

**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 September 30, 2021
- 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: 001-40344

Akoya Biosciences, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	47-5586242 (I.R.S. Employer Identification No.)
100 Campus Drive, 6th Floor Marlborough, Massachusetts (Address of principal executive offices)	01752 (Zip Code)

(855) 896-8401

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, par value \$0.00001 per share	AKYA	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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Number of shares of the registrant's common shares outstanding at October 31, 2021: 37,207,823

AKOYA BIOSCIENCES, INC.

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Akoya Biosciences, Inc.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on management’s beliefs and assumptions and on information currently available to management. All statements contained in this report other than statements of historical fact are forward-looking statements, including statements regarding our ability to develop, commercialize and achieve market acceptance of our current and planned products and services, our research and development efforts, and other matters regarding our business strategies, use of capital, results of operations and financial position, and plans and objectives for future operations. In some cases, you can identify forward-looking statements by the words “may,” “will,” “could,” “would,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “potential,” “continue,” “ongoing” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. These statements involve risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. These risks, uncertainties and other factors are described under “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this report and in other documents we file with the Securities and Exchange Commission (the “SEC”) from time to time. We caution you that forward-looking statements are based on a combination of facts and factors currently known by us and our projections of the future, about which we cannot be certain. As a result, the forward-looking statements may not prove to be accurate. The forward-looking statements in this report represent our views as of the date of this report. We undertake no obligation to update any forward-looking statements for any reason, except as required by law.

Unless otherwise stated or the context otherwise indicates, references to “we,” “us,” “our” and similar references refer to Akoya Biosciences, Inc. and its consolidated subsidiary.

AKOYA BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 120,150	\$ 17,006
Accounts receivable, net	9,605	6,470
Inventories, net	6,093	4,263
Prepaid expenses and other current assets	9,812	957
Total current assets	145,660	28,696
Property and equipment, net	6,492	5,528
Restricted cash – long term	301	502
Demo inventory, net	2,984	1,494
Intangible assets, net	21,374	22,714
Goodwill	18,262	18,262
Other assets	338	464
Total assets	<u>\$ 195,411</u>	<u>\$ 77,660</u>
Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	\$ 4,071	\$ 5,074
Accrued expenses and other current liabilities	8,596	7,015
Current portion of capital lease obligations	279	197
Deferred revenue	4,354	3,844
Current portion of long-term debt	—	1,032
Total current liabilities	17,300	17,162
Deferred revenue, net of current portion	1,136	1,008
Long-term debt, net of current portion and debt discount	32,363	33,488
Deferred tax liability, net	134	170
Capital lease obligations, net of current portion	262	277
Warrant liability	—	490
Contingent consideration liability (Note 4), net of current portion	6,824	6,984
Total liabilities	<u>58,019</u>	<u>59,579</u>
Redeemable Convertible Preferred Stock:		
Series B Redeemable Convertible Preferred Stock, \$0.00001 par value; 0 shares authorized, issued and outstanding at September 30, 2021; 13,715,330 authorized, issued and outstanding at December 31, 2020 (preference in liquidation of \$0 and \$11,500 at September 30, 2021 and December 31, 2020, respectively)	—	11,500
Series C Redeemable Convertible Preferred Stock, \$0.00001 par value; 0 shares authorized, issued and outstanding at September 30, 2021; 26,732,361 shares authorized, issued and outstanding at December 31, 2020 (preference in liquidation of \$0 and \$30,107 at September 30, 2021 and December 31, 2020, respectively)	—	30,107
Series D Redeemable Convertible Preferred Stock, \$0.00001 par value; 0 shares authorized, issued, and outstanding at September 30, 2021; 16,758,996 shares authorized; 16,390,217 shares issued and outstanding at December 31, 2020 (preference in liquidation of \$0 and \$27,500 at September 30, 2021 and December 31, 2020, respectively)	—	27,500
Total redeemable convertible preferred stock	—	69,107
Stockholders' equity (deficit):		
Series A Convertible Preferred Stock, \$0.00001 par value; 0 shares authorized, issued and outstanding at September 30, 2021; 5,013,333 shares authorized, issued and outstanding at December 31, 2020 (preference in liquidation of \$0 and \$1,253 at September 30, 2021 and December 31, 2020, respectively)	—	1,253
Preferred Stock, \$0.00001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2021; 0 shares authorized, issued and outstanding at December 31, 2020	—	—
Class A Common Stock, \$0.00001 par value; 500,000,000 shares authorized; 37,177,371 shares issued and outstanding at September 30, 2021; 62,220,020 shares authorized; 0 shares issued and outstanding at December 31, 2020	2	—
Class B Common Stock, \$0.00001 par value; 0 shares authorized, issued, and outstanding at September 30, 2021; 16,822,202 shares authorized; 2,563,765 issued and outstanding at December 31, 2020	—	1
Additional paid in capital	215,824	—
Accumulated deficit	(78,434)	(52,280)
Total stockholders' equity (deficit)	<u>137,392</u>	<u>(51,026)</u>
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	<u>\$ 195,411</u>	<u>\$ 77,660</u>

See accompanying notes to consolidated financial statements.

AKOYA BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in thousands except share & per share data)

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue:				
Product revenue	\$ 10,874	\$ 7,852	\$ 31,556	\$ 22,967
Service and other revenue	2,602	2,102	7,203	6,568
Total revenue	13,476	9,954	38,759	29,535
Cost of goods sold:				
Cost of product revenue	\$ 3,594	\$ 2,752	\$ 10,381	\$ 8,756
Cost of service and other revenue	1,429	1,168	4,386	2,779
Total cost of goods sold	\$ 5,023	\$ 3,920	\$ 14,767	\$ 11,535
Gross profit	\$ 8,453	\$ 6,034	\$ 23,992	\$ 18,000
Operating expenses:				
Selling, general and administrative	13,725	5,712	31,970	17,166
Research and development	3,999	2,279	10,138	7,071
Change in fair value of contingent consideration	224	739	1,050	(167)
Depreciation and amortization	1,244	971	3,352	2,792
Total operating expenses	19,192	9,701	46,510	26,862
Loss from operations	(10,739)	(3,667)	(22,518)	(8,862)
Other income (expense):				
Interest expense, net	(763)	(683)	(2,271)	(1,978)
Change in fair value of warrant liability	—	—	(2,728)	—
Gain on extinguishment of debt	—	—	2,476	—
Other expense, net	(126)	57	(244)	(104)
Loss before benefit (provision) for income taxes	(11,628)	(4,293)	(25,285)	(10,944)
Benefit (provision) for income taxes	11	9	23	(68)
Net loss	\$ (11,617)	\$ (4,284)	\$ (25,262)	\$ (11,012)
Dividends accrued on redeemable convertible preferred stock	—	(1,190)	(1,435)	(3,570)
Accretion of redeemable convertible preferred stock	—	(296)	(296)	(296)
Adjusted net loss attributable to common stockholders	(11,617)	(5,770)	(26,993)	(14,878)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.31)	\$ (2.44)	\$ (1.15)	\$ (6.43)
Weighted-average shares outstanding, basic and diluted	37,162,489	2,363,063	23,407,358	2,314,990

See accompanying notes to consolidated financial statements.

AKOYA BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED
STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) (Unaudited)
(in thousands, except share data)

	Series B Redeemable Convertible Preferred Stock		Series C Redeemable Convertible Preferred Stock		Series D Redeemable Convertible Preferred Stock		Series A Redeemable Convertible Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2020	13,715,330	\$ 11,500	26,732,361	\$ 30,107	16,390,217	\$ 27,500	5,013,333	\$ 1,253	—	\$ —	2,563,765	\$ 1	—	\$ (52,280)	\$ (51,026)
Exercise of stock options	—	—	—	—	—	—	—	—	—	—	271,334	—	44	—	44
Accrued dividends	—	180	—	510	—	500	—	—	—	—	—	—	(298)	(892)	(1,190)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(8,082)	(8,082)
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	254	—	254
Balance at March 31, 2021	13,715,330	\$ 11,680	26,732,361	\$ 30,617	16,390,217	\$ 28,000	5,013,333	\$ 1,253	—	\$ —	2,835,099	\$ 1	—	\$ (61,254)	\$ (60,000)
Conversion of Class B shares	—	—	—	—	—	—	—	—	2,835,099	1	(2,835,099)	(1)	—	—	—
Exercise of stock options	—	—	—	—	—	—	—	—	189,175	—	—	—	99	—	99
Accrued dividends	—	37	—	105	—	103	—	—	—	—	—	—	(245)	—	(245)
Initial public offering of common stock	—	—	—	—	—	—	—	—	7,567,000	—	—	—	138,553	—	138,553
Conversion of preferred stock into common stock in connection with the IPO	(13,715,330)	(11,717)	(26,732,361)	(30,722)	(16,390,217)	(28,103)	(5,013,333)	(1,253)	26,545,579	1	—	—	71,794	—	70,542
Reclassification of warrant liability to equity	—	—	—	—	—	—	—	—	—	—	—	—	3,219	—	3,219
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(5,563)	(5,563)
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	1,216	—	1,216
Balance at June 30, 2021	—	\$ —	—	\$ —	—	\$ —	—	\$ —	37,136,853	\$ 2	—	\$ —	\$ 214,636	\$ (66,817)	\$ 147,821
Exercise of stock options	—	—	—	—	—	—	—	—	40,518	—	—	—	30	—	30
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(11,617)	(11,617)
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	1,158	—	1,158
Balance at September 30, 2021	—	\$ —	—	\$ —	—	\$ —	—	\$ —	37,177,371	\$ 2	—	\$ —	\$ 215,824	\$ (78,434)	\$ 137,392

AKOYA BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED
STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) (Unaudited)
(in thousands, except share data)

	Series B Redeemable Convertible Preferred Stock		Series C Redeemable Convertible Preferred Stock		Series D Redeemable Convertible Preferred Stock		Series A Convertible Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2019	13,715,330	\$ 10,780	26,732,361	\$28,067	16,390,217	\$25,500	5,013,333	\$ 1,253	—	\$ —	2,286,872	\$ 1	—	\$ (31,413)	\$ (30,159)
Exercise of stock options	—	—	—	—	—	—	—	—	—	—	5,495	—	2	—	2
Accrued dividends	—	180	—	510	—	500	—	—	—	—	—	—	(314)	(876)	(1,190)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,143)	(2,143)
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	312	—	312
Balance at March 31, 2020	13,715,330	\$ 10,960	26,732,361	\$28,577	16,390,217	\$26,000	5,013,333	\$ 1,253	—	\$ —	2,292,367	\$ 1	—	\$ (34,432)	\$ (33,178)
Exercise of stock options	—	—	—	—	—	—	—	—	—	—	6,526	—	2	—	2
Accrued dividends	—	180	—	510	—	500	—	—	—	—	—	—	(53)	(1,137)	(1,190)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(4,585)	(4,585)
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	51	—	51
Balance at June 30, 2020	13,715,330	\$ 11,140	26,732,361	\$29,087	16,390,217	\$26,500	5,013,333	\$ 1,253	—	\$ —	2,298,893	\$ 1	—	\$ (40,154)	\$ (38,900)
Exercise of stock options	—	—	—	—	—	—	—	—	—	—	198,406	—	88	—	88
Accrued dividends	—	180	—	510	—	500	—	—	—	—	—	—	(148)	(1,042)	(1,190)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(4,284)	(4,284)
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	60	—	60
Balance at September 30, 2020	13,715,330	\$ 11,320	26,732,361	\$29,597	16,390,217	\$27,000	5,013,333	\$ 1,253	—	\$ —	2,497,299	\$ 1	—	\$ (45,480)	\$ (44,226)

See accompanying notes to consolidated financial statements.

AKOYA BIOSCIENCES INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Nine months ended	
	September 30, 2021	September 30, 2020
Operating activities		
Net loss	\$ (25,262)	\$ (11,012)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,418	2,792
Non-cash interest expense	319	218
Stock-based compensation expense	2,628	423
Paid-in-kind interest	—	332
Deferred income taxes	(36)	48
Change in fair value of contingent consideration	1,050	(167)
Change in fair value of warrant liability	2,728	—
Gain on extinguishment of debt	(2,476)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,135)	7,642
Prepaid expenses and other assets	(9,017)	1,058
Inventories, net	(2,272)	(276)
Accounts payable	(1,003)	(4,050)
Accrued expenses and other liabilities	2,206	(862)
Deferred revenue	638	(842)
Net cash used in operating activities	<u>(30,214)</u>	<u>(4,696)</u>
Investing activities		
Interest income reinvested in certificates of deposit	—	(117)
Purchases of property and equipment	(3,729)	(2,808)
Net cash used in investing activities	<u>(3,729)</u>	<u>(2,925)</u>
Financing activities		
Proceeds from initial public offering, net of underwriting discounts and commissions	138,553	—
Proceeds from stock option exercises	173	92
Principal payments on capital leases	(250)	(142)
Proceeds from Payroll Protection Program loan	—	2,476
Payments of contingent consideration	(1,590)	(2,627)
Net cash provided by (used in) in financing activities	<u>136,886</u>	<u>(201)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>102,943</u>	<u>(7,822)</u>
Cash, cash equivalents, and restricted cash at beginning of year	17,508	12,137
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 120,451</u>	<u>\$ 4,315</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 1,942</u>	<u>\$ 1,375</u>
Cash paid for income taxes	<u>\$ —</u>	<u>\$ —</u>
Supplemental disclosures of non-cash activities		
Purchases of property and equipment included in accounts payable and accrued expenses	<u>\$ 438</u>	<u>\$ 127</u>
Accretion of dividends on Series B, C, and D Preferred Stock	<u>\$ 1,435</u>	<u>\$ 3,570</u>
Conversion of convertible preferred stock into common stock upon completion of initial public offering	<u>\$ 71,795</u>	<u>\$ —</u>
Reclassification of warrant liability to equity	<u>\$ 3,219</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

AKOYA BIOSCIENCES INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data)

(1) The company and basis of presentation

Description of business

Akoya Biosciences, Inc. (“Akoya” or the “Company”) is a life sciences technology company, founded on November 13, 2015 as a Delaware corporation with operations based in Marlborough, Massachusetts and Menlo Park, California, delivering spatial biology solutions focused on transforming discovery and clinical research. Spatial biology refers to an evolving technology that enables academic and biopharma scientists to detect and map the distribution of cell types and biomarkers across whole tissue samples at single cell resolution, enabling advancements in their understanding of disease progression and patient response to therapy. Through Akoya’s CODEX and Phenoptics platforms, reagents, software and services, the Company offers end-to-end solutions to perform tissue analysis and spatial phenotyping across the full continuum, from discovery through translational and clinical research.

On September 28, 2018, the Company acquired the commercial Phenoptics division of PerkinElmer, Inc. (“PKI”) for multiplex immunofluorescence, with the aim of providing consumers with a full suite of end-to-end solutions for high parameter tissue analysis. The Phenoptics technology offers pathology solutions for cancer immunology and immunotherapy research, including advanced multiplex immunochemistry staining kits, multispectral imaging and whole slide scanning instruments, and image analysis software. The Company’s combined portfolio of complementary technologies aims to fuel groundbreaking advancements in cancer immunology, immunotherapy, neurology and a wide range of other applications. The Company sells into three main regions across the world: North America, Asia-Pacific (“APAC”), and Europe-Middle East-Africa (“EMEA”).

On April 8, 2021, the Board of Directors of the Company (the “Board”) approved a 1-for-2.33 reverse stock split of its issued and outstanding common stock and a proportional adjustment to the existing conversion ratios for each series of the Company’s convertible preferred stock, which was effected on April 9, 2021. The par value of the authorized stock was not adjusted as a result of the reverse stock split. Other than the par value, all issued and outstanding shares of common stock and related per share data shown in the accompanying financial statements and related notes have been retroactively revised to reflect the reverse stock split and adjustment of the Preferred Stock conversion ratios.

In April 2021, the Company completed the initial public offering of its common stock (the “IPO”). In the IPO, the Company issued and sold 7,567,000 shares of its common stock at a price to the public of \$20.00 per share, including the exercise by the underwriters of their option to purchase an additional 987,000 shares. The Company received \$138.6 million in net proceeds, after deducting underwriting discounts and commissions and other offering expenses.

Immediately prior to completing the IPO, all preferred stock converted into 26,545,579 shares of common stock, and all outstanding shares of the Company’s Class B common stock converted on a 1 for 1 basis into 2,835,099 shares of the Company’s Class A common stock.

On April 20, 2021, in connection with the closing of the IPO, the Company’s amended and restated certificate of incorporation, as filed with the Secretary of State of the State of Delaware, and the Company’s amended and restated bylaws became effective. Refer to Note 9 for further details.

Principles of consolidation

The Company’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification (“ASC”) and Accounting Standards Updates (“ASU”) of the Financial Accounting Standards Board (“FASB”). The Company’s consolidated financial statements include the accounts of the Company and its wholly-owned

subsidiary, Akoya Biosciences UK Ltd. (“Akoya UK”). All intercompany balances and transactions have been eliminated in consolidation.

Unaudited interim financial information

The accompanying consolidated balance sheet as of September 30, 2021, the consolidated statements of operations, and the consolidated statements of redeemable convertible preferred stock and stockholders’ equity (deficit) for the three and nine months ended September 30, 2021 and 2020, and the consolidated statements of cash flows for the nine months ended September 30, 2021 and 2020 are unaudited. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company’s financial position as of September 30, 2021, the results of its operations for the three and nine months ended September 30, 2021 and 2020, and cash flows for the nine months ended September 30, 2021 and 2020. The financial data and other information disclosed in these notes related to the three and nine months ended September 30, 2021 and 2020 are also unaudited. The results for the three and nine months ended September 30, 2021 are not necessarily indicative of results to be expected for the year ending December 31, 2021, any other interim periods, or any future year or period. The consolidated balance sheet as of December 31, 2020 included herein was derived from the audited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2020 included in the Company’s final prospectus for its IPO dated as of April 15, 2021, and filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended, on April 19, 2021 (File No. 333-254760) (the “Prospectus”).

Liquidity and going concern

At September 30, 2021, the Company had cash and cash equivalents of \$120,150 and an accumulated deficit of \$78,434. The future success of the Company is dependent on its ability to successfully commercialize its products, successfully launch future products, obtain additional capital and ultimately attain profitable operations. The Company has funded its operations primarily through its preferred stock issuances, debt financing arrangements, and the IPO.

The Company is subject to a number of risks similar to other newly commercial life sciences companies, including, but not limited to, development and market acceptance of the Company’s product candidates, development by its competitors of new technological innovations, protection of proprietary technology, and raising additional capital.

The Company has incurred losses since its inception and has used cash from operations of \$30,214 during the nine months ended September 30, 2021. However, we believe that our existing cash and cash equivalents will be adequate to satisfy our current operating plans for at least the next twelve months from the issuance of these financial statements.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of the uncertainties described above.

(2) Summary of significant accounting policies

Significant accounting policies

The Company’s significant accounting policies are disclosed in the Prospectus and have not materially changed during the nine months ended September 30, 2021.

Revenue recognition

The Company follows ASC 606, *Revenue from Contracts with Customers* (“ASC 606”).

The Company generates revenue from the sale and installation of instruments, related warranty services, reagents and software (both company-owned and with third parties). Pursuant to ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration the Company expects to be entitled to receive in exchange for these goods and services.

To determine the appropriate amount of revenue to be recognized for arrangements determined to be within the scope of Topic 606, the Company performs the following five steps: (i) identification of the customer contract; (ii) identification of the performance obligations; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect consideration it is entitled to in exchange for the goods or services it transfers to the customer.

The Company evaluates all promised goods and services within a customer contract and determines which of those are separate performance obligations. This evaluation includes an assessment of whether the good or service is capable of being distinct and whether the good or service is separable from other promises in the contract. Promised goods or services are considered distinct when (i) the customer can benefit from the good or service on its own or together with other readily available resources and (ii) the promised good or service is separately identifiable from other promises in the contract.

Most of the Company's contracts with customers contain multiple performance obligations (i.e., sale of an instrument and warranty services). For these contracts, the Company accounts for individual performance obligations separately if they are distinct (i.e. capable of being distinct and separable from other promises in the contract). The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Excluded from the transaction price are sales tax and other similar taxes which are presented on a net basis.

Product Revenue

Product revenue is generated by the sale of instruments and consumable reagents predominantly through the Company's direct sales force in the United States and in geographic regions outside the United States such as APAC and EMEA. The Company does not offer product return or exchange rights (other than those relating to defective goods under warranty) or price protection allowances to its customers. When an instrument is purchased by a customer, the Company recognizes revenue when the related performance obligation is satisfied (i.e. when the control of an instrument has passed to the customer). Revenue from the sale of consumables is recognized upon shipment to the customer. The Company's perpetual software licenses generally have significant stand-alone functionality to the customer upon delivery and are considered to be functional intellectual property. The Company's perpetual software licenses are considered distinct performance obligations, and revenue allocated to the software license is typically recognized upon provision of the license/software code to the customer (i.e., when the software is available for access and download by the customer).

Service and Other Revenue

Product sales of instruments include a service-based warranty typically for one year following the installation of the purchased instrument, with an extended warranty for an additional year sold in many cases. These are separate performance obligations as they are service-based warranties and are recognized on a straight-line basis over the service delivery period. After completion of the service period, customers have an option to renew or extend the warranty services, typically for additional one-year periods in exchange for additional consideration. The extended warranties are also service-based warranties that represent separate purchasing decisions. The Company recognizes revenue allocated to the extended warranty performance obligation on a straight-line basis over the service delivery period. Revenue from separately charged installation services is recognized upon completion of the installation process. Additionally, the Company provides laboratory services, in which revenue is recognized as services are performed. For laboratory services, we generally use the cost-to-cost approach to measure the extent of progress towards completion of the performance obligation because we believe it best depicts the transfer of assets to the customer. Under the cost-to-cost measure approach, the extent of progress towards completion is measured based on the ratio of costs incurred to date to

the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred. The Company records shipping and handling billed to customers as service and other revenue and the related costs in cost of service and other revenue in the consolidated statements of operations.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers by type of products, and between service and other revenue, as it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The following table disaggregates the Company's revenue by major source:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue				
Product revenue				
Instruments	\$ 7,099	\$ 5,397	\$ 20,195	\$ 16,500
Consumables	3,430	2,125	10,283	5,703
Standalone software products	345	330	1,078	764
Total product revenue	\$ 10,874	\$ 7,852	\$ 31,556	\$ 22,967
Service and other revenue	\$ 2,602	\$ 2,102	\$ 7,203	\$ 6,568
Total revenue	\$ 13,476	\$ 9,954	\$ 38,759	\$ 29,535

Significant Judgments

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together requires significant judgment. Once the Company determines the performance obligations, the Company determines the transaction price, which includes estimating the amount of variable consideration, based on the most likely amount, to be included in the transaction price, if any. The Company then allocates the transaction price to each performance obligation in the contract based on a relative standalone selling price method. The corresponding revenue is recognized as the related performance obligations are satisfied as discussed in the revenue categories above.

Judgment is required to determine the standalone selling price for each distinct performance obligation. The Company determines standalone selling price based on the price at which the performance obligation in the contract (i.e. instrument, service warranty, installation) would be sold separately. As the first-year warranty for each instrument is embedded in the instrument price, the amount allocated to the first-year warranty has been determined based on the separately identifiable price of the Company's extended warranty offering when it is sold on a renewal basis.

If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and the expected costs and margin related to the performance obligations. Contracts in which only one performance obligation is identified (i.e., consumables and standalone software products) do not require allocation of the transaction price.

Contract Assets and Liabilities

The Company did not record any contract assets at September 30, 2021 or December 31, 2020.

The Company's contract liabilities consist of upfront payments for service-based warranties on instrument sales. The Company classifies these contract liabilities in deferred revenue as current or noncurrent based on the timing of when the Company expects to service the warranty.

Cost to Obtain and Fulfill a Contract

Under ASC 606, the Company is required to capitalize certain costs to obtain customer contracts and costs to fulfill customer contracts. These costs are required to be amortized to expense on a systemic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates, compared to previously being expensed as incurred. As a practical expedient, the Company recognizes any incremental costs to obtain a contract as an expense when incurred if the amortization period of the asset is one year or less. Capitalizable costs to obtain contracts, such as commissions, and costs to fulfill customer contracts were determined to be immaterial for the nine months ended September 30, 2021 and 2020.

Stock-based compensation

The Company records stock-based compensation for options granted to employees, non-employees, and to members of the Board for their services on the Board based on the grant date fair value of awards issued, and the expense is recorded on a straight-line basis over the requisite service period, which is generally four years.

The Company uses the Black-Scholes-Merton option pricing model to determine the fair value of stock options. The use of the Black-Scholes-Merton option-pricing model requires management to make assumptions with respect to the expected term of the option, the expected volatility of the common stock consistent with the expected life of the option, risk-free interest rates and expected dividend yields of the common stock. The expected term was determined according to the simplified method, which is the average of the vesting tranche dates and the contractual term. Due to the lack of company-specific historical and implied volatility, the Company bases its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. For these analyses, companies with comparable characteristics are selected, including enterprise value and position within the industry, and with historical price information sufficient to meet the expected life of the stock-based awards. The Company computes the historical volatility data using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of its stock-based awards. The risk-free interest rate is determined by reference to the U.S. Treasury zero-coupon issues with remaining maturities similar to the expected term of the options. The Company has not paid, and does not anticipate paying, cash dividends on shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company has elected to account for forfeitures as they occur; any compensation cost previously recognized for an award that is forfeited because of a failure to satisfy a service or performance condition will be reversed in the period of the forfeiture. Refer to Note 10 for further details on the Company's stock-based compensation plans.

Net loss per share attributable to common stockholders

Basic and diluted net loss per common share outstanding is determined by dividing net loss, as adjusted for accretion and accrued dividends on redeemable convertible preferred stock, by the weighted average common shares outstanding during the period. Diluted net loss per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock; however, potential common equivalent shares are excluded if their effect is anti-dilutive. In computing diluted net loss per share, the Company utilizes the treasury stock method.

The Company applies the two-class method to compute basic and diluted net loss or income per share when it has issued shares that meet the definition of participating securities. The two-class method determines net (loss) or income per share for each class of common and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires net (loss) income available to common stockholders for the period to be allocated between common and participating securities based upon their respective rights to share in the earnings as if all net (loss) income for the period had been distributed. The Company's convertible preferred stock participates in any dividends declared by the Company and are therefore considered to be participating securities. The participating securities are not required to participate in the losses of the Company, and therefore during periods of loss there is no allocation required under the two-class method.

Recent Accounting Standards

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies and adopted by the Company as of the specified effective date. The Company is considered to be an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, as amended (Jobs Act). The Jobs Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this extended transition period and, as a result, we will not be required to adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Recently issued but not yet adopted accounting standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous generally accepted accounting principles. ASU 2016-02 requires a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) and early adoption is permitted. In August 2018, the FASB issued ASU 2018-11, *Targeted Improvements to ASC 842*, which provides a new transition option in which an entity initially applies ASU 2016-02 at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In June 2020, the FASB issued an extension in the effective date for all non-public companies. This extended the effective date to annual periods beginning after December 15, 2021 (i.e. calendar year periods beginning on January 1, 2022) and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. Prior period comparative balances will not be adjusted. The Company expects to use the new transition option and will expect to be also utilizing the package of practical expedients that allows it to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. The Company expects to use the short-term lease exception for leases with a term of twelve months or less. Additionally, the Company expects to use the practical expedient that allows it to treat each separate lease component of a contract and its associated non-lease components as a single lease component. The Company has not yet adopted ASU 2016-02 and is continuing to evaluate the impact of adoption on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326) — Measurement of Credit Losses on Financial Instruments*, which has been subsequently amended by ASU No. 2018-19, ASU No. 2019-04, ASU No. 2019-05, ASU No. 2019-10, ASU No. 2019-11 and ASU No. 2020-03 (“ASU 2016-13”). The provisions of ASU 2016-13 modify the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology and require a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for the Company on January 1, 2023, with early adoption permitted. The Company is currently evaluating the potential impact that ASU 2016-13 may have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead of determining a hypothetical purchase price allocation to measure goodwill impairment, the Company will compare the fair value of a reporting unit with its carrying amount. The update also includes a new requirement to disclose the amount of goodwill allocated to reporting units with zero or negative carrying amounts. ASU 2017-04 is effective for the Company on January 1, 2023, with early adoption permitted. The Company is currently evaluating the potential impact that ASU 2017-04 may have on its consolidated financial statements and related disclosures.

(3) Significant risks and uncertainties including business and credit concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and receivables. The Company's cash equivalents are held by large, credit worthy financial institutions. The Company invests its excess cash in certificates of deposits. The Company has established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity. Deposits in these banks may exceed the amounts of insurance provided on such deposits. To date, the Company has not experienced any losses on its deposits of cash and cash equivalents.

The Company controls credit risk through credit approvals, credit limits, and monitoring procedures. The Company performs periodic credit evaluations of its customers and generally does not require collateral. Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of the related invoices and represents the Company's best estimate of probable credit losses in its existing accounts receivable. The Company does not require collateral and had an allowance for doubtful accounts of \$78 and \$103 at September 30, 2021 and December 31, 2020, respectively.

In 2019, and prior to outsourcing manufacturing and distribution to third party contract manufacturers during 2020, PKI served as our distributor for Europe and parts of APAC, and thus represented a significant concentration of revenue.

For the three months ended September 30, 2021, one customer accounted for 11% of revenue. For the nine months ended September 30, 2021, one customer accounted for 10% of revenue. For the three months ended September 30, 2020, no customers accounted for more than 10% of revenue. For the nine months ended September 30, 2020, PKI accounted for 11% of revenue. One customer accounted for 14% of accounts receivable at September 30, 2021. No customers accounted for greater than 10% of accounts receivable at December 31, 2020.

(4) Fair value of financial instruments

The Company measures the following financial liabilities at fair value on a recurring basis. There were no transfers between levels of the fair value hierarchy during any of the periods presented.

The following tables set forth the Company's financial assets and liabilities carried at fair value categorized using the lowest level of input applicable to each financial instrument as of September 30, 2021 and December 31, 2020:

	Balance at September 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent consideration – Long term portion	\$ 6,824	\$ —	\$ —	\$ 6,824
	<u>\$ 6,824</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,824</u>

	Balance at December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Warrant liability	\$ 490	\$ —	\$ —	\$ 490
Contingent consideration – Long term portion	\$ 6,984	\$ —	\$ —	\$ 6,984
	<u>\$ 7,474</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,474</u>

The Company's recurring fair value measurements using Level 3 inputs relate to the Company's contingent consideration liability and warrant liability. In those circumstances where an acquisition involves a contingent consideration arrangement, the Company recognizes a liability equal to the fair value of the contingent payments the Company expects to make as of the acquisition date. The Company re-measures this liability each reporting period and records changes in the fair value through changes in fair value of Contingent consideration on the Company's consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration liability can result from changes in discount rates, periods, timing and amount of projected revenue.

Prior to completion of the IPO in April 2021, the Company had an outstanding warrant to purchase shares of its Series D redeemable convertible preferred stock. Since the underlying Series D redeemable convertible preferred stock was classified outside of permanent equity, the preferred stock warrant was classified as other long-term liabilities in the accompanying balance sheet. The preferred stock warrant liability was recorded at fair value utilizing the Black-Scholes model. The Black Scholes option pricing model is based on the estimated market value of the underlying redeemable convertible preferred stock at the valuation measurement date, the remaining contractual term of the warrant, risk-free interest rates, expected dividends, and expected volatility of the price of the underlying redeemable convertible preferred stock. The Company adjusted the carrying value of the preferred stock warrant to its estimated fair value at each reporting date, with any related increase or decrease in the fair value recorded as an increase or decrease to other income (expense) in the statements of operations. In connection with the IPO, the preferred stock warrant was converted to a warrant to purchase shares of the Company's common stock, pursuant to its preexisting terms. As such, the Company assessed the classification of the common stock warrant and determined it met the criteria to be classified within stockholders' equity. Accordingly, the fair value of the warrant liability was reclassified to stockholders' equity.

Changes in the fair value of the Company's long-term portion of the contingent consideration liability during the nine months ended September 30, 2021 and 2020 were as follows:

Balance as of December 31, 2019	\$ 8,139
Contingent consideration paid	(171)
Reclassification of FY 2020 payment to accrued expenses	(1,590)
Change in contingent consideration value	(80)
Balance as of September 30, 2020	<u>\$ 6,298</u>
Balance as of December 31, 2020	\$ 6,984
Reclassification of FY 2021 payment to accrued expenses	(1,210)
Change in contingent consideration value	1,050
Balance as of September 30, 2021	<u>\$ 6,824</u>

The difference between the amount paid in 2020 and the amount included in accrued expenses at December 31, 2019 is \$87 and is included in the change in fair value of contingent consideration in the nine months ended September 30, 2020 consolidated statement of operations.

The recurring Level 3 fair value measurements of the Company's contingent consideration liability include the following significant unobservable inputs:

<u>Contingent Consideration Liability</u>	<u>Fair Value as of September 30, 2021</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>
Revenue-based Payments	\$ 6,824	Discounted Cash Flow Analysis under the Income Approach	Revenue discount factor, discount rate

Changes in the fair value of the Company's warrant liability during the nine months ended September 30, 2021 and 2020 were as follows:

Balance as of December 31, 2019	\$ 192
Change in fair value of warrant liability	—
Balance as of September 30, 2020	<u>\$ 192</u>
Balance as of December 31, 2020	\$ 490
Change in fair value of warrant liability	2,728
Reclassification of warrant liability to stockholders' equity	(3,218)
Balance as of September 30, 2021	<u>\$ —</u>

(5) Property and equipment, net

Property and equipment consists of the following:

	Estimated Useful Life (Years)	September 30, 2021	December 31, 2020
Furniture and fixtures	7	\$ 380	\$ 358
Computers, laptop and peripherals	5	3,498	2,367
Laboratory equipment	5	4,811	3,806
Leasehold improvements	Shorter of the lease life or 7	1,344	1,261
Total property and equipment		<u>10,033</u>	<u>7,792</u>
Less: Accumulated depreciation		(3,541)	(2,264)
Property and equipment, net		<u>\$ 6,492</u>	<u>\$ 5,528</u>

Total depreciation expense relating to property and equipment charged to operations for the three and nine months ended September 30, 2021 was \$462 and \$1,277, respectively. Total depreciation expense relating to property and equipment charged to operations for the three and nine months ended September 30, 2020 was \$356 and \$1,031, respectively.

Demo inventory consists of the following:

	Estimated Life (Years)	September 30, 2021	December 31, 2020
Demo inventory – gross	3	\$ 3,911	\$ 2,010
Less: Accumulated depreciation		(927)	(516)
Demo inventory, net		<u>\$ 2,984</u>	<u>\$ 1,494</u>

Total depreciation expense relating to demo equipment charged to operations for the three and nine months ended September 30, 2021 was \$261 and \$513, respectively. Total depreciation expense relating to demo equipment charged to operations for the three and nine months ended September 30, 2020 was \$94 and \$199, respectively.

(6) Intangible assets and goodwill

Intangible assets as of September 30, 2021 are summarized as follows:

	Cost	Accumulated Amortization	Net	Useful Life (in years)
Customer relationships	\$ 11,800	\$ (2,364)	\$ 9,436	15
Developed technology	8,300	(2,079)	6,221	12
Licenses	63	(24)	39	15
Trade names and trademarks	6,300	(1,578)	4,722	12
Capitalized software	947	(66)	881	5
Non-compete agreements	300	(225)	75	4
Total intangible assets	\$ 27,710	\$ (6,336)	\$ 21,374	

Intangible assets as of December 31, 2020 are summarized as follows:

	Cost	Accumulated Amortization	Net	Useful Life (in years)
Customer relationships	\$ 11,800	\$ (1,774)	\$ 10,026	15
Developed technology	8,300	(1,560)	6,740	12
Licenses	63	(20)	43	15
Trade names and trademarks	6,300	(1,184)	5,116	12
Capitalized software	659	—	659	5
Non-compete agreements	300	(170)	130	4
Total intangible assets	\$ 27,422	\$ (4,708)	\$ 22,714	

Total amortization expense charged to operations for the three and nine months ended September 30, 2021 was \$521 and \$1,562, respectively. Total amortization expense charge to cost of sales for the three and nine months ended September 30, 2021 was \$0 and \$66, respectively. Total amortization expense charged to operations for the three and nine months ended September 30, 2020 was \$521 and \$1,562, respectively.

In November 2015, the Company entered into a license agreement with Stanford University (“Stanford”), pursuant to which Stanford granted the Company an exclusive, worldwide, sublicensable license under certain patent rights to make, use, import and commercialize products for diagnostic, industrial and research and development purposes. In accordance with the agreement, the Company capitalized non-refundable royalties paid to Stanford totaling \$63, subject to straight-line amortization over a period of 15 years, or the term of the related agreement.

As of September 30, 2021, the amortization expense related to identifiable intangible assets in future periods is expected to be as follows:

2021 remaining	\$ 525
2022	2,121
2023	2,184
2024	2,184
2025	2,184
Thereafter	12,176
Total	\$ 21,374

As of September 30, 2021 and December 31, 2020, the goodwill balance is \$18,262.

(7) Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	September 30, 2021	December 31, 2020
Payroll and compensation	\$ 4,157	\$ 2,225
Current portion of contingent consideration	1,210	1,590
Inventory purchases	604	478
Other accrued expenses	2,625	2,722
Total accrued expenses and other current liabilities	<u>\$ 8,596</u>	<u>\$ 7,015</u>

(8) Debt and capital lease obligations*Term Loan Agreements*

In September 2019, the Company entered into a Loan and Security Agreement with Innovatus Life Sciences Lending Fund I, LP (“Innovatus”), under which Innovatus agreed to make a term loan to the Company in an aggregate principal amount of \$25,000 (the “Innovatus Term Loan”). Amounts borrowed under the Innovatus Term Loan have an initial maturity date of September 1, 2024 and accrue interest at a floating annual rate equal to the sum of (a) the greater of 5.25% or the prime rate and (b) 3.75%. For each of the first 24 months, the Company will be paying 7.25% as cash interest and deferring 1.75% of interest until October 1, 2022. Principal payments (including the amortization of the accrued interest) of \$1,079 per month commence on October 1, 2022. A final payment fee of \$750 is due upon the earlier to occur of the maturity date or prepayment of such borrowings. For the three and nine months ended September 30, 2020, the Company recorded \$31 and \$93, respectively, related to the amortization of the final payment fee associated with the Innovatus Term Loan.

In October 2020, the Company entered into a new debt financing arrangement with Midcap Financial Trust (the “Midcap Trust Term Loan”), for a \$37,500 credit facility, consisting of a senior, secured term loan to refinance all existing indebtedness with Innovatus. The Company received \$32,500 in aggregate proceeds as a result of the debt financing. In connection with its entry into the Midcap Trust Term Loan, in October 2020, the Company paid off the full balance of the Innovatus Term Loan of \$26,882, including the principal, accrued interest, prepayment fee, and final fee.

The term of the Midcap Trust Term Loan is interest only for 36 months followed by 24 months of straight-line amortization. Interest on the outstanding balance of the Midcap Trust Term Loan shall be payable monthly in arrears at an annual rate of one-month LIBOR plus 6.35%, subject to a LIBOR floor of 1.50%. The interest rate was 7.85% at September 30, 2021. At the time of final payment under the Midcap Trust Term Loan, the Company is required to pay Midcap Financial Trust a final payment fee of 5.00% of the amount borrowed under the Midcap Trust Term Loan. If the Midcap Trust Term Loan is prepaid prior to the end of the term, the Company shall pay to Midcap Financial Trust a fee as compensation for the costs of being prepared to make funds available in an amount determined by multiplying the amount being prepaid by (i) three percent (3.00%) in the first year, two percent, (2.00%) in the second year and one percent (1.00%) in the third year and thereafter. A final payment fee of \$1,625 is due upon the earlier to occur of the maturity date or prepayment of such borrowings. For the three and nine months ended September 30, 2021, the Company recorded \$82 and \$243, respectively, related to the amortization of the final payment fee associated with the Midcap Trust Term Loan.

Paycheck Protection Program Loan (“PPP”)

In April 2020, the Company received a \$2,476 small business loan under the PPP, part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). In December 2020, we applied for forgiveness of the full loan amount. Any such forgiveness of indebtedness, in accordance with the CARES Act, does not give rise to federal taxable income. If not forgiven, the note bears interest at a rate of 1.00% and payments are scheduled to begin the latter of March 2021, or upon response by the Small Business Association (the “SBA”) regarding our forgiveness application.

The PPP, established as part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. Such loan provides for customary events of default, including, among others, those relating to failure to make payment when due and breaches of representations. The Company may prepay the principal of the loan at any time without incurring any prepayment charges. The loan is subject to all the terms and conditions applicable under the PPP and is subject to review by the SBA for compliance with program requirements, including the Company's certification that the current economic uncertainty made the PPP loan request necessary to support ongoing operations.

In June 2020, the Payroll Protection Program Flexibility Act ("PPPFA") was signed into law adjusting certain key terms of loans issued under the PPP. In accordance with the PPPFA, the initial deferral period may be extended from six to up to ten months and the loan maturity may be extended from two to five years. The PPPFA also provided for certain other changes, including the extent to which the loan may be forgiven.

The loan's principal and accrued interest are forgivable to the extent that the proceeds are used for eligible purposes, subject to certain limitations, and that the Company maintains its payroll levels over a twenty-four-week period following the loan date. The Company believes that it has used the proceeds for eligible purposes consistent with the provisions of the PPPFA.

As the legal form of the PPP loan is a debt obligation, the Company initially accounted for it as debt under Accounting Standards Codification (ASC) 470, *Debt* and recorded a debt obligation of \$2,476. The Company received forgiveness on the PPP Loan in June 2021 and therefore has recorded the \$2,476 forgiveness of the loan within Other income (expense) on the consolidated statements of operations for the nine months ending September 30, 2021. The forgiveness qualifies as a gain upon debt extinguishment and the related liability was removed from the consolidated balance sheet in the second quarter of 2021.

Debt consists of the following:

	September 30, 2021	December 31, 2020
Midcap Trust Term Loan	\$ 32,500	\$ 32,500
PPP Loan	—	2,476
Total debt	32,500	34,976
Unamortized debt discount	(439)	(515)
Accretion of final fee	302	59
Total debt, net	32,363	34,520
Less amount included as short-term	—	(1,032)
Long-term debt, net	<u>\$ 32,363</u>	<u>\$ 33,488</u>

As of September 30, 2021, future principal payments due under the Midcap Trust Term Loan, excluding the \$1,625 final payment fee, are as follows:

2021	\$ —
2022	—
2023	2,708
2024	16,250
2025	13,542
Total minimum principal payments	<u>\$ 32,500</u>

As a condition precedent to the Innovatus Term Loan, the Company also sold shares of Series D Preferred Stock at the same terms provided to the other investors for an aggregate amount of \$2,000 to the Lender as part of the Series D Financing. Additionally, as a condition precedent to the Innovatus Term Loan, the Company agreed to receive at least \$25,000 in net proceeds from the Series D Financing by December 2019, which the Company completed on September 27, 2019, as discussed below. In connection with the Loan and Security Agreement, the Company also issued the lender a warrant to purchase 368,779 additional shares of Series D Preferred Stock, which converted to a warrant to

purchase common stock upon the IPO as discussed in Note 4, at a purchase price of \$1.53 per share. The expiration date of the warrant is September 27, 2029. The holder may at any time and from time to time exercise this warrant, in whole or in part, and on any exercise of the warrant, the holder may elect to receive shares equal to the value of the warrant or portion. The initial warrant value of \$192 was recorded as a debt discount and is being amortized over the term of the Innovatus Term Loan. See Note 4 for valuation of warrant.

For the nine months ended September 30, 2021, the Company entered into two leases for staining equipment, computer equipment and furniture which are classified as capital lease obligations in the consolidated balance sheets as of September 30, 2021. In 2020, the Company entered into a lease for staining equipment which is classified as a capital lease in the consolidated balance sheets. As of September 30, 2021, and December 31, 2020, the current portion of the lease obligations totaled \$279 and \$197, respectively, and the long-term portion totaled \$262 and \$277, respectively.

(9) Stockholder's equity (deficit)

In February 2021, the Board approved and in April 2021, the Company's stockholders approved the number of shares of common stock authorized for issuance under the 2015 Plan (as defined below) to be increased from 4,947,214 shares to 6,020,175 shares (an increase by 1,072,961 shares).

The Company's Amended and Restated Certificate of Incorporation authorizes it to issue 500,000,000 shares of common stock, \$0.00001 par value per share, and 10,000,000 shares of preferred stock, par value \$0.00001 per share. Each share of Class A common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board, subject to the prior rights of holders of all classes of stock outstanding. As of September 30, 2021 and December 31, 2020, a total of 37,177,371 and 2,563,765 shares of common stock were issued and outstanding, respectively, and 6,955,947 and 4,932,952 shares of common stock were reserved for issuance upon the exercise of outstanding stock options, respectively.

(10) Stock compensation plans

2021 Equity Incentive Plan

On March 24, 2021, the Board and on April 8, 2021, its stockholders approved and adopted the 2021 Equity Incentive Award Plan (the "2021 Plan"). The 2021 Plan became effective immediately prior to the closing of the IPO. Under the 2021 Plan, the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock or cash-based awards to individuals who are then employees, officers, directors or consultants of the Company. A total of 1,727,953 shares of common stock were approved to be initially reserved for issuance under the 2021 Plan. The number of shares under the 2015 Plan subject to outstanding awards as of the effective date of the 2021 Plan that are subsequently canceled, forfeited or repurchased by the Company were added to the shares reserved under the 2021 Plan. In addition, the number of shares of common stock available for issuance under the 2021 Plan will be automatically increased on the first day of each calendar year during the ten-year term of the 2021 Plan, beginning with January 1, 2022 and ending with January 1, 2030, by an amount equal to 5% of the outstanding number of shares of the Company's common stock on December 31st of the preceding calendar year or such lesser amount as determined by the Board.

2015 Equity Incentive Plan

The Company's 2015 Equity Incentive Plan (the "2015 Plan") was established for granting stock incentive awards to directors, officers, employees and consultants to the Company. The 2015 Plan provided for the grant of incentive and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units as determined by the Board. Under the 2015 Plan, stock options were generally granted with exercise prices equal to or greater than the fair value of the common stock as determined by the Board, expired no later than 10 years from the date of grant, and vested over various periods not exceeding four years. While no shares are available for future issuance under the 2015 Plan, it continues to govern outstanding equity awards granted thereunder.

Stock Options

During the nine months ended September 30, 2021 and 2020, the Company granted options to employees with an aggregate fair value of \$17,196 and \$413, respectively, which are being recorded as compensation expense over the requisite service period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. The valuation model for stock compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation including the expected term (weighted-average period of time that the options granted are expected to be outstanding), volatility of the Company's common stock and an assumed-risk-free interest rate.

Expected Volatility. The Company uses an average historical stock price volatility of comparable public companies within a group of similar entities that were deemed to be representative of future stock price trends as the Company does not have sufficient trading history for its common stock. The Company will continue to apply this process until a sufficient amount of historical information regarding volatility of its own stock price options becomes available.

Expected Term. The Company derived the expected term using the "simplified" method (the expected term is determined as the average of the time-to-vesting and the contractual life of the options), as the Company had limited historical information to develop expectations about future exercise patterns and post vesting employment termination behavior.

Risk-Free Interest Rate. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Dividend Yield. The Company has never paid any dividends and does not plan to pay dividends in the foreseeable future, and, therefore, used an expected dividend yield of zero in the valuation model.

During the nine months ended September 30, 2021, the Company granted options to purchase 2,228,460 shares of common stock at a weighted average fair value of \$7.72 per share and a weighted average exercise price of \$15.52 per share. During the nine months ended September 30, 2020, the Company granted options to purchase 900,113 shares of common stock at a weighted average fair value of \$0.46 per share and a weighted average exercise price of \$0.59 per share. For the three and nine months ended September 30, 2021 and 2020, the fair values were estimated using the Black-Scholes valuation model using the following weighted-average assumptions:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Weighted-average risk-free interest rate	0.9 %	0.3 %	1.0 %	1.0 %
Expected dividend yield	0 %	0 %	0 %	0 %
Expected volatility	51.1 %	49.7 %	50.5 %	46.0 %
Expected term	6.0 years	5.5 years	6.0 years	5.2 years

Stock-based compensation related to the Company's stock-based awards was recorded as an expense and allocated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Cost of goods sold	\$ 36	\$ 2	\$ 83	\$ 6
Selling, general and administrative	960	45	2,233	312
Research and development	162	13	312	105
Total stock-based compensation	<u>\$ 1,158</u>	<u>\$ 60</u>	<u>\$ 2,628</u>	<u>\$ 423</u>

As of September 30, 2021, and 2020, there was \$14,430 and \$402, respectively, of total unrecognized compensation cost related to non-vested stock options. The Company expects to recognize that cost over a remaining weighted-average period of 3.4 and 2.6 years as of September 30, 2021 and 2020, respectively.

(11) Employee stock purchase plan

On March 24, 2021, the Board and on April 8, 2021, its stockholders approved and adopted the 2021 Employee Stock Purchase Plan (the "ESPP"). The ESPP became effective in connection with the closing of the Company's IPO. The ESPP permits participants to purchase common stock through payroll deductions of up to 15% of their eligible compensation. A total of 172,795 shares of common stock were approved to be initially reserved for issuance under the ESPP. In addition, the number of shares of common stock available for issuance under the ESPP will be automatically increased on the first day of each calendar year during the first ten-years of the term of the ESPP, beginning with January 1, 2022 and ending with January 1, 2030, by an amount equal to 0.5% of the outstanding number of shares of the Company's common stock on December 31st of the preceding calendar year or such lesser amount as determined by the Board. No shares have been issued under the ESPP at September 30, 2021.

(12) Income taxes

During the three months ended September 30, 2021 and 2020, the Company recorded a tax benefit (provision) of \$11 and \$9, respectively, and \$23 and (\$68) for the nine months ended September 30, 2021 and 2020, respectively. The tax benefit and provision consist primarily of foreign income taxes and state taxes in the United States. The provision differs from the U.S. federal statutory rate of 21% primarily due to the full valuation allowance recorded against the U.S. deferred tax assets, including the current year to date losses. The Company maintains a valuation allowance against its U.S. deferred tax assets as the Company believes it is more likely than not the deferred tax assets will not be realized.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law on March 27, 2020. The CARES Act included several provisions that provide economic relief for individuals and businesses. The CARES Act, among other things, included tax provisions relating to refundable payroll tax credits, the deferral of employer's social security payments, and modifications to net operating loss carryback provisions. On December 27, 2020, the Consolidated Appropriations Act of 2021 (the "CAA"), which includes the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and the American Rescue Plan Act of 2021, was signed into law and provided further COVID-19 economic relief with an expansion of the employee retention credit. In March 2021, the Internal Revenue Service ("IRS") released Notice 2021-20, which retroactively eliminated the restriction that prevented employers who received a PPP loan from qualifying for the Employee Retention Credit ("ERC"), which is a refundable tax credit against certain employment taxes. Upon determination that the employer has complied with all of the conditions required to receive the credit, a receivable is recognized and the credit reduces salaries and wages. In connection with the CARES Act, the Company adopted a policy to recognize the employee retention credit when earned. For the nine months ended September 30, 2021, we determined that we qualify for the employee retention credit as it relates to wages paid during the twelve months ended December 31, 2020, as well as wages paid during the first, second, and third fiscal quarters of 2021. As a result, we recorded a net benefit of \$4,321 related to the employee retention credit as a reduction to payroll expense for the nine months ended September 30, 2021 and recorded a gross receivable of \$5,093 within Prepaid expenses and other current assets as of September 30, 2021.

(13) Commitments and contingencies

Operating Leases

In July 2019, the Company entered into a seven-year office lease agreement for office and laboratory space in Marlborough, MA. In connection with this agreement, the Company paid a security deposit totaling \$450 in the form of a letter of credit. On June 18, 2021, the Company entered into an amendment to reduce its letter of credit to \$300. The Company's letter of credit is recorded as restricted cash in the Consolidated Balance Sheet.

In July 2019, the Company signed a seven-year lease agreement for office and laboratory space in Menlo Park, CA. In connection with this agreement, the Company paid a security deposit totaling \$181, which is recorded as a component

of long-term assets in the Consolidated Balance Sheet; the lease commencement date was May 2020. In July of 2021, the Company signed a 70-month amendment to its lease in Menlo Park, CA to expand its existing space. In connection with this agreement, the Company paid a security deposit totaling \$92, in addition to the existing security deposit, which is recorded as a component of long-term assets in the Consolidated Balance Sheet; the lease commencement date was August 2021.

In August of 2021, the Company signed a 30-month lease with MTP Equity Partners, LLC for office space in Marlborough, MA. In connection with this agreement, the Company paid a security deposit totaling \$43, which is recorded as a component of long-term assets in the Consolidated Balance Sheet; The lease commencement date is August 2021.

Contractual cash payments for the Company's operating leases as of September 30, 2021 by fiscal year are as follows:

2021 remaining	\$ 608
2022	2,470
2023	2,561
2024	2,175
2025	2,204
Thereafter	2,788
Total	<u>\$ 12,806</u>

Total rent expense for the three and nine months ended September 30, 2021 was \$533 and \$1,160, respectively. Total rent expense for the three and nine months ended September 30, 2020 was \$285 and \$857, respectively.

License Agreements

In November 2015, the Company entered into a license agreement with The Board of Trustees of the Leland Stanford Junior University ("Stanford"), pursuant to which Stanford granted the Company an exclusive, worldwide, sublicensable license under certain patent rights to make, use, import and commercialize products for diagnostic, industrial and research and development purposes. The Company agreed to pay annual license maintenance fees ranging from \$20 to \$50 for the royalty-bearing license to certain patents. The Company also issued a total of 91,559 shares of Class B common stock pursuant to the agreement in 2015, which converted to Class A common stock on April 8, 2021. Such shares were recorded at fair value at the date of issuance. The Company is required to pay royalties on net sales of products that are covered by patent rights under the agreement at a rate of 2.25%, subject to reductions and offsets in certain circumstances.

In September 2018, in connection with the acquisition of the QPS division of PKI, the Company entered into a License Agreement with PKI, pursuant to which PKI granted the Company an exclusive, nontransferable, sublicensable license under certain patent rights to make, use, import and commercialize QPS products and services. The Company is required to pay royalties on net sales of products and services that are covered by patent rights under the agreement at a rate ranging from 1.0% to 7.0%. The Company recorded approximately \$1,210 and \$1,590 of accrued royalties in connection with this agreement as of September 30, 2021 and December 31, 2020, respectively, payable in the first quarter of 2022 and 2021, respectively.

Research Agreements

In 2019 the Company entered into a research arrangement with an unrelated third party. Under this arrangement, we are obligated to pay such third party \$500, \$415, and \$120 in 2021, 2022, and 2023, respectively.

(14) Net loss per share attributable to common stockholders

Potentially issuable shares of common stock include shares issuable upon the exercise of outstanding employee stock option awards. Awards granted with performance conditions are excluded from the shares used to compute diluted earnings per share until the performance conditions associated with the awards are met.

The following table sets forth the computation of basic and diluted earnings per common share:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net loss	\$ (11,617)	\$ (4,284)	\$ (25,262)	\$ (11,012)
Dividends accrued on redeemable convertible preferred stock	—	(1,190)	(1,435)	(3,570)
Accretion of redeemable convertible preferred stock	—	(296)	(296)	(296)
Adjusted net loss attributable to common stockholders	<u>\$ (11,617)</u>	<u>\$ (5,770)</u>	<u>\$ (26,993)</u>	<u>\$ (14,878)</u>
Weighted average common shares used in net loss per share attributable to common stockholders, basic and diluted	37,162,489	2,363,063	23,407,358	2,314,990
Basic and diluted net loss per common share outstanding	<u>\$ (0.31)</u>	<u>\$ (2.44)</u>	<u>\$ (1.15)</u>	<u>\$ (6.43)</u>

The Company's potential dilutive securities, which include stock options, convertible preferred stock, and warrant, have been excluded from the computation of diluted net loss per share attributable to common stockholders whenever the effect of including them would be to reduce the net loss per share. In periods where there is a net loss, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The following potential common shares, presented based on amounts outstanding at each period end, were excluded from the calculation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

	September 30,	
	2021	2020
Series A Convertible Preferred Stock (as converted to common stock)	—	2,151,641
Series B Redeemable Convertible Preferred Stock (as converted to common stock)	—	5,886,405
Series C Redeemable Convertible Preferred Stock (as converted to common stock)	—	11,473,110
Series D Redeemable Convertible Preferred Stock (as converted to common stock)	—	7,034,423
Outstanding stock options	5,450,055	3,640,153
Performance-based stock options	—	21,459
Warrant to purchase Series D convertible preferred stock (as converted to common stock)	—	158,274
Warrant to purchase common stock	158,274	—
Total	<u>5,608,329</u>	<u>30,365,465</u>

(15) Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The Company has one business activity and there are no segment managers who are held accountable for operations. Accordingly, the Company has a single reportable segment structure. The Company's principal operations and decision-making functions are located in the United States.

The following table provides the Company’s revenues by geographical market based on the location where the services were provided or to which product was shipped:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
North America	\$ 7,394	\$ 4,802	\$ 19,004	\$ 13,100
APAC	2,828	2,398	9,527	8,290
EMEA	3,254	2,754	10,228	8,145
Total Revenue	\$ 13,476	\$ 9,954	\$ 38,759	\$ 29,535

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
North America	55 %	48 %	49 %	44 %
APAC	21 %	24 %	25 %	28 %
EMEA	24 %	28 %	26 %	28 %
Total Revenue	100 %	100 %	100 %	100 %

North America includes the United States and related territories, as well as Canada. APAC also includes Australia. For the three and nine months ended September 30, 2021, we had one country outside of the United States with 14% and 16% of total revenue, respectively. For the three and nine months ended September 30, 2020, we had countries outside of the United States with 16% and 12% of total revenue, and 11%, 10% and 10% of total revenue, respectively.

As of September 30, 2021 and December 31, 2020, substantially all of the Company’s long-lived assets are located in the United States.

(16) Related party transactions

Argonaut Manufacturing Services Inc. (“AMS”) is a portfolio company of Telegraph Hill Partners, which holds greater than 5% of our total outstanding shares. During the three and nine months ended September 30, 2021, the Company incurred costs of goods sold of approximately \$868 and \$2,594, respectively, related to sales of consumables manufactured by AMS. During the three and nine months ended September 30, 2020, the Company incurred costs of goods sold of approximately \$386 and \$826, respectively, related to sales of consumables manufactured by AMS. As of September 30, 2021 and December 31, 2020, \$2,199 and \$1,300, respectively, is included in inventory related to consumables manufactured by AMS. As of September 30, 2021 and December 31, 2020, the Company had \$506 and \$569 in accounts payable, respectively, due to AMS.

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

You should read the following discussion and analysis of financial condition and results of operations together with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and notes thereto and management’s discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2020 included in the Prospectus. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those in the Prospectus, as referred to in the section titled “Risk Factors” under Part II, Item 1A below. Please also see the section titled “Special note regarding forward looking statements.”

Overview

We are an innovative life sciences technology company delivering spatial biology solutions focused on transforming discovery and clinical research. Our mission is to deliver a revolutionary new class of spatially derived biomarkers that empower life sciences researchers to better understand disease and clinicians to improve patient outcomes. Spatial biology refers to a rapidly evolving technology that enables academic and biopharma scientists to detect and map the

distribution of cell types and biomarkers across whole tissue samples at single cell resolution, enabling advancements in their understanding of disease progression and patient response to therapy. Through our CODEX and Phenoptics platforms, reagents, software and services, we offer end-to-end solutions to perform tissue analysis and spatial phenotyping across the full continuum, from discovery through translational and clinical research.

Our spatial biology solutions measure cells and proteins by providing biomarker data in its spatial context while preserving tissue integrity. Biomarkers are objective measures that capture what is happening in a cell or tissue at a given moment. Current genomic and proteomic methods, such as next-generation sequencing (NGS), single-cell analysis, flow cytometry and mass spectrometry, are providing meaningful data but require the destruction of the tissue sample for analysis. While valuable and broadly adopted, these approaches allow scientists to analyze the biomarkers and cells that comprise the tissue but do not provide the fundamental information about tissue structure, cellular interactions and the localized measurements of key biomarkers. Furthermore, current non-destructive tissue analysis and histological methods provide some limited spatial information, but only measure a minimal number of biomarkers at a time and require expert pathologist interpretation. Our platforms address these limitations by providing end-to-end solutions that enable researchers to quantitatively interrogate a large number of biomarkers and cell types across a tissue section at single cell resolution. The result is a detailed and computable map of the tissue sample that thoroughly captures the underlying tissue dynamics and interactions between key cell types and biomarkers, a process now referred to as spatial phenotyping. We believe that we are the only business with the breadth of platform capabilities that enable researchers to do a deep exploratory and discovery study, and then further advance and scale their study through translational and clinical phases, thereby helping to provide a broad scope of understanding of human biology, disease progression and response to therapy.

We offer two distinct platforms for spatial phenotyping, each designed to serve the unique needs of our customers in the discovery, translational and clinical markets. The first, CODEX, is an ultra-high parameter and cost-effective platform ideally suited for discovery research with the ability to identify more than 40 biomarkers in a tissue sample. The second, Phenoptics, is a high-throughput platform with the automation and robustness needed for translational and clinical applications. Both offer seamless and integrated workflow solutions for our customers, including important benefits such as flexible sample types, automated sample processing, scalability, comprehensive data analysis and software solutions and dedicated field and applications support. With these platforms, our customers are performing spatial phenotyping to further advance their understanding of diseases such as cancer, neurological and autoimmune disorders, and many other therapeutic areas.

For the three months ended September 30, 2021 and 2020, revenue from North America accounted for approximately 55% and 48% of our revenue, respectively, and 49% and 44% for the nine months ended September 30, 2021 and 2020, respectively.

As of September 30, 2021, we employed a commercial team of 146 employees, including many with significant industry and technical experience. This total includes field instrument service personnel who are classified in cost of goods sold in our consolidated statements of operations. We follow a direct sales model in North America and EMEA, while selling through third party distributors and dealers in APAC.

We focus a substantial portion of our resources on research and development, as well as on business development and sales and marketing. Our research and development efforts are geared towards developing new instruments and assay capabilities, as well as new reagent kits, to meet both our customers' needs and to address new markets. We intend to continue making significant investments in this area for the foreseeable future. We also intend to continue to make investments in building our sales team and marketing our products and services to potential customers.

We generally outsource all of our production manufacturing. Design work, prototyping and pilot manufacturing are performed in-house before outsourcing to third party contract manufacturers. Our outsourced production strategy is intended to drive cost leverage and scale, and avoid the high capital outlays and fixed costs related to constructing and operating a manufacturing facility. The contract manufacturers of our systems and reagent kits are located in the United States and Asia. Certain of our suppliers of components and materials are single source suppliers. We manufacture and assemble certain instrument components in-house.

As of the date of this Quarterly Report on Form 10-Q, we have financed our operations primarily from the issuance and sale of convertible preferred stock and borrowings under our long-term debt agreement, and our IPO. We have incurred net losses in each year since our inception in 2015. Our net losses were \$11.6 million and \$4.3 million for the three months ended September 30, 2021 and 2020, respectively, and \$25.3 million and \$11.0 million for the nine months ended September 30, 2021 and 2020, respectively. We expect to continue to incur significant expenses and operating losses for the foreseeable future. We expect our expenses will increase substantially in connection with our ongoing activities, as we:

- attract, hire and retain qualified personnel, including the expansion of our commercial capabilities and organizations;
- market and sell new and existing solutions and services;
- invest in processes and infrastructure to scale our business;
- support research and development to introduce new solutions;
- expand, protect and defend our intellectual property; and
- acquire complementary businesses or technologies to support the growth of our business.

Key factors affecting our results of operations and future performance

There are a number of factors that have impacted, and we believe will continue to impact, our business, results of operations and growth. Our ability to successfully address these factors is subject to various risks and uncertainties, including those described under the heading “*Risk Factors*.”

Expansion of our installed base

We are focused on increasing sales of our CODEX and Phenoptics platforms to new and existing customers. Our financial performance has historically been driven by, and will continue to be impacted by, the volume of instrument sales. Additionally, instrument sales are a leading indicator of future recurring revenue from consumables and services. Our operating results and growth prospects will be dependent in part on our ability to increase our instrument installed base as we further penetrate existing markets and expand into, or offer new features and solutions that appeal to, new markets.

We believe our market is still evolving and relatively underpenetrated. As spatial biology is further validated through rapid acceleration of peer-reviewed publications and growing adoption by the life sciences research market, we believe we have an opportunity to significantly increase our installed base. In order to capitalize on this opportunity to drive adoption of our platforms across the entire market, we intend to expand our global sales and marketing organizations, increase the scale of our outbound marketing activities, invest in commercial channel infrastructure and deliver new, market-leading solutions to our customers. In addition, we regularly solicit feedback from our customers in order to enhance our solutions and their applications for life sciences research, which we believe will drive increased adoption of our platforms as they better serve our customers’ needs.

Drive incremental pull through

We believe that expansion of our installed base to new and existing customers will drive an increase in our recurring reagent and instrument service revenue. In addition, as our research and development team identifies and launches new applications and biomarker targets, we expect to increase incremental pull through on our existing and new instrument installed base. Recurring revenue was 38% and 38% of total revenue for the three months ended September 30, 2021 and 2020, respectively, and 40% and 33% for the nine months ended September 30, 2021 and 2020, respectively. Our recurring revenue as a percentage of total product and service revenue will vary based upon new device placements in

the period. As our installed base expands, we expect recurring revenue on an absolute basis to increase and become an increasingly important contributor to our revenue.

Improve revenue mix and gross margin

Our revenue is primarily derived from sales of our platforms, consumables, software, and services. Our revenue mix will fluctuate from period-to- period, particularly revenue generated from instrument sales. As our installed base grows, we expect consumables and instrument service revenue to constitute a larger percentage of total revenue.

Our margins are higher for those instruments and consumables that we sell directly to customers compared to those sold through distributors. While we do not currently intend to terminate our distributor relationships, we plan to increase our direct sales capabilities in certain geographies which we believe will improve our gross margins.

Future instrument and consumable selling prices and gross margins may fluctuate due to a variety of factors, including the introduction by others of competing products and solutions. We aim to mitigate downward pressure on our average selling prices by increasing the value proposition offered by our instruments and consumables, primarily by expanding the applications for our devices and increasing the quantity and quality of data that can be obtained using our consumables.

COVID-19 Impact

In March 2020, COVID-19 was declared a global pandemic by the World Health Organization. In the following weeks, many states and counties across the United States responded by implementing a number of measures designed to prevent its spread, including stay-at -home or shelter-in- place orders, quarantines and closure of all non- essential businesses. While conditions appear to be improving, particularly as more people get vaccinated, the impact of this pandemic has been and will likely continue to be extensive in many aspects of society, which has resulted in and will likely continue to result in significant disruptions to the global economy, as well as businesses and capital markets around the world.

Impacts in 2020 and 2021 to our business as a result of COVID-19 include disruptions to our manufacturing operations and supply chain caused by facility closures, reductions in operating hours, staggered shifts and other social distancing efforts, decreased productivity and unavailability of materials or components, limitations on our employees' and customers' ability to travel, and delays in product installations, trainings or shipments to and from affected countries and within the United States. As COVID-19 related restrictions eased and vaccination rates increased, we began the process of transitioning those personnel who are comfortable working in an office setting back to our corporate office facility, but a significant number of our personnel continue to work from home. While we learned during COVID-19 that we can work very effectively in a fully-remote environment, the partial return to in-office work and the potential transition to permanent remote working arrangements for some employees may result in increased costs, decreased efficiency, deterioration of corporate culture, greater exposure to cybersecurity threats, and other operational risks. We also expect that customer, employee and industry events may return in-person if COVID-19 related restrictions continue to ease.

Disruptions in our customers' operations have impacted and may continue to impact our business. For example, laboratory shutdowns and reduced capital spend by our customers have negatively impacted our instrument and reagent sales. We do not yet know the net impact that the COVID-19 pandemic may have on our business and cannot guarantee that it will not be materially negative. Although we continue to monitor the situation and may adjust our current policies as more information and public health guidance become available, the ongoing effects of the COVID -19 pandemic and/or the precautionary measures that we have adopted may create operational and other challenges, any of which could harm our business and results of operations. While we maintain an inventory of finished products and raw materials used in our products, a prolonged pandemic could lead to shortages in the raw materials necessary to manufacture our products. If we experience a prolonged disruption in our manufacturing, supply chains or commercial operations, or if demand for our products is significantly reduced as a result of the COVID-19 pandemic, we would expect to experience a material adverse impact on our business, financial condition, results of operations and prospects.

Historically, a significant portion of our field sales, customer training events and other application services have been conducted in person, and the rollout of our new products has historically been supported by our participation at industry conferences. As a result of the COVID-19 pandemic, and the precautionary measures that we have adopted, substantially all of our field sales and professional services activities have been conducted remotely for over a year, which has resulted in a decrease in our travel expenditures. However, we expect our travel expenditures to increase in the future as COVID-19 restrictions ease, which could negatively impact our financial condition and results of operations. As of the date of this Quarterly Report on Form 10-Q, we do not yet know the extent of the negative impact of such restrictions and precautionary measures on our ability to attract new customers or retain and expand our relationships with existing customers over the near and long term. The length of time and full extent to which the COVID-19 pandemic may directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are highly uncertain, subject to change and difficult to predict.

License Agreements

In November 2015, we entered into an exclusive (equity) agreement with Stanford, pursuant to which Stanford granted us an exclusive, worldwide, sublicensable (subject to certain requirements) license under certain patent rights to make, use, import and commercialize products for diagnostic, industrial and research and development purposes. We agreed to pay annual license maintenance fees ranging from \$20 thousand to \$50 thousand for the royalty-bearing license to certain patents. We also issued a total of 91,559 shares of Class B common stock pursuant to the agreement in 2015, which were recorded at fair value at the date of issuance. We are required to pay royalties on net sales of products that are covered by patent rights under the agreement at a rate of 2.25%, subject to reductions and offsets in certain circumstances, as well as a portion of any of our sublicensing income.

In September 2018, in connection with the acquisition of the Phenoptics technology from PKI, we entered into a license and royalty agreement with PKI, Cambridge Research & Instrumentation, Inc., and VisEn Medical Inc., pursuant to which such parties granted us an exclusive, nontransferable, sublicensable (subject to certain conditions) license under certain patent rights and know-how to make, use, import and commercialize Phenoptics products and services. We are required to pay royalties on net sales of products and services that are covered by patent rights under the agreement at a rate ranging from 1.0% to 7.0%.

Key Business Metrics

We regularly review the number of instrument placements and cumulative instrument placement as key metrics to evaluate our business, measure our performance, identify trends affecting our business, develop financial projections, and make strategic decisions. We believe that these metrics are representative of our current business; however, we anticipate these will change or may be substituted for additional or different metrics as our business grows.

During the three and nine months ended September 30, 2021 and 2020, our instrument placements were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Instrument Placements:	33	27	101	84

Our instruments are sold globally to leading biopharma companies and top research institutions and medical centers. Our quarterly instrument placements fluctuate considerably from period-to-period due to the type and size of our customers and their procurement and budgeting cycles. We expect continued fluctuations in our quarterly period-to-period number of instrument placements.

We believe our instrument placements are important metrics to measure our business because together they are driven by our ability to secure new customers and drive adoption of our CODEX and Phenoptics platforms and provide insights into anticipated recurring revenue for consumables and instrument services.

Components of results of operations

Revenue

Product Revenue

We generate product revenue from the sale of our instruments, consumables and software products. Instrument sales accounted for 65% and 69% of our product revenue for the three months ended September 30, 2021 and 2020, respectively, and 64% and 72% for the nine months ended September 30, 2021 and 2020, respectively. Consumables revenue accounted for 32% and 27% of our product revenue for the three months ended September 30, 2021 and 2020, respectively, and 33% and 25% for the nine months ended September 30, 2021 and 2020, respectively.

Our current instrument offerings include our CODEX platform and our Phenoptics platform. Our sales process with customers is often long and involves multiple levels of approvals. As a result, the revenue for our platforms can vary significantly from period-to-period and has been, and may continue to be, concentrated in a small number of customers in any given period.

We sell our instruments directly to customers and through distributors. Each of our instrument sales drives various streams of recurring revenue comprised of consumable product sales and instrument services.

Service and Other Revenue

We primarily generate service and other revenue from instrument service, which generally consists of sales of extended service contracts, in addition to installation and training, as well as from our laboratory services operation, where we provide sample testing services to customers utilizing our in-house lab operation.

We offer our customers extended warranty and service plans for our platforms. Our extended warranty and service plans are offered for periods beyond the standard one-year warranty that all customers receive. These extended warranty and service plans generally have fixed fees and terms ranging from one to four additional years. We recognize revenue from the sale of extended warranty and service plans over the respective coverage period, which approximates the service effort provided by us.

The Company records shipping and handling billed to customers as service and other revenue and the related costs in cost of service and other revenue in the consolidated statement of operations.

During the three and nine months ended September 30, 2021 and 2020, respectively, our revenue was comprised of the following sources:

(\$ in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenue:				
Product revenue	\$ 10,874	\$ 7,852	\$ 31,556	\$ 22,967
Service and other revenue	2,602	2,102	7,203	6,568
Total revenue	<u>\$ 13,476</u>	<u>\$ 9,954</u>	<u>\$ 38,759</u>	<u>\$ 29,535</u>

We sell our products globally. We sell directly to end customers in North America and EMEA and we sell through third party distributors and dealers in the APAC region.

Cost of Goods Sold, Gross Profit and Gross Margin

Product cost of revenue primarily consists of costs for finished goods (both instruments and reagents) produced by our contract manufacturers, and associated freight, shipping and handling costs for products shipped to customers, salaries and other personnel costs, and other direct costs related to those sales recognized as product revenue in the

period. Cost of goods sold for services and other primarily consists of salaries and other personnel costs, travel related to services provided, costs of servicing equipment at customer sites, and all personnel and related costs for our laboratory services operation.

We expect that our cost of goods sold will increase or decrease to the extent that our revenue increases and decreases and depending on the mix of revenue in any specific period.

Gross profit is calculated as revenue less cost of goods sold. Gross margin is gross profit expressed as a percentage of revenue. Our gross profit in future periods will depend on a variety of factors, including: market conditions that may impact our pricing, sales mix among instruments, sales mix changes among consumables, excess and obsolete inventories, costs we pay our contract manufacturers for their services, our cost structure for lab service operations relative to volume, and product warranty obligations. Our gross profit in future periods will also vary based upon our channel mix and may decrease based upon our distribution channels.

Gross profit was \$8.5 million compared to \$6.0 million for the three months ended September 30, 2021 and 2020, respectively, and \$24.0 million compared to \$18.0 million for the nine months ended September 30, 2021 and 2020 respectively.

Operating expenses

Research and development. Research and development costs primarily consist of salaries, benefits, engineering/design costs, laboratory supplies, and materials expenses for employees and third parties engaged in research and product development. We expense all research and development costs in the period in which they are incurred.

We plan to continue to invest in our research and development efforts, including hiring additional employees, to enhance existing products and develop new products. As a result, we expect that our research and development expenses will continue to increase in absolute dollars in future periods. We expect these expenses to vary from period to period as a percentage of revenue.

Selling, general and administrative. Our selling, general and administrative expenses primarily consist of salaries and benefits for employees in our executive, accounting and finance, legal expenses related to intellectual property, sales and marketing, operations, and human resource functions as well as professional services fees, such as consulting, audit, tax and legal fees, general corporate costs, commercial sales functions, marketing, travel expenses, facilities, IT, and allocated overhead expenses. We expect that our sales, general and administrative expenses will continue to increase in absolute dollars after our IPO, primarily due to increased headcount to support anticipated growth in the business and due to incremental costs associated with operating as a public company. Additionally, we expect an increase in absolute dollars as we expand our commercial sales, marketing and business development teams, increase our presence globally and increase marketing activities to drive awareness and adoption of our platform. We expect these expenses to vary from period to period as a percentage of revenue.

Change in fair value of contingent consideration. On September 28, 2018, the Company acquired substantially all the assets of the Quantitative Pathology Solutions (“QPS”) division of PKI. As part of the acquisition, on September 28, 2018, the Company entered into a License Agreement (the “Ancillary Agreements”) with PKI. Under the terms of the License Agreement, the Company agreed to pay PKI certain royalties as a percentage of future sales of products from the QPS division, in exchange for a perpetual license of the right to produce and sell QPS products. This contingent consideration is subject to remeasurement.

Depreciation and amortization. Depreciation and amortization expenses primarily consist of depreciation of property and equipment and amortization of acquired intangibles.

Other income (expense)

Interest expense. Interest expense consists primarily of interest related to borrowings under our debt obligations.

Change in fair value of warrant liability. Prior to our IPO, we classified our outstanding warrant to purchase shares of our Series D redeemable convertible preferred stock as a liability on our balance sheets at its estimated fair value since the underlying redeemable convertible preferred stock was classified as temporary equity. At the end of each reporting period, changes in the estimated fair value during the period were recorded as a component of other income (expense). In connection with our IPO, this warrant was adjusted to become a warrant to purchase shares of our common stock and met the criteria to be classified within stockholders' equity; therefore, the warrant was no longer subject to liability accounting. Accordingly, the fair value of the warrant liability was reclassified to stockholders' equity.

Gain on extinguishment of debt. Gain on extinguishment of debt relates to forgiveness of our PPP loan.

Other expense, net. Other expense, net consists primarily of franchise tax and foreign currency exchange gains and losses.

Benefit (provision) for income taxes

Our benefit (provision) for income taxes consists primarily of foreign taxes and state minimum taxes in the United States. As we expand the scale and scope of our international business activities, any changes in the United States and foreign taxation of such activities may increase our overall provision for income taxes in the future.

Results of operations

The results of operations presented below should be reviewed in conjunction with the consolidated financial statements and notes included elsewhere in the Quarterly Report on Form 10-Q. The following tables set forth our results of operations for the periods presented:

(\$ in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Product revenue	\$ 10,874	\$ 7,852	\$ 31,556	\$ 22,967
Service and other revenue	2,602	2,102	7,203	6,568
Total revenue	13,476	9,954	38,759	29,535
Cost of goods sold:				
Cost of product revenue	\$ 3,594	\$ 2,752	\$ 10,381	\$ 8,756
Cost of service and other revenue	1,429	1,168	4,386	2,779
Total cost of goods sold	5,023	3,920	14,767	11,535
Gross profit	8,453	6,034	23,992	18,000
Operating expenses:				
Selling, general and administrative	13,725	5,712	31,970	17,166
Research and development	3,999	2,279	10,138	7,071
Change in fair value of contingent consideration	224	739	1,050	(167)
Depreciation and amortization	1,244	971	3,352	2,792
Total operating expenses	19,192	9,701	46,510	26,862
Loss from operations	(10,739)	(3,667)	(22,518)	(8,862)
Other income (expense):				
Interest expense, net	(763)	(683)	(2,271)	(1,978)
Change in fair value of warrant liability	—	—	(2,728)	—
Gain on extinguishment of debt	—	—	2,476	—
Other expense, net	(126)	57	(244)	(104)
Loss before benefit (provision) for income taxes	(11,628)	(4,293)	(25,285)	(10,944)
Benefit (provision) for income taxes	11	9	23	(68)
Net loss	\$ (11,617)	\$ (4,284)	\$ (25,262)	\$ (11,012)

Comparison of the three months ended September 30, 2021 and 2020

Revenue

(\$ in thousands, except percentages)	Three months ended September 30,		Change	
	2021	2020	Amount	%
Product revenue	\$ 10,874	\$ 7,852	3,022	38 %
Service and other revenue	2,602	2,102	500	24 %
Total revenue	\$ 13,476	\$ 9,954	3,522	35 %

Product revenue increased by \$3.0 million, or 38%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020. The increase was primarily driven by a \$1.3 million increase in consumable revenue resulting from a larger installed base of 651 systems as of September 30, 2021, as compared to 516 systems as of September 30, 2020, and a \$1.7 million increase in instrument revenue resulting from 33 new system placements during the three months ended September 30, 2021, compared to 27 new system placements for the three months ended September 30, 2020.

Service and other revenue increased by \$0.5 million, or 24%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020. The increase was primarily due to a \$0.4 million increase relating to lab services operations, and other immaterial changes.

Costs of Goods Sold, Gross Profit and Gross Margin

(\$ in thousands, except percentages)	Three months ended September 30,		Change	
	2021	2020	Amount	%
Cost of product revenue	\$ 3,594	\$ 2,752	\$ 842	31 %
Cost of service and other revenue	1,429	1,168	261	22 %
Total cost of goods sold	\$ 5,023	\$ 3,920	\$ 1,103	28 %
Gross profit	\$ 8,453	\$ 6,034	\$ 2,419	40 %
Gross margin	63 %	61 %		

Cost of product revenue increased by \$0.8 million, or 31%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020. The increase in cost of product revenue was primarily driven by costs associated with increased instrument and consumable sales, partially offset by a change of mix in instrument revenue as compared to consumables revenue. Cost of service and other revenue increased by \$0.3 million, or 22%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020. The increase was primarily due to increases in extended warranty costs as there were higher customer renewals due to the maturity of the installed base.

Gross profit increased by \$2.4 million, or 40%, and gross margin increased by 2% for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020, primarily due to a higher mix of consumables revenue driven by a higher install base. Additionally, the Company recorded a \$0.1 million reduction to cost of goods sold in the three months ended September 30, 2021, associated with the employee retention credit.

Operating Expenses

Selling, General and Administrative

(\$ in thousands, except percentages)	Three months ended September 30,		Change	
	2021	2020	Amount	%
Selling, general and administrative	\$ 13,725	\$ 5,712	\$ 8,013	140 %

Selling, general and administrative expense increased by \$8.0 million, or 140%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020. The increase was primarily due to a \$3.9 million increase in personnel-related expenses due to an increase in headcount to support the growth in our overall operations in anticipation of and subsequent to our IPO, net of a \$1.0 million credit associated with the employee retention credit. Additionally, there was a \$2.4 million increase in professional fees and other third-party fees, which are largely incremental costs of operating a public business, including increased marketing, legal, accounting, insurance, and other consulting costs. Remaining increases are due to higher costs in recruiting, facilities, supplies, software licenses and subscriptions, and other related costs.

Research and development

(\$ in thousands, except percentages)	Three months ended September 30,		Change	
	2021	2020	Amount	%
Research and development	\$ 3,999	\$ 2,279	\$ 1,720	75 %

Research and development expense increased by \$1.7 million, or 75%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020. The increase was primarily due to a \$0.8 million increase in personnel-related expenses due to an increase in headcount, net of a \$0.4 million credit associated with the employee retention credit. Additionally, there was a \$0.7 million increase in third-party consulting and lab supplies consumed as the Company has ramped up its efforts in anticipation of and subsequent to the IPO.

Change in fair value of contingent consideration

(\$ in thousands, except percentages)	Three months ended September 30,		Change	
	2021	2020	Amount	%
Change in fair value of contingent consideration	\$ 224	\$ 739	\$ (515)	(70)%

Change in fair value of contingent consideration decreased by \$0.5 million, or 70%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, due to current period remeasurement.

Depreciation and amortization

(\$ in thousands, except percentages)	Three months ended September 30,		Change	
	2021	2020	Amount	%
Depreciation and amortization	\$ 1,244	\$ 971	\$ 273	28 %

The \$0.3 million increase in depreciation and amortization expense was primarily related to an increase in property and equipment as of September 30, 2021 as compared to September 30, 2020.

Interest expense

(\$ in thousands, except percentages)	Three months ended September 30,		Change	
	2021	2020	Amount	%
Interest expense	\$ 763	\$ 683	\$ 80	12 %

Interest expense increased by \$0.1 million, or 12%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020.

The increase was primarily due to increased debt levels as of September 30, 2021 as compared to September 30, 2020.

Other expense, net

(\$ in thousands, except percentages)	Three months ended September 30,		Change	
	2021	2020	Amount	%
Other expense, net	\$ 126	\$ (57)	\$ 183	(321)%

Other expense, net increased by \$183.0 thousand for the three months ended September 30, 2021, compared to the three months ended September 30, 2020.

Comparison of the nine months ended September 30, 2021 and 2020

Revenue

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Product revenue	\$ 31,556	\$ 22,967	8,589	37 %
Service and other revenue	7,203	6,568	635	10 %
Total revenue	\$ 38,759	\$ 29,535	9,224	31 %

Product revenue increased by \$8.6 million, or 37%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. The increase was primarily driven by a \$4.6 million increase in consumable revenue resulting from a larger installed base as of 651 systems as of September 30, 2021, as compared to 516 systems as of September 30, 2020, a \$3.7 million increase in instrument revenue resulting from 101 new system placements during the nine months ended September 30, 2021, compared to 84 new system placements for the nine months ended September 30, 2020, as well as a \$0.3 million increase in standalone software products due to incremental third party software sales completed during the nine months ended September 30, 2021.

Service and other revenue increased by \$0.6 million, or 10%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. The growth was primarily due a \$0.9 increase from instrument service during the nine months ended September 30, 2021, primarily driven by the increase in our installed base and customers renewing their service and warranty contracts, offset by a \$0.5 million decrease relating to our lab services operations.

Costs of Goods Sold, Gross Profit and Gross Margin

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Cost of product revenue	\$ 10,381	\$ 8,756	\$ 1,625	19 %
Cost of service and other revenue	4,386	2,779	1,607	58 %
Total cost of goods sold	\$ 14,767	\$ 11,535	\$ 3,232	28 %
Gross profit	\$ 23,992	\$ 18,000	\$ 5,992	33 %
Gross margin	62 %	61 %		

Cost of product revenue increased by \$1.6 million, or 19%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. The increase in cost of product revenue was primarily driven by costs associated with increased instrument and consumable sales, partially offset by a change of mix in instrument revenue as compared to consumables revenue. Cost of service and other revenue increased by \$1.6 million, or 58%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. The increase was primarily due to increases in costs of shipping associated with higher instrument sales, as well as increases in extended warranty costs as there were higher customer renewals due to maturity of the installed base.

Gross profit increased by \$6.0 million, or 33%, and gross margin increased by 1% for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020, primarily due to a higher mix of consumables revenue driven by a higher install base. Additionally, the Company recorded a \$0.4 million reduction to cost of goods sold in the nine months ended September 30, 2021, associated with the employee retention credit.

Operating Expenses

Selling, General and Administrative

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Selling, general and administrative	\$ 31,970	\$ 17,166	\$ 14,804	86 %

Selling, general and administrative expense increased by \$14.8 million, or 86%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. The increase was primarily due to a \$6.6 million in personnel-related expenses due to an increase in headcount to support the growth in our overall operations in anticipation of our IPO, net of \$2.6 million associated with the employee retention credit. Additionally, there was a \$5.1 million increase in professional fees and other third-party fees, which are largely incremental costs of operating a public business, including increased marketing, legal, accounting, insurance, and other consulting costs. Remaining increases due to higher costs in recruiting, facilities, supplies, software licenses and subscriptions, and other related costs.

Research and development

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Research and development	\$ 10,138	\$ 7,071	\$ 3,067	43 %

Research and development expense increased by \$3.1 million, or 43%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. The increase was primarily due to a \$1.6 million increase in lab supplies consumed as the Company has ramped up its efforts in anticipation of and subsequent to our IPO, and a \$1.3 million increase in personnel-related expenses, resulting from increased headcount, which was offset by \$1.3 million associated with the employee retention credit.

Change in fair value of contingent consideration

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Change in fair value of contingent consideration	\$ 1,050	\$ (167)	\$ 1,217	(729)%

Change in fair value of contingent consideration increased by \$1.2 million, or 729%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020 due to current period remeasurement.

Depreciation and amortization

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Depreciation and amortization	\$ 3,352	\$ 2,792	\$ 560	20 %

The \$0.6 million increase in depreciation and amortization expense was primarily related to an increase in property and equipment as of September 30, 2021 as compared to September 30, 2020.

Interest expense

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Interest expense	\$ 2,271	\$ 1,978	\$ 293	15 %

Interest expense increased by \$0.3 million, or 15%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020.

The increase was primarily due to increased debt levels as of September 30, 2021 as compared to September 30, 2020.

Change in fair value of warrant liability

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Change in fair value of warrant liability	\$ 2,728	\$ —	\$ 2,728	100 %

Change in fair value of warrant liability increased by \$2.7 million, or 100%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020 due to current period remeasurement.

Gain on extinguishment of debt

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Gain on extinguishment of debt	\$ 2,476	\$ —	\$ 2,476	100 %

Gain on extinguishment of debt increased by \$2.5 million, or 100%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020 due to forgiveness of our PPP Loan in the second quarter of 2021.

Other expense, net

(\$ in thousands, except percentages)	Nine months ended September 30,		Change	
	2021	2020	Amount	%
Other expense, net	\$ 244	\$ 104	\$ 140	135 %

Other expense, net increased by \$140.0 thousand for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020.

Liquidity and Capital Resources

As of September 30, 2021, we had approximately \$120.2 million in cash and cash equivalents which were primarily held in U.S. short-term bank deposit accounts.

Since our inception, we have experienced losses and negative cash flows from operations, and as of September 30, 2021, we had a consolidated net loss of \$25.3 million and an accumulated deficit of \$78.4 million. We have primarily relied on equity and debt financings to fund our operations to date.

We expect to incur additional operating losses in the foreseeable future as we continue to invest in the research and development of our product offerings, commercialize and launch platforms, and expand into new markets. Based on our current business plan, we believe the net proceeds from the IPO, together with our existing cash and cash equivalents and anticipated cash flows from operations will be sufficient to meet our working capital and capital expenditure needs over at least the next 12 months following the date of this Quarterly Report on Form 10-Q.

Our future capital requirements will depend on many factors, including, but not limited to our ability to successfully commercialize and launch products, and to achieve a level of sales adequate to support our cost structure. If we are unable to execute on our business plan and adequately fund operations, or if the business plan requires a level of spending in excess of cash resources, we will have to seek additional equity or debt financing. If additional financings are required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, financial condition, results of operations and prospects could be adversely affected.

Sources of Liquidity

Since our inception, we have financed our operations primarily from the issuance and sale of our convertible preferred stock and borrowings under long-term debt agreements. In April 2021, we completed our IPO, resulting in the receipt of aggregate proceeds of \$138.6 million, net of offering costs, underwriter discounts and commissions of \$12.8 million.

Convertible preferred stock financings

Through September 30, 2021, we have raised a total of \$60.5 million from the issuance and sale of convertible preferred stock, net of costs associated with such financings. Most recently, in 2019 we issued shares of Series D convertible preferred stock for gross proceeds of \$25.0 million. All preferred stock converted to common stock immediately prior to the IPO.

Payroll Protection Program loan

During April 2020, we received a \$2.48 million small business loan under the Payroll Protection Program, part of the Coronavirus Aid, Relief and Economic Security Act, the CARES Act. The PPP Loan was forgiven in June 2021.

Midcap Trust Term Loan

In October 2020, we entered into the Midcap Trust Term Loan, for a \$37.5 million credit facility, consisting of a senior, secured term loan to refinance all existing indebtedness with Innovatus. We realized \$32.5 million in aggregate proceeds as a result of the debt financing. The term of the Midcap Trust Term Loan is interest only for 36-months followed by 24-months of straight-line amortization with a final maturity date of October 27, 2025. Interest on the outstanding balance of the Midcap Trust Term Loan shall be payable monthly in arrears at an annual rate of one-month LIBOR plus 6.35%, subject to a LIBOR floor of 1.50%.

The Midcap Trust Term Loan is subject to a minimum revenue financial covenant measuring our last twelve months trailing revenue, tested on a monthly basis.

The Midcap Trust Term Loan is collateralized by substantially all of our assets. The agreement contains customary negative covenants that limit our ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate with any other entity or to acquire all or substantially all the capital stock or property of another entity. The agreement also contains customary affirmative covenants, including requirements to, among other things, deliver audited financial statements. If we default under the Midcap Trust Term Loan and if the default is not cured or waived, the lender could cause any amounts outstanding to be payable immediately. Under certain circumstances, the lender could also exercise its rights with respect to the collateral securing such loans. Moreover, any such default would limit our ability to obtain additional financing, which may have an adverse effect on our cash flow and liquidity.

We were in compliance with all covenants under the Midcap Trust Term Loan as of September 30, 2021.

Cash flows

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

(\$ in thousands)	Nine months ended September 30,	
	2021	2020
Net cash provided by (used in):		
Operating activities	\$ (30,214)	\$ (4,696)
Investing activities	(3,729)	(2,925)
Financing activities	136,886	(201)
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>\$ 102,943</u>	<u>\$ (7,822)</u>

Operating activities

Net cash used in operating activities increased by \$25.5 million to \$30.2 million in the nine months ended September 30, 2021 compared to \$4.7 million in the nine months ended September 30, 2020. This increase is attributable to a net loss of \$25.3 million, offset by non-cash charges of \$7.6 million. Non-cash charges primarily consisted of \$2.7 million in change in fair value of warrant liability, \$3.4 million of depreciation and amortization, \$1.1 million in change in fair value of contingent consideration, and \$0.3 million of non-cash interest expense, offset by \$2.5 million gain on extinguishment of debt.

Investing activities

Net cash used in investing activities was \$3.7 million in the nine months ended September 30, 2021 compared to \$2.9 million during the nine months ended September 30, 2020. The decrease was primarily driven by purchases of property and equipment of \$3.7 million.

Financing activities

Net cash provided by (used in) financing activities was \$136.9 million for the nine months ended September 30, 2021 compared with (\$0.2) million for the nine months ended September 30, 2020. In April of 2021, the Company received \$138.6 million in net IPO proceeds, after deducting underwriting discounts and commissions and other offering expenses. During the nine months ended September 30, 2021, we paid out \$1.6 million in contingent consideration as compared to \$2.6 million during the nine months ended September 30, 2020. Remaining changes were immaterial.

Qualitative and Quantitative Disclosures About Market Risk

Interest rate risk

Customer financing exposure. We are indirectly exposed to interest rate risk because many of our customers depend on debt financings to purchase our platforms and systems. An increase in interest rates could make it challenging for our

customers to obtain the capital necessary to make such purchases on favorable terms, or at all. Such factors could reduce demand or lower the price we can charge for our platforms and systems, thereby reducing our net sales and gross profit.

Fixed rate debt. In October 2020, we entered into the Midcap Trust Term Loan, which is due in October 2025, and carries a fixed interest rate of 7.85% per annum. If we refinance the Midcap Trust Term Loan or enter into new debt arrangements, interest rates could increase and thereby increase our financing costs and increase our net loss. A hypothetical 100 basis point change in interest rates would not have a material impact on interest expense for the nine months ended September 30, 2021.

Bank deposit, money market and note receivable exposure. As of September 30, 2021, we had cash and cash equivalents, including restricted cash, of \$120.5 million, which consisted primarily of bank deposits. The primary objective of our investment is to preserve principal and provide liquidity. These bank deposits generate interest income at variable rates below 1%. A hypothetical 100 basis point decrease in interest rates would not have a material impact on interest income or net loss.

Foreign currency risk

The majority of our revenue has been generated in the United States. As we expand our presence in international markets, to the extent we are required to enter into agreements denominated in a currency other than the U.S. dollar, our results of operations and cash flows may increasingly be subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Critical accounting policies and estimates

We have prepared our consolidated financial statements in accordance with GAAP. Our preparation of these consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on 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 could therefore differ materially from these estimates under different assumptions or conditions.

There have been no significant changes in our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in the section titled “Management’s Discussion and Analysis of Financial Condition and Operations” included in the Prospectus.

Recent accounting pronouncements

For information on recently issued accounting pronouncements, see Note 2 to our consolidated financial statements in this Quarterly Report on Form 10-Q.

JOBS Act accounting election

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or 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. We have elected to avail ourselves of this extended transition period, and, as a result, we will not be required to adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies. We intend to rely on other exemptions provided by the JOBS Act, including without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002.

Smaller reporting company status

We are also a “smaller reporting company,” meaning that the market value of our stock held by non-affiliates is less than \$700 million and our annual revenue is less than \$100 million during the most recently completed fiscal year. We may continue to be a smaller reporting company if either (i) the market value of our stock held by non-affiliates is less than \$250 million or (ii) our annual revenue is less than \$100 million during the most recently completed fiscal year and the market value of our stock held by non-affiliates is less than \$700 million. If we are a smaller reporting company at the time we cease to be an emerging growth company, we may continue to rely on exemptions from certain disclosure requirements that are available to smaller reporting companies. For example, as a smaller reporting company we may choose to present only the two most recent fiscal years of audited financial statements in our Annual Report on Form 10-K and, similar to emerging growth companies, smaller reporting companies have reduced disclosure obligations regarding executive compensation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2021. There was not any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. Our risk factors are set forth in our Prospectus and incorporated herein by reference, and there have been no material changes to such risk factors. You should carefully consider the risks and uncertainties we describe in the Prospectus, together with all other information in this report, including our unaudited financial statements and related notes and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this report, before investing in our common stock. Any of the risk factors we describe in the Prospectus could adversely affect our business, financial condition, results of operations or prospects. The market price of our common stock could decline if one or more of these risks or uncertainties actually occur, causing you to lose all or part of your investment in our common stock. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business, financial condition, operating results and prospects.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Exhibit Title	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation	S-1	333-254760	3.3	3/26/2021	
3.2	Amended and Restated Bylaws	S-1	333-254760	3.4	3/26/2021	
4.1	Amended and Restated Investors' Rights Agreement, dated September 27, 2019, by and among the Registrant and certain of its stockholders	S-1	333-254760	10.15	3/26/2021	
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1 *	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2 *	Certification of Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

* This certification is deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

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.

Akoya Biosciences, Inc.

Date: November 8, 2021

By: /s/ Brian McKelligon
Brian McKelligon
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2021

By: /s/ Joseph Driscoll
Joseph Driscoll
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Akoya Biosciences, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2021 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 to my knowledge:

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 result of operations of the Company.

Date: November 8, 2021

By: _____ /s/ Joseph Driscoll
Joseph Driscoll
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)
