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, 2024

OR

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

For the transition period from _____ to _____

Commission file number 001-40646

ABSCI CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

The registrant had outstanding 114,855,759 shares of $0.0001 par value common stock as of October 31, 2024.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes statements that are not historical facts and are considered forward-looking within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our forward-looking statements include, but are not limited to, statements that may relate to our management team's plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Risk Factors". Forward-looking statements can often be identified by the use of terminology such as "may," "might," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking. In particular, these forward-looking statements include, but are not limited to:

- our expectations regarding our further development of, successful application of, and the rate and degree of market acceptance of, our Integrated Drug Creation platform, including progress towards fully *in silico* biologic drug discovery;
- our expectations regarding our ability to leverage our proprietary Integrated Drug Creation platform to shorten preclinical development timelines for biologics;
- our plans and expectations regarding the initiation, timing, progress, results, and cost of our internal discovery, research and development programs, including current and future preclinical and clinical trial timelines, of programs using our proprietary Integrated Drug Creation platform, including statements regarding the timing of initiation and completion of studies or trials and related preparatory work, and the period during which the results of the trials will become available;
- our expectations regarding the markets for our services and technologies, including the growth rate of the biologics market;
- our ability to attract new partners and enter into drug creation agreements that contain milestone and royalty obligations in favor of us;
- our potential to receive revenue from the achievement of milestones and from royalties on net sales under agreements with our partners with respect to products originating from our Integrated Drug Creation platform;
- our ability to enter into license agreements for our existing Active Programs with those partners who do not currently have milestone payment and royalty obligations to us;
- our ability to manage and grow our business by expanding our relationships with existing partners or introducing our proprietary Integrated Drug Creation platform to new partners and developing drug candidates for our own internal drug discovery efforts;
- our expectations regarding our current and new partners' continued development of, and ability to commercialize, drug candidates generated utilizing our proprietary Integrated Drug Creation platform;
- our strategy, including our strategy to advance internally developed programs through preclinical studies and clinical trials;
- our expectations and estimates of our expenses, ongoing losses, future revenue, capital requirements and our need for or ability to obtain additional funding before we can expect to generate additional revenue;
- our estimates of the sufficiency of our cash and cash equivalents and short-term investments;
- our calculations and estimates related to the valuation of our intangible assets;

- our ability to establish, maintain or expand collaborations, partnerships or strategic relationships;
- our ability to provide our partners with a full drug discovery solution and the application of artificial intelligence across our Integrated Drug Creation platform;
- our ability to obtain, maintain and enforce intellectual property protection for our platform technologies, products, as well as the duration of such protection and our ability to operate our business without infringing on the intellectual property rights of others;
- our ability to attract, hire and retain key personnel and to manage our growth effectively;
- our expectations regarding use of our cash and cash equivalents and short-term investments;
- our financial performance and that of companies in our industry and the financial markets generally;
- the volatility of the trading price of our common stock;
- our competitive position and the development of and projections relating to our competitors or our industry;
- the impact of laws and regulations;
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act of 2012 (JOBS Act); and
- global economic conditions, including market volatility, acts of war and civil and political unrest, and our expectations about market trends and effects from inflation.

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements, including those set forth under the heading “Risk Factors” in Part II, Item 1A of this Quarterly Report. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Should one or more of the risks or uncertainties described in this Quarterly Report on Form 10-Q materialize, or should underlying assumptions prove incorrect, actual results and plans could differ materially from those expressed in any forward-looking statements. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, collaborations, joint ventures, or investments we may make or enter into. Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report. We qualify all of our forward-looking statements by these cautionary statements.

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

The contents of our website and social media postings, or any other website that may be accessed from our website or social media postings, shall not be deemed incorporated by reference in any filing under the Securities Act.

Part I. Financial Information

Item 1. Financial Statements

ABSCI CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share data)	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,195	$ 72,362
Restricted cash	15,799	16,193
Short-term investments	88,873	25,297
Receivables under development arrangements, net	1,500	2,189
Prepaid expenses and other current assets	5,777	4,537
Total current assets	150,144	120,578
Operating lease right-of-use assets	4,223	4,490
Property and equipment, net	32,374	41,328
Intangibles, net	45,726	48,253
Restricted cash, long-term	1,155	1,112
Other long-term assets	1,609	1,537
TOTAL ASSETS	$ 235,231	$ 217,298
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,672	$ 1,503
Accrued expenses	18,248	19,303
Long-term debt	3,274	3,258
Operating lease obligations	1,573	1,679
Financing lease obligations	140	641
Deferred revenue	1,781	3,174
Total current liabilities	26,688	29,558
Long-term debt, net of current portion	2,155	4,660
Operating lease obligations, net of current portion	4,847	5,643
Finance lease obligations, net of current portion	—	76
Deferred tax liability, net	175	186
Deferred revenue, long-term	—	966
Other long-term liabilities	31	33
TOTAL LIABILITIES	33,896	41,122
STOCKHOLDERS' EQUITY		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding as of September 30, 2024 and December 31, 2023	—	—
Common stock, $0.0001 par value; 500,000,000 shares authorized; 114,190,554 and 93,087,675 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	11	9
Additional paid-in capital	681,691	582,699
Accumulated deficit	(480,618)	(406,495)
Accumulated other comprehensive income (loss)	251	(37)
TOTAL STOCKHOLDERS' EQUITY	201,335	176,176
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 235,231	$ 217,298

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

ABSCI CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except for share and per share data)	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2024	For the Nine Months Ended September 30, 2023
Revenues				
Technology development revenue	$ 1,701	$ 744	$ 3,869	$ 5,380
Total revenues	1,701	744	3,869	5,380
Operating expenses				
Research and development	17,985	11,029	45,482	35,798
Selling, general and administrative	9,256	9,505	27,346	28,508
Depreciation and amortization	3,355	3,513	10,155	10,515
Goodwill impairment	—	—	—	21,335
Total operating expenses	30,596	24,047	82,983	96,156
Operating loss	(28,895)	(23,303)	(79,114)	(90,776)
Other income (expense)				
Interest expense	(130)	(229)	(456)	(806)
Other income, net	1,664	1,572	5,496	4,613
Total other income, net	1,534	1,343	5,040	3,807
Loss before income taxes	(27,361)	(21,960)	(74,074)	(86,969)
Income tax expense	(37)	(34)	(49)	(52)
Net loss	$ (27,398)	$ (21,994)	$ (74,123)	$ (87,021)
Net loss per share: Basic and diluted	$ (0.24)	$ (0.24)	$ (0.68)	$ (0.95)
Weighted-average common shares outstanding: Basic and diluted	113,613,488	92,217,234	108,665,095	91,844,221
Comprehensive loss:				
Net loss	$ (27,398)	$ (21,994)	$ (74,123)	$ (87,021)
Foreign currency translation adjustments	161	78	157	22
Unrealized gain on investments	204	9	131	39
Comprehensive loss	$ (27,033)	$ (21,907)	$ (73,835)	$ (86,960)

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

ABSCI CORPORATION
UNAUDITED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except for share and per share data)	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balances - December 31, 2023	93,087,675	$ 9	$ 582,699	$ (406,495)	$ (37)	$ 176,176
Issuance of common shares, net of issuance costs of $411	19,205,000	2	80,825	—	—	80,827
Issuance of shares under stock plans, net of shares withheld for tax payments	706,247	—	1,630	—	—	1,630
Stock-based compensation	—	—	3,544	—	—	3,544
Foreign currency translation adjustments	—	—	—	—	(47)	(47)
Unrealized loss on investments	—	—	—	—	(48)	(48)
Net loss	—	—	—	(21,975)	—	(21,975)
Balances - March 31, 2024	112,998,922	$ 11	$ 668,698	$ (428,470)	$ (132)	$ 240,107
Issuance of shares under stock plans, net of shares withheld for tax payments	483,455	—	760	—	—	760
Stock-based compensation	—	—	5,353	—	—	5,353
Forfeiture of common stock	(37,886)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	43	43
Unrealized loss on investments	—	—	—	—	(25)	(25)
Net loss	—	—	—	(24,750)	—	(24,750)
Balances - June 30, 2024	113,444,491	$ 11	$ 674,811	$ (453,220)	$ (114)	$ 221,488
Issuance of shares under stock plans, net of shares withheld for tax payments	746,063	—	1,390	—	—	1,390
Stock-based compensation	—	—	5,490	—	—	5,490
Foreign currency translation adjustments	—	—	—	—	161	161
Unrealized gain on investments	—	—	—	—	204	204
Net loss	—	—	—	(27,398)	—	(27,398)
Balances - September 30, 2024	114,190,554	$ 11	$ 681,691	$ (480,618)	$ 251	$ 201,335

(In thousands, except for share and per share data)	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances - December 31, 2022	92,411,103	$ 9	$ 570,454	$ (295,929)	$ (120)	$ 274,414
Issuance of shares under stock plans, net of shares withheld for tax payments	171,899	—	229	—	—	229
Stock-based compensation	—	—	2,652	—	—	2,652
Forfeiture of common stock	(101,030)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	(14)	(14)
Unrealized gain on investments	—	—	—	—	39	39
Net loss	—	—	—	(23,355)	—	(23,355)
Balances - March 31, 2023	92,481,972	$ 9	$ 573,335	$ (319,284)	$ (95)	$ 253,965
Issuance of shares under stock plans, net of shares withheld for tax payments	108,621	—	116	—	—	116
Stock-based compensation	—	—	3,041	—	—	3,041
Foreign currency translation adjustments	—	—	—	—	(42)	(42)
Unrealized loss on investments	—	—	—	—	(9)	(9)
Net loss	—	—	—	(41,672)	—	(41,672)
Balances - June 30, 2023	92,590,593	$ 9	$ 576,492	$ (360,956)	$ (146)	$ 215,399
Issuance of shares under stock plans, net of shares withheld for tax payments	346,387	—	380	—	—	380
Stock-based compensation	—	—	2,544	—	—	2,544
Foreign currency translation adjustments	—	—	—	—	78	78
Unrealized gain on investments	—	—	—	—	9	9
Net loss	—	—	—	(21,994)	—	(21,994)
Balances - September 30, 2023	92,936,980	$ 9	$ 579,416	$ (382,950)	$ (59)	$ 196,416

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

ABSCI CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Nine Months Ended September 30, 2024	2023
Cash Flows From Operating Activities		
Net loss	(74,123)	(87,021)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,155	10,515
Stock-based compensation	14,384	8,237
Goodwill impairment	—	21,335
Accretion of discount on short-term investments	(2,961)	(2,275)
Other	1,320	(479)
Changes in operating assets and liabilities:		
Receivables under development arrangements	739	723
Prepaid expenses and other current assets	(992)	1,460
Operating lease right-of-use assets and liabilities	(635)	(635)
Other long-term assets	(72)	(255)
Accounts payable	161	(380)
Accrued expenses and other liabilities	(1,055)	(839)
Deferred revenue	(2,359)	(100)
Net cash used in operating activities	(55,438)	(49,714)
Cash Flows From Investing Activities		
Purchases of property and equipment	(381)	(843)
Investment in short-term investments	(159,483)	(122,196)
Proceeds from maturities of short-term investments	99,000	185,897
Proceeds from sales of property and equipment	244	128
Net cash (used in) provided by investing activities	(60,620)	62,986
Cash Flows From Financing Activities		
Principal payments on long-term debt	(2,489)	(2,168)
Principal payments on finance lease obligations	(578)	(1,805)
Proceeds from issuance of common stock, net of issuance costs	84,607	725
Net cash provided by (used in) financing activities	81,540	(3,248)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(34,518)	10,024
Cash, cash equivalents and restricted cash - Beginning of year	89,667	76,842
Cash, cash equivalents, and restricted cash - End of period	$ 55,149	$ 86,866
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Right-of-use assets obtained in exchange for operating lease obligation	433	—
Property and equipment purchases included in accounts payable	8	—

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

1. Organization and nature of operations

Absci Corporation (the "Company") is a data-first generative AI drug creation company that combines AI with scalable wet lab technologies to create better biologics for patients, faster. Absci leverages its integrated drug creation platform (the "Integrated Drug Creation Platform") to improve upon traditional biologic drug discovery by using AI to simultaneously optimize multiple drug characteristics important to development and therapeutic benefit. The Company was organized in the State of Oregon in August 2011 as a limited liability company and converted to a limited liability company ("LLC") in Delaware in April 2016. In October 2020, the Company converted from a Delaware LLC to a Delaware corporation. The Company's headquarters are located in Vancouver, Washington.

Unaudited interim financial information

The Company prepared its interim condensed consolidated financial statements that accompany these notes in conformity with accounting principles generally accepted in the United States (US GAAP), consistent in all material respects with those applied in its Annual Report on Form 10-K for the year ended December 31, 2023.

The Company has made estimates and judgments affecting the amounts reported in its condensed consolidated financial statements and the accompanying notes. The actual results that the Company experiences may differ materially from its estimates. The interim financial information is unaudited and reflects all normal adjustments that are, in the Company's opinion, necessary to provide a fair statement of results for the interim periods presented. This report should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 where the Company includes additional information about its critical accounting estimates.

2. Revenue recognition

Contract balances

Contract liabilities are recorded as deferred revenue when cash payments are received or due in advance of the satisfaction of performance obligations. As of September 30, 2024 and December 31, 2023, contract liabilities were $1.8 million and $4.1 million, respectively. During the three and nine months ended September 30, 2024, the Company recognized $0.8 million and $3.0 million, respectively, as revenue that had been included in deferred revenue at the beginning of the period. During the three and nine months ended September 30, 2023, the Company recognized no revenue and $0.4 million revenue, respectively, that had been included in deferred revenue at the beginning of the period.

Concentration Risk

During the three and nine months ended September 30, 2024, two partners represented 100% of total revenue under drug creation agreements. During the three and nine months ended September 30, 2023, two partners represented approximately 100% and 92% of total revenue under drug creation agreements, respectively.

3. Collaborative Arrangements

As of September 30, 2024, the Company has collaborative arrangements with PrecisionLife and Memorial Sloan Kettering Cancer Center that involve joint research and development activities and for which the parties are exposed to significant risks and rewards dependent on the commercial success of such activities. The Company performs research and development activities to co-develop therapeutics under the collaborative arrangements. These arrangements include rights for the parties to share in the potential value created by the programs, as well as cost sharing which may result in payments between the collaborators. The Company's accounting policy is to present cost sharing payments to and from the Company's collaborators within research and development expense on the condensed consolidated statements of operations and comprehensive loss. The Company did not have cost sharing payments related to such agreements during the three and nine months ended September 30, 2024 and 2023.

4. Investments

Cash equivalents, marketable securities and deposits are classified as available-for-sale and are, therefore, recorded at fair value on the condensed consolidated balance sheets, with any unrealized gains and losses reported in accumulated other comprehensive loss, which is reflected as a separate component of stockholders' equity on the Company's condensed consolidated balance sheets, until realized. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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

	September 30, 2024			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair market value
Assets				
Money market funds	$ 55	$ —	$ —	$ 55
U.S. treasuries	88,740	134	(1)	88,873
Total	$ 88,795	$ 134	$ (1)	$ 88,928
Classified as:				
Cash equivalents				$ 55
Short-term investments				88,873
Total				$ 88,928

	December 31, 2023			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair market value
Assets				
Money market funds	$ 1,158	$ —	$ —	$ 1,158
U.S. treasuries	39,332	2	—	39,334
Total	$ 40,490	$ 2	$ —	$ 40,492
Classified as:				
Cash equivalents				$ 15,195
Short-term investments				25,297
Total				$ 40,492

Investments held as of September 30, 2024 have a remaining maturity of less than one year. Proceeds from maturities of available-for-sale securities were $43.0 million and $132.1 million for the three and nine months ended September 30, 2024, respectively. Proceeds from maturities of available-for-sale securities were $54.0 million and $189.9 million for the three and nine months ended September 30, 2023, respectively. Unrealized gains and losses on securities were primarily due to changes in interest rates.

The Company holds a non-marketable equity investment with a carrying value of $1.2 million which is classified as other long-term assets on the condensed consolidated balance sheets.

5. Property and equipment, net

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

	September 30, 2024	December 31, 2023
Lab Equipment	$ 29,006	$ 32,098
Software	171	171
Furniture, Fixtures and Other	6,208	6,001
Leasehold Improvements	27,048	27,049
Total Cost	62,433	65,319
Less accumulated depreciation and amortization	(30,059)	(23,991)
Property and equipment, net	$ 32,374	$ 41,328

During the three and nine months ended September 30, 2024, the Company recognized $2.5 million and $7.6 million, respectively of depreciation expense. During the three and nine months ended September 30, 2023, the Company recognized $2.7 million and $8.0 million, respectively, of depreciation expense.

During the third quarter of 2024, the Company determined certain laboratory equipment met all of the prescribed criteria required to classify it as held-for-sale. The Company determined the carrying value exceeded the fair value less costs to sell each asset, which resulted in a write down of $1.1 million for the three months ended September 30, 2024, presented within research and development expense on the condensed consolidated statement of operations and comprehensive loss. As of September 30, 2024, $0.5 million of lab equipment is classified as current assets held-for-sale within prepaid expenses and other current assets on the condensed consolidated balance sheet as the disposal is expected to be consummated within one year of the balance sheet date.

6. Stock-based compensation

The Company grants stock options, restricted stock units, and stock appreciation rights ("SARs") under the 2021 Stock Option and Incentive Plan ("2021 Plan") and the 2023 Inducement Plan (the "2023 Inducement Plan"). On January 1, 2024, the number of shares of common stock reserved for future issuance under the 2021 Plan was increased by 4,654,384 shares pursuant to an automatic annual increase. As of September 30, 2024, 4,047,067 shares were available for future grant under the 2021 Plan. As of September 30, 2024, 1,887,000 shares were available for future grant under the 2023 Inducement Plan.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Research and development	2,010	978	$ 5,577	$ 3,414
Selling, general and administrative	3,498	1,575	8,824	4,859
Total stock-based compensation expense	$ 5,508	$ 2,553	$ 14,401	$ 8,273

Stock options

Stock options generally vest either 25% after one year from the date of the grant with the remainder vesting monthly over the following three-year period or ratably over three years in three equal installments. The Company recognizes forfeitures as they occur and uses the straight-line expense recognition method. Activity for stock options is shown below:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands $)
Outstanding at December 31, 2023	17,104,505	$ 3.03	8.3	$ 30,661
Granted	5,427,651	4.24		
Exercised	(1,587,730)	2.16		3,596
Canceled/Forfeited	(1,188,691)	3.12		
Expired	(190,581)	7.28		
Outstanding at September 30, 2024	19,565,154	3.39	8.2	$ 21,553
Exercisable at September 30, 2024	7,090,754	$ 3.54	7.0	$ 9,735

The aggregate intrinsic value of outstanding stock options as of September 30, 2024 was calculated based on the Company's closing stock price of $3.82 per share as reported on the Nasdaq Global Select Market on such date.

The weighted-average grant date fair value of stock options granted during the three and nine months ended September 30, 2024 was $2.33 and $3.05, respectively, per share. The weighted-average grant date fair value of stock options granted during the three and nine months ended September 30, 2023 was $1.39 and $1.43, respectively, per share. As of September 30, 2024, total unrecognized stock-based compensation related to stock options was $25.4 million, which the Company expects to recognize over a remaining weighted average period of 2.3 years.

Determination of fair value

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Expected term (in years)	6.0-6.1	5.8-6.1	5.5-6.1	5.3-6.1
Volatility	82%-84%	80%-81%	81%-84%	79%-81%
Risk-free interest rate	3.7%-4.4%	4.1%-4.3%	3.7%-4.6%	3.4%-4.3%
Dividend Yield	—%	—%	—%	—%

Restricted stock

In connection with certain business combinations and as compensation for other service relationships, the Company has issued shares of restricted stock that vest over time subject to continued service by the stockholder. Shares of restricted stock that have not yet vested are subject to the Company's right of repurchase or forfeiture by the stockholder. Activity for restricted shares is shown below:

	Number of shares
Unvested as of December 31, 2023	374,208
Forfeitures	(37,886)
Vested	(237,136)
Unvested as of September 30, 2024	99,186

As of September 30, 2024, there was $0.2 million of unrecognized compensation expense related to the outstanding shares of restricted stock expected to be recognized over a remaining weighted-average period of 0.4 years.

Restricted stock units

Restricted stock units subject to time-based vesting generally vest ratably over a term of 1-4 years. The Company recognizes forfeitures as they occur and uses the straight-line expense recognition method. Activity for restricted stock units is shown below:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2023	2,198,334	$ 1.42
Granted	2,538,737	3.95
Vested	(126,217)	1.98
Forfeitures	(262,197)	1.58
Unvested as of September 30, 2024	4,348,657	$ 2.87

The weighted-average grant date fair value of restricted stock units granted during the three and nine months ended September 30, 2024 was $3.57 and $3.95, respectively, per share. The aggregate grant date fair value of restricted stock units vested during the three and nine months ended September 30, 2024 was $0.2 million and $0.3 million, respectively. The aggregate grant date fair value of restricted stock units vested during the three and nine months ended September 30, 2023 was less than $0.1 million. As of September 30, 2024, there was $7.7 million of unrecognized compensation expense related to the outstanding restricted stock units expected to be recognized over a remaining weighted-average period of 1.6 years. Fair value of restricted stock units subject to time-based vesting is calculated based on the Company's closing stock price per share as reported on the Nasdaq Global Select Market on the date of grant.

Restricted stock unit award with market conditions

In March 2024, the Company granted 1,500,000 performance restricted stock units to its Founder and Chief Executive Officer that contained market conditions (the "2024 Market Award"). Subject to the holder's continued service, the 2024 Market Award provided for vesting in tranches once the Company's closing stock price meets or exceeds certain thresholds established by the Company's Compensation Committee of the Board of Directors. The original grant-date fair value of the 2024 Market Award of $5.5 million was determined using a Monte Carlo simulation model using an expected volatility of 97% and risk-free rate of 4.5%. The stock-based compensation expense is being recognized over the derived service period for each tranche over periods up to 1.3 years. As of September 30, 2024, none of the stock price thresholds for the 2024 Market Award had been met resulting in no shares vesting. Any unvested tranches of the 2024 Market Award will expire in March 2027 if the vesting conditions are not met.

7. Fair value measurements

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

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

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

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

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

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

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023 (in thousands):

	September 30, 2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Debt Securities:				
Money market funds	$ 55	$ —	$ —	$ 55
U.S. treasuries	6,900	81,973	—	88,873
Total assets	$ 6,955	$ 81,973	$ —	$ 88,928
Liabilities:				
Contingent consideration	$ —	$ —	$ 12,750	$ 12,750
Total liabilities	$ —	$ —	$ 12,750	$ 12,750

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets				
Debt Securities:				
Money market funds	$ 1,158	$ —	$ —	$ 1,158
U.S. treasuries	15,929	23,405	—	39,334
Total assets	$ 17,087	$ 23,405	$ —	$ 40,492
Liabilities:				
Contingent consideration	$ —	$ —	$ 12,750	$ 12,750
Total liabilities	$ —	$ —	$ 12,750	$ 12,750

The Company reviews trading activity and pricing for its available-for-sale securities as of the measurement date.

There was no change to the value of liabilities measured at fair value using significant unobservable inputs (Level 3) for the nine months ended September 30, 2024. The contingent consideration liability is related to the acquisition of Totient, Inc. and is included in accrued expenses on the condensed consolidated balance sheets as of September 30, 2024 and December 31, 2023. The fair value estimate is based on a probability-weighted approach. The contingent consideration of $15.0 million held in escrow shall be paid upon the achievement of the milestone of either entering into agreements meeting certain financial criteria with third parties using, or relating to, Totient technology or the first commercial sale of a Totient product. The contingent consideration held in escrow is included in restricted cash on the condensed consolidated balance sheets as of September 30, 2024 and December 31, 2023.

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

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

8. Net loss per share

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net loss	$ (27,398)	$ (21,994)	$ (74,123)	$ (87,021)
Denominator:				
Weighted-average common shares outstanding	113,613,488	92,217,234	108,665,095	91,844,221
Net loss per share, basic and diluted	$ (0.24)	$ (0.24)	$ (0.68)	$ (0.95)

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

Potentially dilutive securities not included in the calculation of diluted net loss per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares calculated on a weighted-average basis for the period outstanding):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Stock options	19,928,621	17,618,318	19,776,654	16,210,430
Restricted stock units	4,417,556	96,367	3,962,232	51,336
Unvested restricted stock	122,548	527,932	206,276	702,412
Employee stock purchase plan	99,144	105,842	77,266	89,520
Total	24,567,869	18,348,459	24,022,428	17,053,698

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

Overview

Absci is a data-first generative AI drug creation company that combines AI with scalable wet lab technologies to create better biologics for patients, faster. With the data to train, the AI to create, and the wet lab to validate, our Integrated Drug Creation platform aims to engineer better biologics with design-in functionality and best-in-class properties.

Antibody-based therapeutics represent an extraordinary medical and economic opportunity, yet the biopharmaceutical industry faces significant challenges in bringing these life-changing medicines to patients. Our proprietary Integrated Drug Creation platform is designed to improve upon traditional biologic drug discovery by using AI to simultaneously optimize multiple drug characteristics that may be important to development and therapeutic benefit. This has the potential to significantly shorten time to clinic and increase the probability of success. Our approach expands the possibilities in biopharmaceuticals — shifting from a paradigm of drug discovery to drug creation — with the goal of bringing best-in-class and first-in-class antibody therapeutics to the patients who need them.

Generative AI depends on massive training datasets to generate quality results. For example, GPT-4, a well-known generative AI model, was trained on data at scale readily available through public sources such as the internet. Small molecule drugs' simpler structures allows the synthesis and screening of million-member chemical libraries, which can then provide training data for generative AI models. In contrast, using AI models to design biologic drugs is more challenging because biologic drugs are inherently more complex and the existing biological datasets are much smaller, meaning there is less training data available for developing highly predictive AI models. Biologic drugs, however, tend to be more selective than small molecules and may generally provide better safety profiles in patients. Hence, building large training data sets for biologic drugs interactions offers the potential for AI models to design highly specific, safe therapeutics for a wide variety of disease targets less addressable by small molecules.

Our AI models accelerate the design and optimization of potential biologic drug candidates, including for example, antibody drug candidates, with potentially novel, best-in-class attributes. We then use our proprietary wet lab assays to validate those drug candidates at scale. This combination of *in silico* modeling with wet lab testing allows us to generate immense real-world datasets that we harness to train and refine our deep learning models.

Through iterative AI predictions, wet lab validation, and AI training we enable a virtuous cycle that we believe will accelerate us toward fully *in silico* biologic drug discovery. With the data to learn, the AI to create, and the wet lab to validate, Absci can create billions of biologic drug designs, including, for example, antibody designs, and screen millions of ranked sequences in weeks, allowing us to go from AI-designed candidates to wet lab-validated candidates in as little as six weeks. Our unique Integrated Drug Creation platform has the potential to significantly shorten preclinical development timelines from 5-7 years in benchmarked timelines to 18-24 months, enabling us to build a strong pipeline of both partnered and wholly-owned drug candidates that can expand therapeutic possibilities.

Our business model is to use our platform technology, including our Integrated Drug Creation platform, for rapid creation of drug candidates. The cornerstone of this business model lies in the potential for diversification of risk and return on investment. We aim to achieve this by:

- **Establishing partnerships with stakeholders in the drug discovery and development life cycle:** We create drug candidates with partners, including pharmaceutical and biotechnology companies, providing us with the opportunity to participate in the future success of the drug candidates generated utilizing our platform. We structure partnerships to reflect the needs of the program and contributions from each partner. These partnerships may provide us with potential upfront payments, clinical and commercial milestones, and royalties on net sales or may take the form of programs where both parties contribute to discovery and development activities in which costs and downstream economic potential are shared based on the parties' respective ongoing program participation. We aim to assemble economic interests in a diversified portfolio of partnered pipeline assets of drug candidates across diverse indications.

Developing our own proprietary asset pipeline: We also aim to create our own internal pipeline comprising drug candidates across diverse indications. With the ability to identify targets and develop potential best-in-class assets, we intend to develop promising drug candidates to value inflection points, anywhere from preclinical validation through clinical trials, before partnering or selling them. We may enter into clinical trials and/or manufacturing partnerships to advance specific assets to target such value inflection points.

We balance the portfolio between partnered programs that broaden our reach into diverse indications with a variety of economic structures and internal programs for which we have more control and the potential for partnerships or asset sales that provide greater economic returns.

Total revenue was $1.7 million and $3.9 million for the three and nine months ended September 30, 2024, respectively, and $0.7 million and $5.4 million for the three and nine months ended September 30, 2023, respectively, due to timing of project-based milestones achieved and the mix of ongoing programs utilizing our Integrated Drug Creation platform. We incurred a net loss of $27.4 million and $74.1 million for the three and nine months ended September 30, 2024, respectively, compared to a net loss of $22.0 million and $87.0 million for the three and nine months ended September 30, 2023, respectively. The net loss for the nine months ended September 30, 2023 includes a non-cash goodwill impairment charge in the amount of $21.3 million recorded during the quarter ended June 30, 2023. Research and development expenses increased by $9.7 million, or 27%, for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. As of September 30, 2024, we had an accumulated deficit of $480.6 million and cash and cash equivalents and short-term investments totaling $127.1 million.

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

- develop our internal pipeline of drug candidates across diverse indications, including the advancement of these candidates through preclinical and clinical development;
- continue to engage in discovery, research and development efforts and scale our activities to meet potential demand from both new and existing partners at a reasonable cost;
- execute an effective business development strategy to drive adoption of our Integrated Drug Creation platform by new and existing partners;
- develop, acquire, in-license or otherwise obtain technologies that enable us to expand our platform capabilities; and
- attract, retain and motivate highly qualified personnel.

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

Key Factors Affecting Our Results of Operations and Future Performance

We believe that our future financial performance will be primarily driven by multiple factors as described below, each of which presents growth opportunities for our business. These factors also pose important challenges that we must successfully address in order to sustain our growth and improve our results of operations. Our ability to successfully address these challenges is subject to various risks and uncertainties, including those described in the sections of our Annual Report on Form 10-K for the year ended December 31, 2023 and of this Quarterly Report titled “Risk Factors”.

- **Develop our internal pipeline:** We are in the process of selectively creating our own drug candidates and intend to advance them to value inflection points anywhere from preclinical validation through to clinical trials prior to out-licensing for further clinical advancement by a partner or other third party. We may also utilize significant resources in the design and execution of clinical trials to support our internal pipeline.
- **Establish new partnerships:** Our potential to grow revenue and long-term earnings will require us to successfully identify, establish and maintain collaborations with new and existing partners,

including through drug creation partnerships and further clinical development of our internal programs for drug candidates.

- **Successfully complete our drug creation activities with partners and enter into licensing agreements:** Our business model relies upon entering into licensing agreements with our partners to advance the drug candidates we generate through preclinical validation and clinical trials thru to commercialization. Both our ability to successfully complete drug creation activities to meet the needs of a partner, and the partner's prioritization of the relevant program, impact the likelihood and timing of any election by a partner to enter into a follow-on licensing agreement. There is no assurance that a partner will elect to license our technology for the development of any drug candidates.
- **Developing and commercializing the drug candidates generated with our proprietary Integrated Drug Creation technology:** Our business model is dependent on the eventual progression of drug candidates discovered or initially developed utilizing our Integrated Drug Creation platform into clinical trials by us or our partners and through commercialization by our partners or other third parties. Given the nature of our relationships with our partners, we often do not fully control the progression, clinical development, regulatory strategy, public disclosure or eventual commercialization, if approved, of our partnered product candidates. As a result, our future success and our potential eligibility to receive milestone payments and royalties are significantly dependent on our partners' efforts over which we have no control. The timing and scope of any approval that may be required by the U.S. Food and Drug Administration (FDA), or any other regulatory body, for drugs that are developed based on molecules discovered and/or manufactured using our Integrated Drug Creation platform technologies can significantly impact our results of operations and future performance.
- **Continued significant investments in our research and development of new technologies and platform technology expansion:** We are seeking to further refine and expand our proprietary platform technology and the scope of our capabilities, which may or may not be successful. This includes, but is not limited to, novel target identification, *de novo* discovery, incorporation of non-standard amino acids (Bionic protein creation), and application of artificial intelligence across our Integrated Drug Creation platform. We expect to incur significant expenses to advance our discovery, research and development efforts or to invest in and/or acquire complementary technologies, but these efforts may not be successful.
- **Drive commercial adoption of our proprietary Integrated Drug Creation platform capabilities:** Driving the adoption of our Integrated Drug Creation platform across existing and new markets will require significant investment. We plan to further invest in research and development to support the expansion of our platform capabilities, including capabilities to discover and validate new drug candidates for existing partners or help expand the capabilities of our platform to support new markets.

Key Business Metrics

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

	September 30, 2024	December 31, 2023
Partners, Cumulative [1]	25	24
Active Programs [2]	22	16

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

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

As of September 30, 2024, our Active Programs are as follows:

Partner	Contract Date	Active Programs	Therapeutic Area
Memorial Sloan Kettering Cancer Center	July 2024	6	Oncology
PrecisionLife	December 2023	5	Undisclosed
Almirall	November 2023	2	Dermatology
AstraZeneca	November 2023	1	Oncology
Undisclosed	July 2023	1	Undisclosed
Undisclosed	March 2023	1	Undisclosed
Merck	January 2022	3	Undisclosed
Merck	December 2019	1	Undisclosed
Alpha Cancer Technologies	August 2019	1	Oncology
SFJ Pharmaceuticals	April 2019	1	Hematology
Total Active Programs		22	

Our proprietary Integrated Drug Creation platform is primarily utilized in our partnerships for drug candidate creation across diverse indications using AI to simultaneously optimize multiple drug characteristics that may be important to future development and/or therapeutic benefit. One of our Active Programs with an undisclosed partner is leveraging our proprietary Integrated Drug Creation platform to optimize pharmacokinetic properties for a Phase II candidate and one of our Active Programs with an undisclosed partner is leveraging our proprietary Integrated Drug Creation platform. We also have three Active Programs focused on our legacy model of developing production cell lines for drug candidates that our partners are developing. Two of these legacy cell line development Active Programs are in preclinical development and one is in Phase 3 clinical development (PhaseBio Pharmaceuticals' drug candidate, Bentracimab, which was acquired by SFJ Pharmaceuticals, Inc. in January 2023).

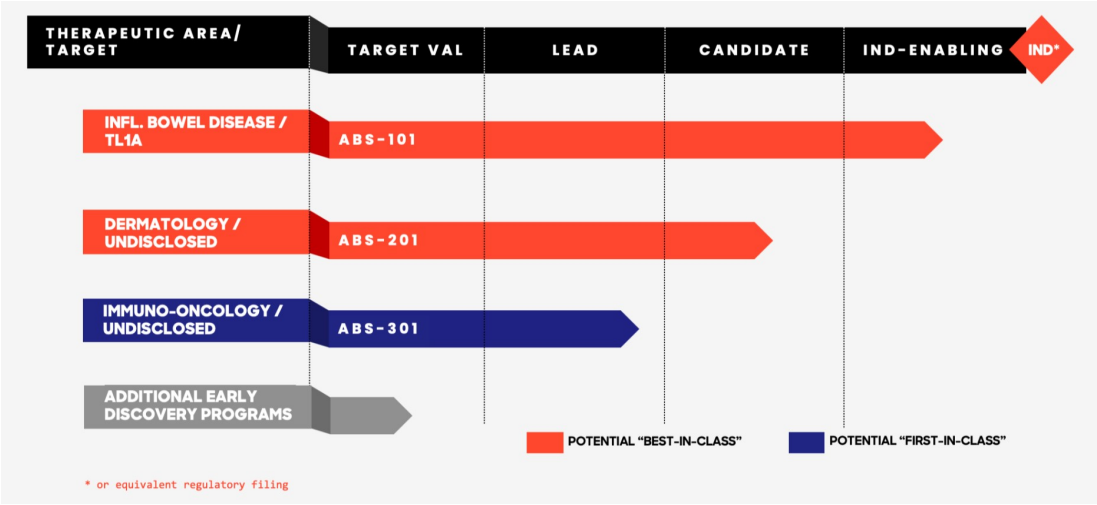
We have negotiated license agreements, or expect to negotiate license agreements upon completion of certain drug creation activities, with potential downstream milestone payments and royalties for all Active Programs. We have not negotiated terms for a sufficient number of royalty- and milestone-bearing licenses, however, to enable us to make accurate predictions regarding our potential revenue and financial performance.

Internal Pipeline

Our internal pipeline reflects our differentiated capabilities in *de novo* antibody creation, multi-parameteric lead optimization, and reverse immunology. We are developing a diversified portfolio of programs with a focus on cytokine biology as we scale our Integrated Drug Creation platform and strive to impact millions of lives.

As of September 30, 2024, we have identified three wholly-owned internal pipeline programs focusing on cytokine biology, as well as several other undisclosed pipeline programs under evaluation.

Program Name	Target Description
ABS-101	Candidate in IND-enabling studies targeting TL1A in inflammatory bowel disease
ABS-201	Candidate stage for an undisclosed therapeutic target in dermatology
ABS-301	Lead and optimization stage for an undisclosed therapeutic target in immuno-oncology



We are aware of clinical stage assets targeting TL1A that are being developed by third parties, including Merck, Roche, and Sanofi. For purposes of comparing the potential clinical attributes of drug candidates in our ABS-101 program to certain of these other competitive clinical stage assets, we generated putative molecules and performed a head-to-head preclinical comparison against several of our drug candidates in our ABS-101 program. In these preclinical studies, ABS-101 candidates exhibited attributes consistent with a potentially superior product profile by demonstrating equal or superior potency data from multiple biophysical and cellular assays, in addition to improved developability properties. Further preclinical studies demonstrated ABS-101 candidates' abilities to bind both the TL1A monomer and trimer, which could potentially lead to differentiated clinical efficacy. We believe these attributes support the program's potential to create an efficacious candidate conducive to subcutaneous dosing. Furthermore, in vitro and in vivo PK studies demonstrated the potential for extended half-life, supporting the objective for significantly improved dosing intervals. While we are encouraged by these preclinical results, we cannot assure you that similar results will be observed in clinical studies of ABS-101. Additionally, while we endeavored to create molecules with similar or better attributes as those of competitive product candidates under development, we cannot assure that the molecules we created are similar or better than those being developed by our competitors, nor can we assure that direct comparisons of our clinical product candidate to those of our competitors will produce similar results.

In February 2024, we initiated IND-enabling studies and expect to initiate Phase 1 clinical studies for ABS-101 in the first half of 2025, subject to clearance of an IND or equivalent regulatory filing.

Our Active Programs, internal asset programs, and historical programs demonstrate our platform's capabilities to successively address broad ranges of biologics and modalities.

Components of Results of Operations

Revenue

Our revenue currently consists primarily of fees earned from our partners in conjunction with drug creation partnership agreements utilizing our Integrated Drug Creation platform, which are delineated as technology

development revenue in our results of operations. These fees are earned and paid at various points throughout the terms of these agreements including upfront, upon the achievement of specified project-based milestones, and throughout the program.

We expect that our revenue will fluctuate from period to period due to, for example, the timing of executing additional partnerships, the contractual structure of future partnerships, the uncertainty of the timing of milestone achievements and dependence on our partners' program-related decisions. We expect revenue to increase over time as we grant licenses to our partners for the clinical and commercial use of intellectual property rights to the biological assets we create, and as the partnered program product candidates advance into and through clinical development and commercialization.

Operating Expenses

Research and development

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

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

Selling, general, and administrative

Selling, general, and administrative expenses include personnel-related costs (comprised of salaries, benefits and share-based compensation) for executive, business development, legal, finance, human resources, information technology and other administrative functions. Business development expenses include costs associated with attending conferences and other promotion efforts of our Integrated Drug Creation platform. General and administrative expenses include certain professional service expenses such as, external legal, accounting, and other consultants, as well as certain information technology costs and allocated facility costs. These expenses are exclusive of depreciation and amortization.

We expect our selling costs to increase in absolute dollars as we continue to grow our business development efforts to drive awareness and adoption of our platform. As we grow our operations, we expect personnel-related costs to increase in absolute dollars and we expect to actively manage other general and administrative expenses. We expect these expenses to vary from period to period as a percentage of revenue in the near term, and to decrease as a percentage of revenue in the long term.

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

Depreciation and amortization

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

We expect depreciation expense to fluctuate in future periods in line with continued growth and compute demands in absolute dollars as we purchase additional equipment.

Goodwill impairment

Goodwill is tested for impairment on an annual basis in the fourth fiscal quarter, or sooner if an indicator of impairment exists. We performed a quantitative impairment evaluation of goodwill as of June 30, 2023 and recorded a full impairment charge in the amount of $21.3 million.

Other income (expense)

Interest expense

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

Other income

Other income consists primarily of interest income from our cash, cash equivalents and short-term investments.

Results of Operations

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues				
Technology development revenue	$ 1,701	$ 744	$ 3,869	$ 5,380
Total revenues	1,701	744	3,869	5,380
Operating expenses				
Research and development	17,985	11,029	45,482	35,798
Selling, general and administrative	9,256	9,505	27,346	28,508
Depreciation and amortization	3,355	3,513	10,155	10,515
Goodwill impairment	—	—	—	21,335
Total operating expenses	30,596	24,047	82,983	96,156
Operating loss	(28,895)	(23,303)	(79,114)	(90,776)
Other income (expense)				
Interest expense	(130)	(229)	(456)	(806)
Other income, net	1,664	1,572	5,496	4,613
Total other income, net	1,534	1,343	5,040	3,807
Loss before income taxes	(27,361)	(21,960)	(74,074)	(86,969)
Income tax expense	(37)	(34)	(49)	(52)
Net loss	$ (27,398)	$ (21,994)	$ (74,123)	$ (87,021)

Comparison of the Three and Nine Months Ended September 30, 2024 and 2023

The following table summarizes our results of operations for the three and nine months ended September 30, 2024 and 2023 (In thousands, except for percentages):

Revenue

	For the Three Months Ended September 30,			
	2024	2023	$ Change	% Change
Revenues				
Technology development revenue	$ 1,701	$ 744	$ 957	129 %
Total revenues	$ 1,701	$ 744	$ 957	129 %

	For the Nine Months Ended September 30,			
	2024	2023	$ Change	% Change
Revenues				
Technology development revenue	$ 3,869	$ 5,380	$ (1,511)	(28) %
Total revenues	$ 3,869	$ 5,380	$ (1,511)	(28) %

Technology development revenue increased by $1.0 million, or 129% for the three months ended September 30, 2024 compared to the three months ended September 30, 2023 and decreased by $1.5 million, or 28%, for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023, driven by a combination of overall program progress, the timing of project-based milestones achieved, and the mix of ongoing program activity.

Operating expenses

The following table summarizes our operating expenses for the three and nine months ended September 30, 2024 and 2023 (In thousands, except for percentages):

	For the Three Months Ended September 30,			
	2024	2023	$ Change	% Change
Operating expenses				
Research and development	$ 17,985	$ 11,029	$ 6,956	63 %
Selling, general and administrative	9,256	9,505	(249)	(3) %
Depreciation and amortization	3,355	3,513	(158)	(4) %
Total operating expenses	$ 30,596	$ 24,047	$ 6,549	27 %

	For the Nine Months Ended September 30,			
	2024	2023	$ Change	% Change
Operating expenses				
Research and development	$ 45,482	$ 35,798	$ 9,684	27 %
Selling, general and administrative	27,346	28,508	(1,162)	(4) %
Depreciation and amortization	10,155	10,515	(360)	(3) %
Goodwill impairment	—	21,335	(21,335)	100 %
Total operating expenses	$ 82,983	$ 96,156	$ (13,173)	(14) %

Research and development

Research and development expenses increased by $7.0 million, or 63%, for the three months ended September 30, 2024 compared to the three months ended September 30, 2023. The increase was primarily attributable to an increase in lab operations costs, including direct costs associated with IND-enabling studies

for ABS-101, of $3.8 million, an impairment charge of $1.1 million for assets that met the held-for-sale criteria during the period, an increase in stock-based compensation of $1.0 million, and an increase in personnel costs of $0.8 million.

Research and development expenses increased by $9.7 million, or 27%, for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. The increase was primarily attributable to an increase in lab operations costs of $6.1 million, an impairment charge of $1.1 million for assets that met the held-for-sale criteria during the period, and an increase in stock-based compensation of $2.2 million.

Selling, general and administrative expenses

Selling, general, and administrative expenses decreased by $0.2 million, or 3%, for the three months ended September 30, 2024 compared to the three months ended September 30, 2023. The decrease was primarily attributable to a decrease in personnel costs of $1.7 million, decreased insurance and other administrative costs of $0.5 million, offset by an increase in stock-based compensation of $1.9 million.

Selling, general, and administrative expenses decreased by $1.2 million, or 4%, for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. The decrease was primarily attributable to decreased insurance and other administrative costs of $2.6 million, a decrease in personnel costs of $2.5 million, offset by a $4.0 million increase in stock-based compensation.

Depreciation and amortization

Depreciation and amortization expense decreased by $0.2 million, or 4% for the three months ended September 30, 2024 compared to the three months ended September 30, 2023 and decreased by $0.4 million, or 3%, for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023, remaining relatively consistent between periods.

Goodwill impairment

We performed a quantitative impairment evaluation of goodwill as of June 30, 2023 and recorded an impairment charge in the amount of $21.3 million.

Other income (expense)

Interest expense

Interest expense was $0.1 million for the three months ended September 30, 2024, compared to $0.2 million for the three months ended September 30, 2023, representing a decrease of $0.1 million, or 43% and $0.5 million for the nine months ended September 30, 2024, compared to $0.8 million for the nine months ended September 30, 2023, representing a decrease of $0.4 million, or 43%, primarily attributable to decreased finance lease and long-term debt obligations.

Other income, net

Other income, net, was $1.7 million for the three months ended September 30, 2024, compared to $1.6 million for the three months ended September 30, 2023, representing an increase of $0.1 million, or 6% and $5.5 million for the nine months ended September 30, 2024 compared to $4.6 million for the nine months ended September 30, 2023, representing an increase of approximately $0.9 million, or 19%, primarily attributable to increases in investment income from cash, cash equivalents and short-term investments due to higher balances and interest rates.

Liquidity and Capital Resources

Overview

As of September 30, 2024, we had $127.1 million of cash, cash equivalents and short-term investments.

We have incurred net operating losses since inception. As of September 30, 2024, our accumulated deficit was $480.6 million. To date, we have funded operations through issuances and sales of equity securities and debt, in addition to revenue generated from our drug creation agreements. We believe that our cash, cash equivalents and short-term investments will be sufficient to meet our operating expenses, working capital and capital expenditure needs over at least the next 12 months following the date of this filing.

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

Sources of liquidity

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

Equipment financing

In 2022, we received a total of $12.0 million of proceeds from equipment financing arrangements. Terms of the agreements require monthly payments over 42-48 month periods with imputed interest rates ranging from 8%-10%. As of September 30, 2024, the combined outstanding balance on these agreements is $5.4 million.

Shelf registration statement on form S-3

On August 24, 2022, we filed a shelf registration statement on Form S-3 (the Shelf Registration Statement) with the SEC relating to the registration of up to an aggregate of $250.0 million in shares of our common stock, preferred stock, debt securities, warrants and units or any combination thereof. The Shelf Registration Statement was declared effective by the SEC on September 2, 2022.

On June 16, 2023, we entered into a Sales Agreement with Cowen and Company, LLC, as Sales Agent, with respect to an “at the market offering” program under which we may offer and sell, from time to time at our sole discretion, shares of our common stock, par value $0.0001 per share, having an aggregate offering price of up to $100.0 million through the Sales Agent. We will pay the Sales Agent a commission up to 3.0% of the gross sales proceeds of any shares sold under the Sales Agreement. As of September 30, 2024, we have not issued any securities or received any proceeds from the sale of any securities registered pursuant to the Sales Agreement. There can be no assurance that any financing will be available on terms acceptable to us.

On March 1, 2024, we closed the sale of an aggregate of 19,205,000 shares of our common stock, pursuant to an underwriting agreement with Morgan Stanley & Co. LLC and Cowen and Company, LLC at a public offering price of $4.50 per share, before underwriting discounts and commissions. We received total net proceeds from the offering of $80.8 million after deducting underwriting discounts and commissions and offering expenses payable by us.

Cash Flows

The following summarizes our cash flows (In thousands):

	For the Nine Months Ended September 30,	
	2024	2023
Net cash provided by (used in)		
Operating activities	(55,438)	(49,714)
Investing activities	(60,620)	62,986
Financing activities	81,540	(3,248)
Net (decrease) increase in cash, cash equivalents, and restricted cash	$ (34,518)	$ 10,024

Cash flows from operating activities

In the nine months ended September 30, 2024, net cash used in operating activities was $55.4 million and consisted primarily of a net loss of $74.1 million adjusted for non-cash items, including depreciation and amortization expense of $10.2 million, stock-based compensation of $14.4 million, impairment of $1.1 million for assets that met the held for sale criteria during the period, and a net increase in operating assets and liabilities in the amount of $4.2 million.

In the nine months ended September 30, 2023, net cash used in operating activities was $49.7 million and consisted primarily of a net loss of $87.0 million adjusted for non-cash items, including depreciation and amortization expense of $10.5 million, stock-based compensation of $8.2 million, and goodwill impairment of $21.3 million.

Cash flows from investing activities

In the nine months ended September 30, 2024, net cash used in investing activities was $60.6 million primarily from purchases of short-term investments of $159.5 million, partially offset by cash provided by maturities of short-term investments of $99.0 million.

In the nine months ended September 30, 2023, net cash provided by investing activities was $63.0 million primarily from maturities of short-term investments of $185.9 million, partially offset by cash used for purchases of short-term investments of $122.2 million and purchases of lab equipment of $0.8 million.

Cash flows from financing activities

In the nine months ended September 30, 2024, net cash provided by financing activities was $81.5 million. The net cash provided resulted primarily from proceeds of $80.8 million from the issuance of common stock from a public offering and proceeds of $3.8 million from the issuance of common stock from stock option exercises and our 2021 ESPP, partially offset by principal payments of $3.1 million made for financed equipment.

In the nine months ended September 30, 2023, net cash used in financing activities was $3.2 million primarily from cash used for principal payments of $4.0 million made for financed equipment, partially offset by proceeds of $0.7 million from the issuance of common stock from option exercises and our 2021 ESPP.

Critical Accounting Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments

about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

This report should be read in conjunction with the consolidated financial statements in our 2023 Annual Report on Form 10-K where we include additional information on our business, risk factors, critical accounting estimates, policies, and the methods and assumptions used in our estimates, among other important information.

There were no material changes in our critical accounting policies and estimates during the nine months ended September 30, 2024.

Emerging Growth Company Status

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

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in our reported market risks or risk management policies since the filing of our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on March 21, 2024.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

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

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

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

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the three months ended September 30, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Factors that could cause or contribute to differences in our future financial and operating results include those discussed in the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on March 21, 2024. The risks described in our Annual Report and this Quarterly Report on Form 10-Q are not the only risks that we face. Additional risks not presently known to us or that we do not currently consider significant may also have an adverse effect on the Company. If any of the risks actually occur, our business, results of operations, cash flows or financial condition could suffer.

There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on March 21, 2024.

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

Unregistered Sales of Equity Securities

None.

Use of proceeds

None.

Issuer purchases of equity securities

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(c) Insider Trading Arrangements

During the quarter ended September 30, 2024, none of the Company's directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified or terminated a plan or other arrangement intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangements under the Exchange Act.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Absci Corporation (filed as Exhibit 3.1 to the Form 8-K, File No. 001-40646, filed by Absci Corporation on June 16, 2023 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Absci Corporation (filed as Exhibit 3.1 to the Form 8-K, File No. 001-40646, filed by Absci Corporation on December 15, 2022 and incorporated herein by reference).
4.1	Investors' Rights Agreement by and among the Registrant and certain of its stockholders dated October 19, 2020 (filed as Exhibit 4.2 to the Form S-1, File No. 333-257553, filed by Absci Corporation on June 30, 2021 and incorporated herein by reference).
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.
\+ The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the SEC and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

Signatures

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

ABSCI CORPORATION

Date: November 12, 2024

By: /s/ Zachariah Jonasson

Zachariah Jonasson, Ph.D.

Chief Financial Officer (Principal Financial Officer) and Chief Business Officer

Date: November 12, 2024

By: /s/ Todd Bedrick

Todd Bedrick

Chief Accounting Officer (Principal Accounting Officer)