of June 30, 2022 and there is no stock-based compensation related to the 2021 ESPP for the period ended June 30, 2022.

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**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 June 30, 2022 and December 31, 2021 (in thousands):

|                                | June 30, 2022    |             |                  |                  |
|--------------------------------|------------------|-------------|------------------|------------------|
|                                | Level 1          | Level 2     | Level 3          | Total            |
| <b>Assets:</b>                 |                  |             |                  |                  |
| <i>Debt Securities:</i>        |                  |             |                  |                  |
| Money market funds             | \$ 169           | \$ —        | \$ —             | \$ 169           |
| U.S. treasury bills            | 49,833           | —           | —                | 49,833           |
| <i>Equity Securities:</i>      |                  |             |                  |                  |
| Equity securities without RDFV | —                | —           | 1,200            | 1,200            |
| <b>Total assets</b>            | <b>\$ 50,002</b> | <b>\$ —</b> | <b>\$ 1,200</b>  | <b>\$ 51,202</b> |
| <b>Liabilities:</b>            |                  |             |                  |                  |
| Contingent consideration       | \$ —             | \$ —        | \$ 12,750        | \$ 12,750        |
| <b>Total liabilities</b>       | <b>\$ —</b>      | <b>\$ —</b> | <b>\$ 12,750</b> | <b>\$ 12,750</b> |

|                                | December 31, 2021 |             |                  |                  |
|--------------------------------|-------------------|-------------|------------------|------------------|
|                                | Level 1           | Level 2     | Level 3          | Total            |
| <b>Assets</b>                  |                   |             |                  |                  |
| Equity securities without RDFV | \$ —              | \$ —        | \$ 1,200         | \$ 1,200         |
| <b>Total assets</b>            | <b>\$ —</b>       | <b>\$ —</b> | <b>\$ 1,200</b>  | <b>\$ 1,200</b>  |
| <b>Liabilities:</b>            |                   |             |                  |                  |
| Contingent consideration       | \$ —              | \$ —        | \$ 12,000        | \$ 12,000        |
| <b>Total liabilities</b>       | <b>\$ —</b>       | <b>\$ —</b> | <b>\$ 12,000</b> | <b>\$ 12,000</b> |

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The following table provides reconciliation for all liabilities measured at fair value using significant unobservable inputs (Level 3) for the quarter ended June 30, 2022 (in thousands):

|                                  | Contingent<br>consideration | Total liabilities |
|----------------------------------|-----------------------------|-------------------|
| Balance at December 31, 2021     | \$ 12,000                   | \$ 12,000         |
| Change in fair value during 2022 | 750                         | 750               |
| Balance at June 30, 2022         | <u>\$ 12,750</u>            | <u>\$ 12,750</u>  |

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

The fair value of equity securities without readily determinable fair market values ("RDFV") is determined based on cost, less any impairment, plus or minus changes in fair value resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. These securities are classified as Level 3 in the fair value hierarchy outlined above.

The contingent consideration liability is related to the Totient acquisition and is included in accrued expenses on the condensed consolidated balance sheet as of June 30, 2022. The change in fair value of the contingent consideration liability is included within research and development expense on the condensed consolidated statement of operations for the six months ended June 30, 2022. Refer to Note 4: Acquisitions for further information.

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. Related Party Transactions**

The Company had no related party transactions for the six months ended June 30, 2022.

During the year ended December 31, 2021, Phoenix Venture Partners II, L.P. exercised a warrant to purchase 307,211 shares of the Company's common stock at an exercise price of \$0.3027 per share, resulting in total cash proceeds to the Company of \$0.1 million. Zachariah Jonasson, a member of the Board, is a principal of Phoenix Venture Partners II, L.P.



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**12. Net loss per share attributable to common stockholders**

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 June 30, |                    | For the Six Months Ended June 30, |                    |
|---|-------------------------------------|--------------------|-----------------------------------|--------------------|
|   | 2022                                | 2021               | 2022                              | 2021               |
| <b>Numerator:</b>                               |                                     |                    |                                   |                    |
| Net loss  | \$ (28,680)                         | \$ (41,198)        | \$ (58,174)                       | \$ (52,160)        |
| Cumulative undeclared preferred stock dividends | —                                   | (1,047)            | —                                 | (2,042)            |
| Net loss available to common stockholder        | <u>\$ (28,680)</u>                  | <u>\$ (42,245)</u> | <u>\$ (58,174)</u>                | <u>\$ (54,202)</u> |
| <b>Denominator:</b>                             |                                     |                    |                                   |                    |
| Weighted-average common shares outstanding      | 90,669,499                          | 17,641,147         | 90,471,950                        | 17,312,437         |
| Net loss per share, basic and diluted           | <u>\$ (0.32)</u>                    | <u>\$ (2.39)</u>   | <u>\$ (0.64)</u>                  | <u>\$ (3.13)</u>   |

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):

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2022                        | 2021       | 2022                      | 2021       |
| Redeemable convertible preferred stock outstanding | —                           | 46,266,256 | —                         | 46,033,714 |
| Redeemable convertible preferred stock warrants    | —                           | 307,211    | —                         | 307,211    |
| Stock options                                      | 10,785,909                  | 6,038,919  | 10,139,442                | 4,677,249  |
| Restricted stock units                             | 68,175                      | —          | 48,589                    | —          |
| Unvested restricted stock                          | 2,123,409                   | 2,554,598  | 2,296,359                 | 2,138,146  |

**13. Income taxes**

The Company's effective income tax rate from continuing operations was 0.9% and (0.6)% for the three and six months ended June 30, 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.

For the three and six months ended June 30, 2022, the Company's tax expense (benefit) was \$(0.3) million and \$0.4 million, respectively. For the three and six months ended June 30, 2021, the Company's tax expense

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(benefit) was \$(5.6) million and \$(6.1) million, respectively. The Company recognizes the effect of income tax positions only if those positions are “more likely than not” of being sustained. As of June 30, 2022, the Company has \$1.0 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.

The Company and its subsidiaries file U.S. federal income tax returns and various state, local and foreign income tax returns. At June 30, 2022, the Company’s statutes of limitations are open for all federal and state years filed after the year of incorporation ending December 31, 2020. Net operating loss (“NOL”) and credit carryforwards from all years, including carryforwards from acquisitions generated prior to 2020, are subject to examination and adjustments for the three years following the year in which the carryforwards are utilized. The Company is not currently under Internal Revenue Service or state examination. Pursuant to Internal Revenue Code Sections 382 and 383, the utilization of NOLs and other tax attributes may be substantially limited due to cumulative changes in ownership greater than 50% that may have occurred or could occur during applicable testing periods.

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

### Overview

We are a drug and target discovery company harnessing deep learning and synthetic biology to expand the therapeutic potential of proteins. We built our Integrated Drug Creation Platform to identify novel drug targets, discover optimal biotherapeutic candidates, and generate the cell lines to manufacture them in a single efficient process. We believe our approach delivers disruptive efficiency, but more importantly enables our partners to create novel and human/AI-designed new-to-nature biologics (next-generation biologics).

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 cells, each expressing drug variants, for target binding affinity 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. In addition, with our Totient Target technology, we use machine learning computational methods to evaluate mRNA sequences gathered from 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 for further validation and development, these data comprising antibody-antigen recognition elements expand our AI models' training sets and may improve predictive capabilities for future discovery campaigns.

While next-generation biologics have exciting medical potential and are a rapidly growing field of drug development, because their protein architectures (scaffolds or modalities) are biologically foreign, they present challenges for conventional biologic discovery and cell line development methods. These methods typically involve a linear series of steps to screen and select desired molecular parts and reformat them into their final protein scaffold, and subsequent laborious and often unsuccessful generation of a suitable manufacturing cell line. We are transforming the biologic discovery and cell line development process by rapidly screening up to billions of drug candidates in the desired final protein scaffold that goes into patients and in the scalable manufacturing cell line that scales up for clinical and commercial manufacturing.

Our goal is to become the partner of choice for biologic drug discovery and cell line development. As a technology development company, we generate biologic drug candidates and production cell lines for our partners to develop. Our business model is to establish partnerships with biopharmaceutical companies and use our platform for rapid creation of next-generation biologic drug candidates and production cell lines. 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. Our partners are responsible for preclinical and clinical testing of biologics generated using our platform. We structure our partnerships to provide us with the opportunity to participate in the future success of the biologics generated utilizing our platform. Such partnerships may include milestone payments and/or royalties on sales by our partners of any approved products. We aim to assemble economic interests in a diversified portfolio of partners' next-generation biologic drug candidates across multiple indications.

As of June 30, 2022, we had 22 Active Programs (across nine current partners' preclinical or clinical pipelines) for which we have negotiated, or expect to negotiate upon completion of certain technology development activities, license agreements with potential downstream milestone payments and royalties. Eight of these Active Programs are focused on developing production cell lines for drug candidates that our partners (Merck & Co., Inc. (Merck), Xyphos Biotechnology, an Astellas Company (Astellas), Alpha Cancer Technologies, Inc., PhaseBio Pharmaceuticals, Inc., and other undisclosed biotechnology companies) are developing (five preclinical, one Phase 1, one Phase 3, and one animal health). The remaining fourteen Active Programs comprise Discovery applications including those programs for which we are deploying our Bionic Protein technology for targeted incorporation of non-standard amino acids, including three Discovery programs through our agreement with EQRx, Inc. and one lead optimization program with Astellas. We define "Active

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Programs” as 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.

Total revenue was \$1.0 million and \$1.8 million for the three and six months ended June 30, 2022, respectively, compared to \$0.7 million and \$1.8 million and for the three and six months ended June 30, 2021, respectively, due to timing of project-based milestones achieved and the mix of ongoing programs utilizing our Integrated Drug Creation Platform. Throughout 2021 and 2022, we have continued making investments in our operating capacity which has enabled us to achieve additional project-based milestones in our technology development and partnership agreements. Since our inception in 2011, we have devoted substantially all of our resources to research and development activities, including with respect to our Integrated Drug Creation Platform, establishing and maintaining our intellectual property portfolio, hiring personnel, raising capital and providing general and administrative support for these activities. As a result, we have incurred net losses in each year. For the three and six months ended June 30, 2022, we incurred net losses of \$28.7 million and \$58.2 million, respectively. For the three and six months ended June 30, 2021, we incurred net losses of \$41.2 million and \$52.2 million, respectively. Research and development expenses increased by \$14.0 million, or 77%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. As of June 30, 2022, we had an accumulated deficit of \$249.2 million and cash and cash equivalents totaling \$206.0 million.

Prior to our initial public offering (IPO), we financed our operations primarily through private placements of redeemable convertible preferred stock and convertible notes. From the date of our company formation up to the IPO, we had raised aggregate gross proceeds of \$230.0 million. In July 2021, we consummated our IPO and issued 14,375,000 shares of common stock, including a full exercise of the overallotment option, for net proceeds of \$210.1 million, after deducting underwriting discounts and offering related expenses.

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
- operate as a public company.

Our corporate headquarters and research and development facilities are located in Vancouver, Washington. In December 2020, we entered into an operating lease, which was subsequently amended in March 2021, for a 77,974 square foot corporate headquarters facility that includes office and laboratory space. During the second quarter of 2021, we relocated our operations to the new facility and completed the majority of our construction activities throughout 2021.

### **Recent Developments**

In June 2022, we entered into a seven program collaboration agreement with a stealth mode biotech partner. We will deploy our Bionic Protein non-standard amino acid technology to produce antibodies in a collaboration focused on discovery and development of antibody-drug-conjugates (ADCs) initially for oncology indications. Financial terms were not disclosed, but include an upfront payment as well as future milestones and royalties associated with each program.

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In July 2022, we announced senior executive hires of Jack Gold and Denise Dettore in newly created Chief Marketing Officer and Chief People Officer roles, respectively.

In July 2022, Eli Casdin resigned from our Board of Directors. Mr. Casdin's resignation is not the result of any disagreement with the Company on any matter relating to its operations, policies or practices.

In July 2022, Astellas and an unnamed partner notified us of the termination of development of certain partnered product candidates, reflecting a cumulative termination of three Active Programs.

In August 2022, we announced a corporate reorganization plan (August 2022 Reorganization) to streamline our scientific and technical teams and prioritize key technical initiatives including AI drug and target discovery.

### **COVID-19 Pandemic**

As a result of the ongoing COVID-19 pandemic, we have experienced and may continue to experience severe delays and disruptions, including, for example:

- interruption of or delays in receiving products and supplies from third parties;
- limitations on our business operations by local, state and/or federal governments that could impact our ability to conduct our technology development and other activities;
- delays in negotiations with partners and potential partners;
- increases in facilities costs to comply with physical distancing guidance;
- business disruptions caused by workplace, laboratory and office closures and an increased reliance on employees working from home, travel limitations, cyber security and data accessibility, or communication or mass transit disruptions; and
- limitations on employee resources that would otherwise be focused on the conduct of our activities, including because of sickness of employees or their families or the desire of employees to avoid contact with large groups of people.

While these delays continue to cause short-term disruptions, the overall impact to our financial statements is expected to continue to be immaterial. Refer to Part I, Item 1A of our 2021 Annual Report on Form 10-K under the heading "Risk Factors" for more information.

Furthermore, COVID-19 has adversely affected the broader economy and financial markets, resulting in an economic downturn that could curtail the research and development budgets of our partners, our ability to hire additional personnel and our financing prospects. The ultimate impact of COVID-19 on our operations and financial performance in future periods remains uncertain and will depend on many factors outside our control, including government response to the pandemic, the continued emergence of new variants and sub variants, and the development, availability, distribution and effectiveness of vaccines and treatments, all of which are uncertain and cannot be predicted.

For additional details, see the section titled "Risk Factors".

### **LLC Conversion**

We were originally formed in August 2011 as an Oregon limited liability company and later converted into a Delaware limited liability company in April 2016 under the name AbSci LLC. In October 2020, we completed a reorganization whereby we were converted from a Delaware limited liability company named AbSci LLC to a Delaware corporation under the name Absci Corporation (the LLC Conversion) and all outstanding membership interests in AbSci LLC were exchanged for equity interests in Absci Corporation. All of the share information referenced throughout this Quarterly Report has been retroactively adjusted to reflect the change in capital structure.

### **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

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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 molecules and programs under existing partnerships:** The execution of our long term strategy relies substantially on the value our partners believe can be recognized from the product candidates and/or production cell lines that we provide to them. 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 partners licensing the technologies we develop and advancing the drug candidates 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 license the technologies we develop. There is no assurance that a partner will elect to license the technologies we develop.
- **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 in the future also invest significantly in developing our own proprietary lead drug candidates and advancing them through preclinical 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.
- **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

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programs over multiple years, or as certain programs may be discontinued by partners, we anticipate updating these metrics to reflect such changes.

|                      | June 30,<br>2022 | December 31,<br>2021 |
|----------------------|------------------|----------------------|
| Partners, Cumulative | 19               | 18                   |
| Programs, Cumulative | 44               | 34                   |
| Active Programs      | 22               | 12                   |

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.

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.

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 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. In addition, in certain TDAs, we earn success-based fees upon achievement of specified technology goals.

We expect revenue to increase over time as we enter into additional partnership agreements and 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.

### KBI BioPharma, Inc. Collaboration Agreement

In December 2019, we executed a four-year Joint Marketing Agreement (JMA) with KBI BioPharma, Inc. (KBI) to co-promote technologies through joint marketing efforts. The JMA provides for a non-refundable upfront payment of \$0.8 million and milestone payments of \$2.8 million in the aggregate, of which \$2.3 million had been received as of June 30, 2022, upon the achievement of specific milestones. Upfront payments that relate to ongoing collaboration efforts required throughout the contract term such as joint marketing are recognized ratably throughout the contract term. We fully constrain revenue associated with the milestone payments until the specified milestones are probable of achievement. Additionally, KBI is obligated to make royalty payments to us during the fourth year of the JMA representing a percentage of its sales generated

through the arrangement. Any costs incurred to KBI through the duration of the JMA are recognized as a reduction to collaboration revenue in the period in which they are incurred.

In September 2021, the JMA was amended to shorten the term to approximately three years, while all remaining payments, including potential royalty payments, were replaced with a one-time fee due from KBI in the amount of \$0.3 million. We determined the remaining services were distinct from those provided prior to the modification and therefore recognize the total remaining transaction price prospectively over the remaining contractual term.

## **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), 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 target discovery and technology development for partners, as well as continued development of our Integrated Drug Creation Platform. We derive improvements to our platform from both types of activities. Research and development efforts apply to our platform broadly and across programs.

Following an initial reduction due to the August 2022 Reorganization, we expect research and development expenses to continue to increase in absolute dollars over the long-term as we enter into additional partnerships and continue to invest in platform enhancements.

### ***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 and other administrative functions. Marketing expenses include costs associated with attending conferences and other promotion efforts of our Integrated Drug Creation Platform. Additionally, these expenses include external legal expenses, accounting and tax service expenses, consulting fees, and allocated facilities costs (including occupancy and information technology). 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 continue to increase in absolute dollars as we continue to hire for key leadership roles and incur 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 increase in absolute dollars and 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 covering 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 deep learning 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 continue to increase in absolute dollars as we continue to purchase additional lab equipment within our operating facilities.

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**Other Expenses***Interest Expense*

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

*Other Income (Expense)*

Other income (expense) to date consists primarily of adjustments of our convertible notes and preferred stock warrant liability to fair value and a gain on extinguishment for the forgiveness of our Payroll Protection Plan (PPP) loan, offset by interest income.

**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 June 30, |                    | For the Six Months Ended June 30, |                    |
|-------------------------------------|-------------------------------------|--------------------|-----------------------------------|--------------------|
|                                     | 2022                                | 2021               | 2022                              | 2021               |
| <b>Revenues</b>                     |                                     |                    |                                   |                    |
| Technology development revenue      | \$ 636                              | \$ 592             | \$ 1,090                          | \$ 1,532           |
| Collaboration revenue               | 366                                 | 136                | 731                               | 259                |
| Total revenues                      | 1,002                               | 728                | 1,821                             | 1,791              |
| <b>Operating expenses</b>           |                                     |                    |                                   |                    |
| Research and development            | 16,241                              | 11,040             | 32,068                            | 18,090             |
| Selling, general and administrative | 10,507                              | 5,179              | 21,396                            | 9,864              |
| Depreciation and amortization       | 3,141                               | 1,201              | 6,047                             | 1,677              |
| Total operating expenses            | 29,889                              | 17,420             | 59,511                            | 29,631             |
| Operating loss                      | (28,887)                            | (16,692)           | (57,690)                          | (27,840)           |
| <b>Other expense</b>                |                                     |                    |                                   |                    |
| Interest expense                    | (211)                               | (2,009)            | (406)                             | (2,464)            |
| Other income (expense), net         | 148                                 | (28,114)           | 273                               | (27,950)           |
| Total other expense, net            | (63)                                | (30,123)           | (133)                             | (30,414)           |
| Loss before income taxes            | (28,950)                            | (46,815)           | (57,823)                          | (58,254)           |
| Income tax (expense) benefit        | 270                                 | 5,617              | (351)                             | 6,094              |
| <b>Net loss</b>                     | <b>\$ (28,680)</b>                  | <b>\$ (41,198)</b> | <b>\$ (58,174)</b>                | <b>\$ (52,160)</b> |

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

The following table summarizes our results of operations for the three and six months ended June 30, 2022 and 2021 (In thousands, except for percentages):

**Revenue**

|                                | For the Three Months Ended June 30, |               | \$ Change     | % Change    |
|--------------------------------|-------------------------------------|---------------|---------------|-------------|
|                                | 2022                                | 2021          |               |             |
| <b>Revenues</b>                |                                     |               |               |             |
| Technology development revenue | \$ 636                              | \$ 592        | \$ 44         | 7 %         |
| Collaboration revenue          | 366                                 | 136           | 230           | 169 %       |
| <b>Total revenues</b>          | <b>\$ 1,002</b>                     | <b>\$ 728</b> | <b>\$ 274</b> | <b>38 %</b> |

|                                | For the Six Months Ended June 30, |                 | \$ Change    | % Change   |
|--------------------------------|-----------------------------------|-----------------|--------------|------------|
|                                | 2022                              | 2021            |              |            |
| <b>Revenues</b>                |                                   |                 |              |            |
| Technology development revenue | \$ 1,090                          | \$ 1,532        | \$ (442)     | (29)%      |
| Collaboration revenue          | 731                               | 259             | 472          | 182 %      |
| <b>Total revenues</b>          | <b>\$ 1,821</b>                   | <b>\$ 1,791</b> | <b>\$ 30</b> | <b>2 %</b> |

Total revenue was \$1.0 million for the three months ended June 30, 2022 compared to \$0.7 million for the three months ended June 30, 2021, representing an increase of \$0.3 million, or 38%. Total revenue increased 2% for the six months ended June 30, 2022 compared to the six months ended June 30, 2021.

Technology development revenue increased 7% for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. Technology development revenue decreased by \$0.4 million, or 29%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. Technology development revenue decrease from June 30, 2021 is driven by a combination of overall program progress, the timing of project-based milestones achieved, and the mix of ongoing programs activity.

Collaboration revenue increased by \$0.2 million, or 169%, for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. Collaboration revenue increased by \$0.5 million, or 182%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021, these increases are a result of the September 2021 contract modification which resulted in a shortened term and modified consideration.

**Operating Expenses**

|                                     | For the Three months ended June 30, |           | \$ Change | % Change |
|-------------------------------------|-------------------------------------|-----------|-----------|----------|
|                                     | 2022                                | 2021      |           |          |
| Operating expenses                  |                                     |           |           |          |
| Research and development            | \$ 16,241                           | \$ 11,040 | \$ 5,201  | 47 %     |
| Selling, general and administrative | 10,507                              | 5,179     | 5,328     | 103 %    |
| Depreciation and amortization       | 3,141                               | 1,201     | 1,940     | 162 %    |
| Total operating expenses            | \$ 29,889                           | \$ 17,420 | \$ 12,469 | 72 %     |

|                                     | For the Six Months Ended June 30, |           | \$ Change | % Change |
|-------------------------------------|-----------------------------------|-----------|-----------|----------|
|                                     | 2022                              | 2021      |           |          |
| Operating expenses                  |                                   |           |           |          |
| Research and development            | \$ 32,068                         | \$ 18,090 | \$ 13,978 | 77 %     |
| Selling, general and administrative | 21,396                            | 9,864     | 11,532    | 117 %    |
| Depreciation and amortization       | 6,047                             | 1,677     | 4,370     | 261 %    |
| Total operating expenses            | \$ 59,511                         | \$ 29,631 | \$ 29,880 | 101 %    |

**Research and development**

Research and development expenses increased by \$5.2 million, or 47%, for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was generally driven by increased costs associated with increased technology development activity with our partners and increased costs associated with continued platform development. These increased costs were primarily attributable to increased headcount and related personnel costs in the amount of \$2.1 million, increased purchases of supplies and services related to lab operations in the amount of \$2.4 million specifically for our technology development agreements and internal research and platform development activities, and increased rent and facility overhead. Additionally, stock-based compensation increased \$0.8 million.

Research and development expenses increased by \$14.0 million, or 77%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was generally driven by increased costs associated with increased technology development activity with our partners and increased costs associated with continued platform development. These increased costs were primarily attributable to increased headcount and related personnel costs in the amount of \$6.2 million, increased purchases of supplies and services related to lab operations in the amount of \$5.9 million specifically for our technology development agreements and internal research and platform development activities, and increased rent and facility overhead. Additionally, stock-based compensation increased \$1.2 million, and research and development related administrative costs increased \$0.8 million, primarily due to the remeasurement of the contingent consideration.

**Selling, General and Administrative Expenses**

Selling, general, and administrative expenses increased by \$5.3 million, or 103%, for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily driven by increased headcount and related personnel costs in the amount of \$1.6 million, increased stock-based compensation of \$2.0 million, increased administrative costs of \$1.8 million, offset by a decrease in professional service fees in the amount of \$0.5 million. The increases in the administrative fees are the result of our operating as a public company. The decrease in professional services fees is due to \$0.9 million of transaction costs associated with the Totient acquisition in the three months ended June 30, 2021.

Selling, general, and administrative expenses increased by \$11.5 million, or 117%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily driven by increased headcount and related personnel costs in the amount of \$2.9 million, increased stock-based compensation of \$3.2 million, and increased administrative costs of \$4.2 million. The increases in the administrative fees are the result of our operating as a public company.

### Depreciation and amortization

Depreciation and amortization expense increased by \$1.9 million, or 162%, for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily due to the increased purchases of lab equipment necessary to complete our increased level of technology development agreements and research and development, purchases of property, equipment, and leasehold improvements related to our new corporate headquarters, and the amortization of intangible assets acquired in 2021.

Depreciation and amortization expense increased by \$4.4 million, or 261%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily due to the increased purchases of lab equipment necessary to complete our increased level of technology development agreements and research and development, purchases of property, equipment, and leasehold improvements related to our new corporate headquarters, and the amortization of intangible assets acquired in 2021.

### Other Expenses

|                             | For the Three months ended June 30, |             | \$ Change | % Change |
|-----------------------------|-------------------------------------|-------------|-----------|----------|
|                             | 2022                                | 2021        |           |          |
| Other expense               |                                     |             |           |          |
| Interest expense            | \$ (211)                            | \$ (2,009)  | \$ 1,798  | (89)%    |
| Other income (expense), net | 148                                 | (28,114)    | 28,262    | (101)%   |
| Total other expense, net    | \$ (63)                             | \$ (30,123) | \$ 30,060 | (100)%   |

|                             | For the Six Months Ended June 30, |             | \$ Change | % Change |
|-----------------------------|-----------------------------------|-------------|-----------|----------|
|                             | 2022                              | 2021        |           |          |
| Other expense               |                                   |             |           |          |
| Interest expense            | \$ (406)                          | \$ (2,464)  | \$ 2,058  | (84)%    |
| Other income (expense), net | 273                               | (27,950)    | 28,223    | (101)%   |
| Total other expense, net    | \$ (133)                          | \$ (30,414) | \$ 30,281 | (100)%   |

### Interest Expense

Interest expense was \$0.2 million for the three months ended June 30, 2022 compared to \$2.0 million for the three months ended June 30, 2021, representing a decrease of \$1.8 million, or 89%. During the three months ended March 31, 2021, we recognized interest expense related to the convertible promissory notes issued in March 2021. These notes converted into common stock in connection with the IPO, resulting in decreased interest expense for the three months ended June 30, 2022.

Interest expense was \$0.4 million for the six months ended June 30, 2022 compared to \$2.5 million for the six months ended June 30, 2021, representing a decrease of \$2.1 million, or 84%. During the three months ended March 31, 2021, we recognized interest expense related to the convertible promissory notes issued in March 2021. These notes converted into common stock in connection with the IPO, resulting in decreased interest expense for the six months ended June 30, 2022.

### Other Income (Expense), net

Other income (expense), net, was \$0.1 million for the three months ended June 30, 2022 compared to \$28.1 million for the three months ended June 30, 2021, representing a change of \$28.3 million, or 101%. For the three months ended June 30, 2021 Other expense included the adjustment of the fair value of our convertible notes for \$25.1 million, and the change in the preferred stock warrant liability's fair value in the amount of \$3.0 million. For the three months ended June 30, 2022, Other income primarily included interest income.

Other income (expense), net, was \$0.3 million for the six months ended June 30, 2022 compared to \$28.0 million for the six months ended June 30, 2021, representing a change of \$28.2 million, or 101%. For the six months ended June 30, 2021 Other income included the adjustment of the fair value of our convertible notes for \$25.1 million, and the change in the preferred stock warrant liability's fair value in the amount of \$3.4

million, offset by recognition of a gain on extinguishment for the forgiveness of our PPP loan in the amount of \$0.6 million. For the six months ended June 30, 2022, other income primarily included interest income.

## **Liquidity and Capital Resources**

### **Overview**

As of June 30, 2022, we had \$206.0 million of cash and cash equivalents. As of December 31, 2021, we had \$252.6 million of cash and cash equivalents.

We have incurred net operating losses since inception. As of June 30, 2022, our accumulated deficit was \$249.2 million. As of December 31, 2021, our accumulated deficit was \$191.0 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 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 and into late 2025.

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.

#### *Redeemable convertible preferred stock*

Through June 30, 2022, we have raised a total of \$104.3 million from the issuance of redeemable convertible preferred stock, net of issuance costs, including shares of Series E redeemable convertible preferred stock for net proceeds of \$4.9 million in February 2021. In July 2021, all convertible preferred stock converted into an aggregate of 46,266,256 shares of common stock immediately prior to our IPO.

#### *Bridge Bank Loan and Security Agreement*

In June 2018, we entered into a Loan and Security Agreement (LSA) with Bridge Bank (Bank), a division of Western Alliance Bank. We initially borrowed the first tranche of \$0.3 million in June 2018. We increased our borrowings to \$3.0 million in March 2019, and to \$5.0 million in May 2020. The loan was to mature in May 2022, at which time all outstanding principal and accrued and unpaid interest would have been due and payable. In June 2021, we entered into a fifth amendment to the LSA. This amendment modified the term loan's maturity date to June 16, 2023. This loan is secured by substantially all our tangible assets; intellectual property is excluded from this secured collateral, but is subject to a negative pledge in favor of Bank. In June 2022, the Company paid off the remaining outstanding balance of \$2.4 million of the LSA, which terminated the LSA and extinguished all of the Company's obligations therein.

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### Convertible notes

In March 2021, we issued \$125.0 million aggregate principal amount of Convertible Notes to certain existing and new investors. In July 2021, the Convertible Notes converted into an aggregate of 9,732,593 shares of common stock immediately prior to our IPO, at a price per share calculated based on 82% of the IPO price of \$16.00.

### Initial Public Offering

In July 2021, we completed our 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 the three months ended June 30, 2022, the Company received \$9.4 million of proceeds from equipment financing arrangements with multiple financial institutions. Terms of the agreements require monthly payments over 42-48 month periods with imputed interest rates ranging from 8%-10%. As of June 30, 2022 the combined outstanding balance on the agreements is \$9.3 million.

## Cash Flows

The following summarizes our cash flows for the six months ended June 30, 2022 and 2021 (In thousands):

|  | For the Six Months Ended June 30, |           |
|--|-----------------------------------|-----------|
|  | 2022                              | 2021      |
| Net cash provided by (used in)   |                                   |           |
| Operating activities   | (43,728)                          | (21,772)  |
| Investing activities   | (18,080)                          | (52,241)  |
| Financing activities   | 4,765                             | 129,102   |
| Net (decrease) increase in cash, cash equivalents, and restricted cash | \$ (57,043)                       | \$ 55,089 |

### Cash Flows from Operating Activities

In the six months ended June 30, 2022, net cash used in operating activities was \$43.7 million and consisted primarily of a net loss of \$58.2 million adjusted for non-cash items, including depreciation and amortization expense of \$6.0 million, stock-based compensation of \$7.9 million, an increase to our contingent consideration liability of \$0.8 million, and a net increase in operating assets and liabilities in the amount of \$0.5 million.

In the six months ended June 30, 2021, net cash used in operating activities was \$21.8 million and consisted primarily of a net loss of \$52.2 million adjusted for non-cash items, including stock-based compensation of \$3.6 million, an increase to our convertible note liability of \$25.1 million, depreciation and amortization expense of \$1.7 million, an increase to our preferred stock warrant liability of \$3.4 million, and the gain on extinguishment of our PPP loan of \$0.6 million and was partially offset by a net decrease in operating assets and liabilities in the amount of \$3.3 million.

### Cash Flows from Investing Activities

In the six months ended June 30, 2022, net cash used in investing activities was \$18.1 million. The net cash used resulted primarily from purchases of lab equipment and leasehold improvements of \$10.7 million as we expanded our operations and overall capacity and cash paid as part of our acquisition of Totient of \$8.0 million.

In the six months ended June 30, 2021, net cash used in investing activities was \$52.2 million primarily from purchases of lab equipment of \$24.1 million and cash paid as part of our acquisitions of Denovium and Totient of \$28.1 million.

### **Cash Flows from Financing Activities**

In the six months ended June 30, 2022, net cash provided by financing activities was \$4.8 million. The net cash provided resulted primarily from new equipment financing agreements of \$9.4 million and proceeds from the issuance of common stock of \$0.4 million, net of issuance costs, partially offset by cash used for principal payments of \$5.1 million made for leased equipment under finance leases and long-term debt.

In the six months ended June 30, 2021, net cash provided by financing activities was \$129.1 million. The net cash provided resulted primarily from the issuance of \$125.0 million of convertible promissory notes and Series E redeemable convertible preferred stock, net of issuance costs, in the amount of \$4.9 million, partially offset by principal payments made for leased equipment under finance leases and long-term debt in the amount of \$0.9 million.

### **Income taxes**

The Company's effective income tax rate from continuing operations was (0.6)% for the six months ended June 30, 2022. 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.

While our significant accounting policies are described in more detail in Note 2: Accounting Policies in our [Annual Report on Form 10-K](#) for the year ended December 31, 2021, we believe that the following accounting policies are those most critical to the judgments and estimates used in the preparation of our financial statements.

#### ***Revenue recognition***

We recognize revenue as control of our products and services are transferred to our customers in an amount that reflects the consideration expected to be received in exchange for those products and services. This process involves identifying the contract with a customer, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when or as the performance obligations are satisfied. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. We consider a performance obligation satisfied once control of a good or service has been transferred to the customer, meaning the customer has the ability to use and obtain the benefit of the good or service. Technology development revenue includes revenue associated to the discovery, development and technology readiness phases of technology development agreements. We refer to our customers as "partners" when describing our relationship in an agreement.

#### ***Technology development revenue***

Our TDAs generally include multiple phases of Discovery and/or CLD; such as target discovery, library design, assay development, strain screening, fermentation optimization, purification, and analytics that typically all represent a single performance obligation. These agreements may include options for additional goods and services such as readying the technology to transfer to the partner and licensing terms. The transaction prices

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for these arrangements include fixed and variable consideration for the single performance obligation as well as variable consideration for success-based achievements. Any variable consideration is constrained to the extent that it is probable that a significant reversal of cumulative revenue will not occur. Depending on the specific terms of the arrangement, we either recognize revenue over time or at a point in time. While there is no alternative use for the asset created, the agreement's terms vary as to whether an enforceable right to payment exists for performance completed as of that date. Primarily all of our contracts with our partners include an enforceable right to payment.

We measure progress toward the completion of the performance obligations satisfied over time using an input method based on an overall estimate of the effort incurred to date at each reporting period to satisfy a performance obligation. This method provides an appropriate depiction of completed progress toward fulfilling our performance obligations for each respective arrangement. In certain TDAs that require a portion of the contract consideration to be received in advance at the commencement of the contract, such advance payment is initially recorded as a contract liability.

#### *Business combinations*

We utilize the acquisition method of accounting for business combinations and allocate the purchase price of an acquisition to the various tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. We primarily establish fair value using the replacement cost approach or the income approach based upon a discounted cash flow model. The replacement cost approach measures the value of an asset by the cost to reconstruct or replace it with another of like utility. The income approach requires the use of many assumptions and estimates including future revenues and expenses, as well as discount factors and income tax rates. Other estimates include:

- The use of carrying value as a proxy for fair values of fixed assets and liabilities assumed from the target; and
- Fair values of intangible assets and contingent consideration.

While we use best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business acquisition date, these estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price measurement period, which is no more than one year from the business acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. We have recorded adjustments during the period ended December 31, 2021 related to our Totient acquisition. Business combinations also require us to estimate the useful life of certain intangible assets acquired and this estimate requires significant judgment.

#### **Stock-based compensation**

Stock-based compensation includes compensation expense for incentive units, restricted stock, and stock option grants to employees and is measured on the grant date based on the fair value of the award and recognized on a straight-line basis over the requisite service period. The fair value of options to purchase common stock are measured using the Black-Scholes option-pricing model. The Company accounts for forfeitures as they occur. Prior to the LLC Conversion, the Company also granted phantom units which due to the presence of an exercise condition contingent upon a liquidity event, the Company determined that it was not probable that the phantom units would become exercisable.

See Note 9: Stock-based compensation to our financial statements included elsewhere in this Quarterly Report on form 10-Q for more information concerning certain of the specific assumptions we used in applying the Black-Scholes option pricing model to determine the estimated fair value of our stock options. Certain of such assumptions involve inherent uncertainties and the application of significant judgment. As a result, if factors or expected outcomes change and we use significantly different assumptions or estimates, our stock-based compensation could be materially different.

#### **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

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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 \$1.07 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**

Inflation rates have increased during the periods covered by this Quarterly Report, and is expected to continue to increase for the near future. Inflationary factors, such as increases in the cost of our product components, interest rates and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, we have experienced some effect from inflation, and may continue to experience some effect in the near future, especially if inflation rates continue to rise.

### **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 ensure 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.

Based upon our evaluation of the Company's disclosure controls and procedures, as of June 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls were not effective, due to the material weakness in internal control over financial reporting disclosed in our [Annual Report on Form 10-K](#) for the year ended December 31, 2021. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weakness in our internal control over financial reporting, the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with US GAAP.

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### *Changes in Internal Control over Financial Reporting*

We are taking actions to remediate the material weakness relating to our internal control over financial reporting, as described below. Except as otherwise described herein, there was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### *Ongoing Remediation of Material Weakness in Internal Control over Financial Reporting*

We are working to remediate the material weakness and are taking steps to strengthen our internal control over financial reporting through the continued hiring of additional finance and accounting personnel with the requisite technical knowledge and skills. With the additional personnel, we are taking appropriate and reasonable steps to remediate this material weakness through the implementation of appropriate segregation of duties, formalization of accounting policies and controls and retention of appropriate expertise for complex accounting transactions. We will not be able to fully remediate these control deficiencies until these steps have been completed and have been operating effectively for a sufficient period of time. While management believes that significant progress has been made in enhancing internal controls as of June 30, 2022, and in the period since, the material weakness described in Part II, Item 9A, "Controls and Procedures" in our [Annual Report on Form 10-K](#) for the year ended December 31, 2021, has not been fully remediated due to insufficient time to assess the design, fully implement remediation and assess operating effectiveness of the related controls. Management will continue to evaluate and improve our disclosure controls and procedures and internal control over financial reporting throughout 2022, and will make any further changes management deems appropriate. This material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that the enhanced controls are operating effectively.

## **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**

See Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed with the SEC on March 22, 2022 for a detailed discussion of the risk factors affecting our business, results of operations and financial condition. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Annual Report and the risks identified elsewhere in this report. Except as presented below, there have been no material changes to the risk factors set forth in our Annual Report.

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.

***If we cannot maintain our current relationships with partners, fail to expand our relationships with our current partners, or if we fail to enter into new relationships, our future operating results would be adversely affected as a general matter.***

In the six months ended June 30, 2022 and 2021, revenue from our top two partners and top three partners, respectively, accounted for 95% and 97% of our technology development revenue, respectively. In the three months ended June 30, 2022 and 2021, revenue from our top one partner and top three partners, respectively, accounted for 91% and 95% of our technology development revenue, respectively. The revenue attributable to these partners may fluctuate in the future, which could have an adverse effect on our business

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financial condition, results of operations and prospects. Our existing partners may cease to use our technologies depending on their own technological developments, availability of other competing technologies and internal decisions regarding allocation of time and resources to the discovery and development of biologic product candidates, over which we have no control. Our existing and future partners may have limited bandwidth to initiate new programs, which could limit their adoption or scale of application of our technologies. In addition, existing partners may choose to produce some or all of their requirements internally by using or developing their own manufacturing capabilities or by using capabilities from acquisitions of assets or entities from third parties with such capabilities. While our business is not substantially dependent on technology development revenues from any individual partner, because we currently have a limited number of partnerships, a loss of one of our partners could adversely impact our revenue, results of operations, cash flows or reputation in any given period.

Our future success also depends on our ability to expand relationships with our existing partners and to establish relationships with new partners. We engage in discussions with other companies and institutions regarding potential technology development and license opportunities on an ongoing basis, which can be time consuming. There is no assurance that any of these discussions will result in a technology development and/or license agreement, or if an agreement is reached, that the resulting relationship will be successful, or that the terms of such agreement will be favorable to us. We target partnerships with biotechnology and pharmaceutical companies. Macro-economic market conditions may have a significant effect on the formation, funding and research and development budgets of these types of entities and could have a significant effect on the number of viable companies with whom we may partner or the programs viable partners may elect to pursue. Our partners may also determine their research and development budgets based on other factors, including the need to develop new products, technological expertise, continued availability of governmental and other funding, competition, and intellectual property landscape. If research and development budgets of viable partners are reduced or the number of viable partners decline, the impact could adversely affect our business, financial condition, results of operations and prospects.

In addition, our ability to monitor the achievement of clinical, regulatory and commercial milestones by our partners and enforce the payment of any corresponding fees is limited. Furthermore, the termination of any of these relationships could result in a temporary or permanent loss of revenue. Additionally, speculation in the industry about our existing or potential commercial relationships can be a catalyst for adverse speculation about us and our technology, which can adversely affect our reputation and our business.

We cannot assure investors that we will be able to maintain or expand our existing partnerships or that our technologies will achieve adequate market adoption among new partners. Any failure to increase penetration in our existing markets or new markets would adversely affect our ability to improve our operating results.

***Our corporate reorganization plan and the associated workforce reduction announced in August 2022 may not result in the full anticipated savings and may disrupt operations.***

In August 2022, we announced a corporate reorganization plan to streamline our scientific and technical teams and prioritize key technical initiatives including AI drug and target discovery. We may not fully realize the anticipated benefits, savings and improvements in our cost structure from our reorganization efforts due to unforeseen difficulties, delays or unexpected costs. If we are unable to realize anticipated cost savings from the reorganization, our operating results and financial condition may be adversely affected. Furthermore, our corporate reorganization plan may be disruptive to our operations. For example, our workforce reductions could yield unanticipated consequences, such as turnover beyond planned reductions or increased difficulties in our day-to-day operations. Our workforce reductions could also harm our ability to attract and retain qualified personnel who are critical to our business. Any failure to attract or retain qualified personnel could prevent us from successfully executing key technical initiatives.

***Unfavorable U.S. or global economic conditions could adversely affect our business, financial condition or results of operations.***

Our results of operations could be adversely affected by general conditions in the global economy and financial markets. A severe or prolonged economic downturn could result in a variety of risks to our business, including weakened demand for our technologies and our ability to raise additional capital when needed on favorable terms, if at all. Recently, the rate of inflation has increased throughout the U.S. economy. Inflation may adversely affect us by increasing the costs associated with performing research and development on internal research initiatives and partnered programs. We may experience significant increases in the prices of

labor, consumables, and other costs of doing business. In an inflationary environment, such cost increases may outpace our expectations, causing us to use cash faster than forecasted. A weak or declining economy may also strain our partners, possibly resulting in supply disruption, or cause delays in their payments to us. Any of the foregoing could harm our business and we cannot anticipate all of the ways in which the current economic climate and financial market conditions could adversely impact our business.

## 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 six months ended June 30, 2022.

### *Use of Proceeds*

We completed our IPO pursuant to the registration statement on Form S-1, as amended (File No. 333-257553) 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 June 30, 2022, we have used \$112.4 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*

The following table presents information with respect to the Company's repurchase of common stock during the quarter ended June 30, 2022:

| Period                               | Total Number of<br>Shares (or units)<br>Purchased <sup>(1)</sup> | Average Price<br>Paid per Share (or<br>unit) | Total Number of<br>Shares (or units)<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs | Maximum<br>Number (or<br>Approximate<br>Dollar Value) of<br>Shares (or units)<br>That May Yet Be<br>Purchased Under<br>the Plans or<br>Programs |
|--------------------------------------|--|--|--|---|
| April 1 2022, through April 30, 2022 | —  | —  | —  | —   |
| May 1 2022, through May 31, 2022     | —  | —  | —  | —   |
| June 1, 2022, through June 30, 2022  | 249,618  | \$0.00                                       | —  | —   |
| Total                                | 249,618  |  | —  | —   |

<sup>(1)</sup> Represents shares of unvested common stock repurchased pursuant to the Company's repurchase right set forth in restricted stock agreements for such shares.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits****Exhibit Index**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.1                | <a href="#">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).</a>  |
| 3.2                | <a href="#">Amended and Restated Bylaws of the Absci Corporation (filed as Exhibit 3.2 to the Form 8-K, File No. 001-40646, filed by Absci Corporation on July 26, 2021 and incorporated herein by reference).</a>  |
| 4.1                | <a href="#">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).</a> |
| 4.2*#              | <a href="#">Amended and Restated Non-Employee Director Compensation Policy</a>  |
| 31.1*              | <a href="#">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.</a>   |
| 31.2*              | <a href="#">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.</a>   |
| 32.1+              | <a href="#">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.</a>  |
| 32.2+              | <a href="#">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.</a>  |
| 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.

# Represents management compensation plan, contract or arrangement.

+ 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: August 11, 2022

By: /s/ Gregory Schiffman  
Gregory Schiffman  
Chief Financial Officer (Principal Financial Officer)

Date: August 11, 2022

By: /s/ Todd Bedrick  
Todd Bedrick  
Senior Vice President, Chief Accounting Officer  
(Principal Accounting Officer)

## ABSCI CORPORATION

## NON-EMPLOYEE DIRECTOR COMPENSATION POLICY

The purpose of this Non-Employee Director Compensation Policy (as amended, restated or otherwise modified from time to time, the “Policy”) of Absci Corporation (the “Company”) is to provide a total compensation package that enables the Company to attract and retain, on a long-term basis, high-caliber directors who are not employees or officers of the Company or its subsidiaries (“Outside Directors”). This Policy became effective as of the effective time of the registration statement for the Company’s initial public offering of its equity securities, and thereafter any amendments, restatements or other modifications hereto will become effective as of the date specified by the Company’s Board of Directors (the “Effective Date”). In furtherance of the purpose stated above, all Outside Directors shall be paid compensation for services provided to the Company as set forth below:

**Cash Retainers**

**Annual Retainer for Board Membership:** \$40,000 for general availability and participation in meetings and conference calls of the Company’s Board of Directors (the “Board of Directors”), to be paid quarterly in arrears, pro-rated based on the number of actual days served by the director during such calendar quarter. No additional compensation will be paid for attending individual meetings of the Board of Directors.

**Additional Annual Retainer for Non-Executive Chairperson:** \$35,000

**Additional Annual Retainers for Committee Membership:**

Audit Committee Chairperson: \$20,000

Audit Committee member: \$10,000

Compensation Committee Chairperson: \$15,000

Compensation Committee member: \$7,500

Nominating and Corporate Governance Committee Chairperson: \$10,000

Nominating and Corporate Governance Committee member: \$5,000

Chairperson and committee member retainers are in addition to retainers for members of the Board of Directors. No additional compensation will be paid for attending individual committee meetings of the Board of Directors.

**Equity Retainers**

**Initial Award:** An initial, one-time stock option award (the “Initial Award”) to purchase 57,400 shares will be granted to each new Outside Director upon his or her election to the Board of Directors, which shall vest in equal monthly installments over three years from the date of grant, provided, however, that all vesting shall cease if the director resigns from the Board of Directors or otherwise ceases to serve as a director, unless the Board of Directors determines that the circumstances warrant continuation of vesting. The Initial Award shall expire ten years from the date of grant and shall have a per share exercise price equal to the Fair Market Value (as defined in the Company’s 2021 Stock Option and Incentive Plan) of the Company’s common stock on the date of grant. This Initial Award applies only to Outside Directors who are first elected to the Board of Directors subsequent to the Effective Date.

**Annual Award:** On each date of each Annual Meeting of Stockholders of the Company following the Effective Date (the “Annual Meeting”), each continuing Outside Director, other than a director receiving an Initial Award, will be granted, automatically and without the need for any further action by the Board, an annual stock option award (the “Annual Award”) to purchase 28,700 shares, which shall vest in full upon the earlier of (i) the first anniversary of the date of grant or (ii) the date of the next Annual Meeting; provided, however, that all vesting shall cease if the director resigns from the Board of Directors or otherwise ceases to serve as a director, unless the Board of Directors determines that the circumstances warrant continuation of vesting; provided, further, that if an individual commenced service as an Outside Director within the twelve (12) months immediately preceding such Annual Meeting, then the Annual Award granted to such Outside Director will be prorated based on the number of whole months that the individual served as an Outside Director prior to the Annual Award’s grant date during the twelve (12) month period immediately preceding such Annual Meeting

(with any resulting fractional share rounded down to the nearest whole share). Such Annual Award shall expire ten years from the date of grant and shall have a per share exercise price equal to the Fair Market Value (as defined in the Company's 2021 Stock Option and Incentive Plan) of the Company's common stock on the date of grant.

Sale Event Acceleration: All outstanding Initial Awards and Annual Awards held by an Outside Director shall become fully vested and exercisable upon a Sale Event (as defined in the Company's 2021 Stock Option and Incentive Plan).

### **Expenses**

The Company will reimburse all reasonable out-of-pocket expenses incurred by non-employee directors in attending meetings of the Board of Directors or any committee thereof.

### **Maximum Annual Compensation**

The aggregate amount of compensation, including both equity compensation and cash compensation, paid by the Company to any Outside Director for service as an Outside Director in a calendar year for services as an Outside Director period shall not exceed \$1,000,000; provided, however, that such amount shall be \$1,250,000 for the calendar year in which the applicable Outside Director is initially elected or appointed to the Board of Directors; (or such other limits as may be set forth in Section 3(b) of the Company's 2021 Stock Option and Incentive Plan or any similar provision of a successor plan). For this purpose, the "amount" of equity compensation paid in a calendar year shall be determined based on the grant date fair value thereof, as determined in accordance with FASB ASC Topic 718 or its successor provision, but excluding the impact of estimated forfeitures related to service-based vesting conditions.

Adopted July 16, 2021.

Effective July 21, 2021.

Amendments Effective May 10, 2022





**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: August 11, 2022

By: \_\_\_\_\_ /s/ Gregory Schiffman

**Gregory Schiffman  
Chief Financial Officer**

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

In connection with the Quarterly Report of Absci Corporation (the “Company”) on Form 10-Q for the period ending June 30, 2022 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: August 11, 2022

By: \_\_\_\_\_ /s/ Sean McClain

**Sean McClain**  
**Founder and Chief Executive Officer**

