



## Full Year Results

April 20, 2021

RNS Number : 9571V  
MaxCyte, Inc.  
20 April 2021

MaxCyte, Inc.  
("MaxCyte" or the "Company")

MaxCyte Reports Final Results for the Year Ended 31 December 2020

Gaithersburg, Maryland - 20 April 2021: MaxCyte (LSE: MXCT, MXCL, MXCN), a leading provider of cell-engineering platform technologies for next generation cell-based therapies, today announced its full-year audited results for the year ended 31 December 2020.

### HIGHLIGHTS (including post-period-end highlights)

#### Financial

	2020	2019	% Change
Revenue	\$26.2m	\$21.6m	21%
Gross margin	89%	88%	1%
CARMA investment	\$11.1m	\$11.7m	(5%)
Total operating expenses	\$34.5m	\$31.5m	9%
EBITDA before CARMA investment*	\$2.9m	\$1.3m	121%
Net loss before CARMA investment	(\$0.7m)	(\$1.2m)	(42%)
Total assets	\$51.8m	\$30.0m	73%
Cash and cash equivalents, including short-term investments (31 Dec)	\$34.8m	\$16.7m	108%

\* Excluding associated non-cash stock-based compensation of \$1.5m in 2019 and \$2.1m in 2020, respectively.

- 2020 revenues increased 21% year over year, despite the challenges of the worldwide COVID-19 pandemic:
  - Revenue growth was fueled by recurring high-margin revenues from both instrument leases and disposable sales in cell therapy, which was further accelerated by milestone payments from progression of our partners' programmes further into the clinic
  - H2 2020 revenue grew approximately 15% to \$15.3m (H2 2019: \$13.2m) despite the impact of the pandemic, which affected existing and potential customers' operations

· Significant medium- and long-term upside from potential pre-commercial milestone payments resulting from 12 strategic platform licences

- Potential pre-commercial milestones from these partnerships now represent more than \$950m in the aggregate

- Partnership agreements provide licences for more than 140 therapeutic programmes, of which over 100 are licensed for clinical use
- Five-year revenue (2016-2020) compounded annual growth rate ("CAGR") 23%
- EBITDA grew 121% to \$2.9m before CARMA expenses driven primarily by higher milestone revenues and pandemic-related reductions in travel and marketing expenses. Gross margins improved by 100 basis points, primarily attributable to increased milestone revenue
- Aggregate gross proceeds of \$85.9m (before expenses) raised in two private placements completed in February 2021 (\$55.3m with a mix of new and existing crossover investors led by D1 Capital Partners, Funds and accounts advised by T. Rowe Price Associates, Inc., ArrowMark Partners, Baron Capital Group and First Light Asset Management with Casdin Capital and Sofinnova Partners) and May 2020 (\$30.5m led by Casdin Capital and Sofinnova Partners)
- Cash, cash equivalents and short-term investments as of 31 December 2020 were \$34.8m, which excludes the \$55.3m gross proceeds raised from the private placement in February 2021

### **Operational**

- Continued to expand capabilities and applications data supporting use of MaxCyte technology in new therapeutic approaches being developed by cellular therapy and gene-editing companies
- Significant commercial momentum in transformative therapies - three new strategic platform licences signed during 2020, including with leading cell-therapy developers Allogene Therapeutics and Caribou Biosciences, and novel therapy company APEIRON Biologics, and a fourth clinical and commercial licence signed with Myeloid Therapeutics in January 2021
- Continued to introduce new processing assemblies within the ExPERT™ brand series of commercially-oriented instruments and disposables to meet customer demands
- Following review announced in January 2021, MaxCyte is now focusing on out-licensing CARMA® platform manufacturing processes, pre-clinical and clinical data, and intellectual property (IP) as well as continuing its efforts to make new introductions for potential CARMA partnerships without further clinical or pre-clinical investment

***Commenting on the annual results, Doug Doerfler, CEO of MaxCyte, said: "MaxCyte delivered impressive financial and operational results and also secured significant additional funding from a number of notable investors in 2020 and early 2021. Importantly, we finished the year with revenues ahead of expectations: expanding our number of partnerships and establishing our largest pipeline of potential partnerships to date, which mirrors the industry's diverse cell therapy pipeline. Our continued steady growth is a testament to our team's innovative approach to serving partners and customers as well as the Company's position as a leading provider of cell-engineering platform technologies for next-generation cell-based therapies.***

*"As our performance in 2020 demonstrated, MaxCyte has a resilient business model based on strong recurring revenues. Our approach combined with our impressive pipeline afford robust prospects for continued growth, giving us every reason to remain highly optimistic for the future. I believe we will continue to see long-term momentum in MaxCyte's business as a whole."*

**This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No. 596/2014, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018.**

### **About MaxCyte**

MaxCyte is a leading provider of cell-engineering platform technologies that are driving the next-generation of cell-based therapies and making a meaningful difference for patients. The Company's technology is employed by leading drug developers worldwide, including all of the top ten

global biopharmaceutical companies. MaxCyte has granted 12 strategic platform licences to leading cell-based therapy developers. Through 2020, MaxCyte has granted licenses for more than 140 cell therapy programmes, with over 100 licences for clinical use. MaxCyte was founded in 1998 and is headquartered in Gaithersburg, Maryland, US. For more information, visit [www.maxcyte.com](http://www.maxcyte.com).

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**CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REVIEW**

**Overview**

MaxCyte is a leading provider of cell-engineering platform technologies focused on advancing the discovery, development and commercialisation of next-generation cell-based medicines. MaxCyte's proprietary flow electroporation platform technology, branded as ExPERT™, is a non-viral delivery platform that leads the industry due to its high performance (measured by efficiency and viability), scalability, and flexibility.

The ExPERT™ system enables our customers to safely, efficiently, and with high reproducibility engineer cells while maintaining high cell viability and potency, which advances the scaled therapeutic application of cell therapies. Our technology has been particularly impactful in supporting our partners' goals to develop and commercialise next-generation cell therapies to address significant unmet needs in oncology and inherited disorders. Through the use of our technology, efficacy is improved, patients receive life-saving treatments sooner, and the overall cost to the healthcare system is lower.

**The market opportunity**

Our goal is to establish the MaxCyte ExPERT™ platform as the standard non-viral cell engineering system for the growing, next-generation cell therapy market via:

1. the leading technology platform that facilitates efficient and reproducible delivery of molecules,
2. serving as a trusted partner to our customers to overcome technological challenges and enable previously unfeasible cell-engineering applications,
3. enabling customers to scale production on our ExPERT™ platform in a GMP-compliant environment, and
4. mitigating regulatory risk and potentially expediting approval timelines, thereby delivering therapeutic options to patients faster than alternatives.

Our existing blue-chip customer base ranges from large-cap pharma companies, including 20 of the top 25 companies based on 2020 global revenue, to smaller cell and gene therapy biotechnology companies and leading academic centres. Our platform has been adopted by hundreds of biopharma and academic customers globally. As of December 31, 2020, we have placed more than 400 of our flow electroporation instruments worldwide.

Moreover, our strategic partnership model allows us to build collaborative relationships with our customers as we work together to bring critical cell-based medicines to the market. We provide our unique ExPERT™ platform technology, intellectual property and expertise to help our customers reduce regulatory risk and accelerate timelines, increase efficacy, and optimise the likelihood of the success for their drug candidates. Our license agreements include participation in the potential downstream success of these programmes by providing for a share of commercial value. As of 31 December 2020, MaxCyte research licences have been granted for more than 140 partnered academic and industry cell therapy programmes and over 100 licences have been granted for clinical use. The Company has now entered into 12 strategic partnership licences with leading cell therapy companies. In aggregate, MaxCyte has the potential to receive at least \$950m in pre-commercial milestone payments across the more than 100 clinical programmes currently allocated for clinical use under existing license agreements.

### **Strong financial performance**

MaxCyte reported another strong financial year in 2020, with a 21% increase in revenues over the previous year and gross margins of 89%. Our cash position was bolstered by another successful fundraising totaling \$55.3m (before expenses) in February 2021, which added to capital generated by the fundraising completed in May 2020. Both raises principally involved top-tier US specialist life science investors. Cash and cash equivalents, together with short-term investments, on 31 December 2020, was \$34.8m, which does not include the February capital raise.

### **Growth of cell therapy partnerships**

Since 2017, when we signed our first licence to enable commercial gene editing, milestone revenue streams have expanded significantly. Between the start of 2020 and the end of January 2021, we forged four new partnerships - Allogene Therapeutics, Caribou Biosciences, APEIRON and Myeloid Therapeutics, all of which include commercialisation milestones, bringing MaxCyte's total to 12 strategic platform licences.

### **Bolstered leadership team**

In September 2020, Amanda L. Murphy, CFA, joined the Company as Chief Financial Officer having previously served as a Managing Director of BTIG, LLC. Prior to BTIG, Ms. Murphy was a Partner and Healthcare Analyst at William Blair & Company, focused on diagnostic services and life sciences. Ms. Murphy has specialised in gene therapy, gene editing and cell therapy equity research for both private and established public healthcare companies. Concurrent with Ms. Murphy joining the Company, Ron Holtz, who had served as MaxCyte's Chief Financial Officer since 2005, became Senior Vice President and Chief Accounting Officer.

MaxCyte also continued to bolster the leadership team in 2020 with two senior leadership

promotions and appointments of three key vice presidents. Brad Calvin, formerly Executive Vice President, Global Commercial Operations, was promoted to Chief Commercial Officer. In addition, Maher Masoud, who previously served as Vice President, Legal, was named Executive Vice President and General Counsel. MaxCyte's three vice president hires in 2020 included Kevin Gutshall, Vice President, Corporate Development; Sarah Haecker Meeks, PhD, Vice President, Business Development; and Steve Nardi, Vice President, Manufacturing and Engineering Operations.

## **2021 Outlook**

MaxCyte has solidified its position as the non-viral transfection delivery platform of choice for the world's leading cellular therapy companies in their development of commercial treatments. We expect strong revenue growth in 2021, driven by the continuing progress of our existing strategic partners into and through the clinic and subsequent generation of increased milestone revenues.

We are also confident that throughout the coming year we will continue to build our customer base and continue to secure further high-value licensing agreements, driving ongoing growth. The strategic partnership pipeline coming into 2021 is the largest that the Company has experienced to date.

Following the \$55.3m fundraising in February 2021, the Company is well positioned to invest in and expand its offering of products and technologies. Future investment is being focused on high value expansion opportunities to support partners' clinical advancement and commercial launches of therapies enabled by MaxCyte.

Overall, the MaxCyte Board and leadership team continue to be highly optimistic for the future and we look forward to providing further updates on our progress throughout the remainder of the year.

**Doug Doerfler**  
**President and Chief Executive Officer**

**J. Stark Thompson, PhD**  
**Non-Executive Chairman**

20 April 2021

## **FINANCIAL REVIEW**

The Company reported revenues of \$26.2m in 2020, representing a 21% increase over the previous year and including 15% growth in the second half of 2020 compared to the second half of 2019. Revenue growth was fueled by recurring high-margin revenues from both instrument leases and disposable sales in cell therapy and was accelerated by the receipt of milestone payments under strategic platform licences. As a result, our 2020 growth extended our run of double-digit revenue growth, yielding a five-year compound average revenue growth rate of 23% for the period from 2016 to 2020.

Gross margins remained stable at 89% and EBITDA loss in 2020 remained in line with expectations at \$7.6m.

EBITDA before CARMA expenses and non-cash stock-based compensation was \$2.9m. This significant improvement over prior years (2019 EBITDA before CARMA investment was \$1.3m) was driven by strong overall revenue growth, particularly from milestone payments, which have no associated costs, and disciplined control of expenses, including pandemic-driven cost reductions.

For 2021, we expect that the winding down of CARMA activities will contribute a total of \$4m to operating expenses in the first half of the year.

Operating expenses increased to \$34.5m, which includes CARMA programme expenses of \$11.1m (2019:

\$11.7m), compared to a total of \$31.5m of operating expenses in 2019. Exclusive of CARMA, operating expenses increased 20% (compared to 21% revenue growth) to \$23.8m compared to \$19.8m in 2019 as the Company invested in hiring new talent and internal promotions. During the year, the Company made adjustments to its operating, sales and marketing practices to mitigate the effects of COVID-related restrictions, which reduced planned spending, particularly on travel and marketing.

At year-end 2020, total assets were \$51.8m, compared to \$30.0m in 2019. The increase in total assets was primarily due to the May 2020 capital raise as well as increases in capital invested in fixed assets and disposables inventory.

Cash and cash equivalents, including short-term investments, totaled \$34.8m in 2020, compared to \$16.7m in 2019. The Company raised \$55.3m of gross proceeds (before expenses) from a private placement of common stock in February 2021 and in March 2021 repaid in full the Company's \$5.0m term loan that had been entered into in 2019.

Amanda Murphy  
Chief Financial Officer

20 April 2021

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
MaxCyte, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of MaxCyte, Inc. and Subsidiary (the "Company") as of 31 December 2020 and 2019, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that

respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/CohnReznick LLP

We have served as the Company's auditor since 2018.

Tysons, Virginia  
20 April 2021

MaxCyte, Incorporated  
Consolidated Financial Statements

**as of 31 December 2020 and 2019  
and for the years ended  
31 December 2020 and 2019**

MaxCyte, Inc.  
Consolidated Balance Sheets  
(amounts in US dollars)

	31 December 2020	31 December 2019
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$18,755,200	\$15,210,800
Short-term investments, at amortised cost	16,007,500	1,497,800
Accounts receivable, net	5,171,900	3,244,500
Inventory	4,315,800	3,701,800
Other current assets	1,003,000	797,100
<b>Total current assets</b>	<b>45,253,400</b>	<b>24,452,000</b>
Property and equipment, net	4,546,200	3,280,100
Right of use asset - operating leases	1,728,300	2,253,300
Right of use asset - finance leases	218,300	-
Other assets	33,900	-
<b>Total assets</b>	<b>\$51,780,100</b>	<b>\$29,985,400</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$890,200	\$2,089,400
Accrued expenses and other	5,308,500	3,551,600
Operating lease liability, current	572,600	508,900
Deferred revenue	4,843,000	3,193,200
<b>Total current liabilities</b>	<b>11,614,300</b>	<b>9,343,100</b>
Note payable, net of discount and deferred fees	4,917,000	4,895,300

Operating lease liability, net of current portion	1,234,600	1,807,100
Other liabilities	788,800	338,100
<b>Total liabilities</b>	<b>18,554,600</b>	<b>16,383,600</b>

**Commitments and contingencies (Note 9)**

**Stockholders' equity**

Common stock, \$0.01 par; 200,000,000 shares authorised, 77,382,473 and 57,403,583 shares issued and outstanding at 31 December 2020 and 2019, respectively

Common stock	773,800	574,000
Additional paid-in capital	127,673,900	96,433,700
Accumulated deficit	(95,222,300)	(83,405,900)
<b>Total stockholders' equity</b>	<b>33,225,400</b>	<b>13,601,800</b>
<b>Liabilities and stockholders' equity</b>	<b>\$51,780,100</b>	<b>\$29,985,400</b>

*See accompanying notes to the consolidated financial statements.*

**MaxCyte, Inc.**  
**Consolidated Statements of Operations**  
**For the Years Ended 31 December**  
(amounts in US dollars)

	<u>2020</u>	<u>2019</u>
<b>Revenue</b>	<b>\$26,168,900</b>	<b>\$21,620,700</b>
<b>Costs of goods sold</b>	2,767,000	2,499,200
<b>Gross profit</b>	<b>23,401,900</b>	<b>19,121,500</b>
<b>Operating expenses:</b>		
Research and development	17,744,300	17,601,200
Sales and marketing	8,328,700	7,852,100
General and administrative	8,385,600	6,088,200
<b>Total operating expenses</b>	<b>34,458,600</b>	<b>31,541,500</b>
<b>Operating loss</b>	<b>(11,056,700)</b>	<b>(12,420,000)</b>
<b>Other income (expense):</b>		
Interest and other expense	(825,600)	(681,100)
Interest and other income	65,900	206,100
<b>Total other income (expense)</b>	<b>(759,700)</b>	<b>(475,000)</b>
<b>Net loss</b>	<b>\$(11,816,400)</b>	<b>\$(12,895,000)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$(0.17)</b>	<b>\$(0.23)</b>
<b>Weighted average common shares outstanding, basic and diluted</b>	<b>69,464,751</b>	<b>56,397,524</b>

*See accompanying notes to the consolidated financial statements.*



**MaxCyte, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the Years Ended 31 December**  
(amounts in US dollars)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
	<b>Balance 1 January 2019</b>	<b>51,332,764</b>	<b>\$513,300</b>	<b>\$82,279,300</b>	<b>\$ (70,510,900)</b>
Issuance of stock in public offering	5,908,319	59,100	12,271,200	-	12,330,300
Stock-based compensation expense	-	-	1,752,100	-	1,752,100
Exercise of stock options	162,500	1,600	131,100	-	132,700
Net loss	-	-	-	(12,895,000)	(12,895,000)
<b>Balance 31 December 2019</b>	<b>57,403,583</b>	<b>\$574,000</b>	<b>\$ 96,433,700</b>	<b>\$(83,405,900)</b>	<b>\$13,601,800</b>

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
	<b>Balance 1 January 2020</b>	<b>57,403,583</b>	<b>\$574,000</b>	<b>\$96,433,700</b>	<b>\$(83,405,900)</b>
Issuance of stock in public offering	19,181,423	191,800	28,375,400	-	28,567,200
Stock-based compensation expense	-	-	2,471,800	-	2,471,800
Exercise of stock options	797,467	8,000	393,000	-	401,000
Net loss	-	-	-	(11,816,400)	(11,816,400)
<b>Balance 31 December 2020</b>	<b>77,382,473</b>	<b>\$773,800</b>	<b>\$127,673,900</b>	<b>\$(95,222,300)</b>	<b>\$33,225,400</b>

*See accompanying notes to the consolidated financial statements.*

**MaxCyte, Inc.**  
**Consolidated Statements of Cash Flow**  
**For the Years Ended 31 December** (amounts in US dollars)

	2020	2019
<b>Cash flows from operating activities:</b>		
Net loss	\$(11,816,400)	\$(12,895,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortisation on property and equipment, net	1,047,700	613,500
Net book value of consigned equipment sold	79,900	25,000
Loss on disposal of fixed assets	25,900	1,700
Fair value adjustment of liability classified warrant	366,500	14,000
Stock-based compensation	2,471,800	1,752,100
Bad debt (recovery) expense	(117,200)	54,200
Amortisation of discounts on short-term investments	(3,800)	(32,600)
Noncash interest expense	21,700	51,900
Changes in operating assets and liabilities:		
Accounts receivable	(1,810,200)	1,592,000
Inventory	(890,600)	(1,890,200)
Other current assets	(205,900)	66,600

Right of use asset - operating leases	525,000	474,600
Right of use asset - finance lease	83,400	-
Other assets	(33,900)	-
Accounts payable, accrued expenses and other	391,000	1,160,200
Operating lease liability	(508,800)	68,600
Deferred revenue	1,649,800	795,900
Other liabilities	(58,000)	(655,000)
Net cash used in operating activities	<u>(8,782,100)</u>	<u>(8,802,500)</u>
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(22,505,900)	(7,424,100)
Maturities of short-term investments	8,000,000	9,149,900
Purchases of property and equipment	<u>(2,072,100)</u>	<u>(1,271,300)</u>
Net cash (used in) provided by investing activities	<u>(16,578,000)</u>	<u>454,500</u>
<b>Cash flows from financing activities:</b>		
Net proceeds from sale of common stock	28,567,200	12,330,300
Borrowings under notes payable	1,440,000	4,953,300
Principal payments on notes payable	(1,440,000)	(5,105,500)
Proceed from exercise of stock options	401,000	132,700
Principal payments on finance leases	<u>(63,700)</u>	<u>-</u>
Net cash provided by financing activities	<u>28,904,500</u>	<u>12,310,800</u>
Net increase in cash and cash equivalents	3,544,400	3,962,800
Cash and cash equivalents, beginning of year	<u>15,210,800</u>	<u>11,248,000</u>
Cash and cash equivalents, end of year	<u><u>\$18,755,200</u></u>	<u><u>\$15,210,800</u></u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$421,400	\$669,600
<b>Supplemental noncash information:</b>		
Property and equipment purchases included in accounts payable	\$70,900	\$399,900
Issuance of warrant in conjunction with debt transaction	-	\$60,700

*See accompanying notes to the consolidated financial statements.*

## 1. Organisation and Description of Business

MaxCyte, Inc. (the "Company" or "MaxCyte") was incorporated as a majority owned subsidiary of EntreMed, Inc. ("EntreMed") on 31 July 1998, under the laws and provisions of the state of Delaware and commenced operations on 01 July 1999. In November 2002, MaxCyte was recapitalised and EntreMed was no longer deemed to control the Company.

MaxCyte is a global life sciences company focused on advancing the discovery, development and commercialisation of next-generation cell therapies. MaxCyte leverages its proprietary cell engineering technology platform to enable the programmes of its biotechnology and pharmaceutical company customers who are engaged in cell therapy, including gene editing and immuno-oncology, as well as in drug discovery and development and biomanufacturing. The Company licenses and sells its instruments and technology and sells its consumables to developers of cell therapies and to pharmaceutical and biotechnology companies for use in

drug discovery and development and biomanufacturing. In early 2020, the Company established a wholly owned subsidiary, CARMA Cell Therapies, Inc. ("CCTI"), as part of its development of CARMA, MaxCyte's proprietary, mRNA-based, clinical-stage, immunology cell therapy.

The COVID-19 pandemic has disrupted economic markets and the economic impact, duration and spread of related effects is uncertain at this time and difficult to predict. As a result, it is not possible to ascertain the overall future impact of COVID-19 on the Company's business and, depending upon the extent and severity of such effects, including, but not limited to potential slowdowns in customer operations, extension of sales cycles, shrinkage in customer capital budgets or delays in customers' clinical trials, the pandemic could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. In 2020, the Company made adjustments to its operating, sales and marketing practices to mitigate the effects of COVID-19 restrictions which reduced planned spending, particularly on travel and marketing expenditures. In addition, COVID-19 restrictions may have delayed or slowed the research activities of some existing and prospective customers. It is not possible to quantify the impact of COVID-19 on the Company's revenues and expenses in 2020 or its expected impact on future periods.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

### **Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In the accompanying consolidated financial statements, estimates are used for, but not limited to, revenue recognition, stock-based compensation, allowance for doubtful accounts, allowance for inventory obsolescence, accruals for contingent liabilities, accruals for clinical trials, deferred taxes and valuation allowance, and the depreciable lives of fixed assets. Actual results could differ from those estimates.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CCTI. All significant intercompany balances have been eliminated in consolidation.

### **Concentration**

During the year ended 31 December 2020, one customer represented 15% of revenue, in part due to certain one-time milestone events. During the year ended 31 December 2019, one customer represented 10% of revenue.

During the year ended 31 December 2020, the Company purchased approximately 47% of its inventory from a single supplier. During the year ended 31 December 2019, the Company purchased approximately 56% of its inventory from a single supplier. At 31 December 2020, amounts payable to three suppliers totalled 62% of total accounts payable. At 31 December 2019, amounts payable to a single supplier totalled 25% of total accounts payable.

### **Foreign Currency**

The Company's functional currency is the US dollar; transactions denominated in foreign currencies are transacted at the exchange rate in effect at the date of each transaction.

Differences in exchange rates during the period between the date a transaction denominated in foreign currency is consummated and the date on which it is either settled or at the reporting date are recognised in the consolidated statements of operations as general and administrative expense. The Company recognised an \$81,800 foreign currency transaction gain and a \$24,700 foreign currency transaction loss for the years ended 31 December 2020 and 2019, respectively.

### **Fair Value**

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. US GAAP establishes a hierarchical disclosure framework which prioritises and ranks the level of observability of inputs used in measuring fair value. These tiers include:

- Level 1-Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2-Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.
- Level 3-Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

See Note 6 for additional information regarding fair value.

### **Cash, Cash Equivalents and Short-term Investments**

Cash and cash equivalents consist of financial instruments including money market funds and commercial paper with original maturities of less than 90 days. Short-term investments consist of commercial paper with original maturities greater than 90 days and less than one year. All money market funds, and commercial paper are recorded at amortised cost unless they are deemed to be impaired on an other-than-temporary basis, at which time they are recorded at fair value using Level 2 inputs.

The following table summarises the Company's investments at 31 December 2020:

<b>Description</b>	<b>Classification</b>	<b>Amortised cost</b>	<b>Gross unrecognized holding gains</b>	<b>Gross unrecognized holding losses</b>	<b>Aggregate fair value</b>
Money market funds	Cash equivalents	\$8,702,200	-	-	\$8,702,200
Commercial Paper	Cash equivalents	6,523,500	-	-	6,523,500
Commercial Paper	Short-term investments	13,996,800	1,800	-	13,998,600
Corporate Debt	Short-term investments	2,010,700	-	(100)	2,010,600
<b>Total Investments</b>		<b>\$31,233,200</b>	<b>\$1,800</b>	<b>\$(100)</b>	<b>\$31,234,900</b>

The following table summarises the Company's investments at 31 December 2019:

<b>Description</b>	<b>Classification</b>	<b>Amortised cost</b>	<b>Gross unrecognized holding gains</b>	<b>Gross unrecognized holding losses</b>	<b>Aggregate fair value</b>
Money market funds	Cash equivalents	\$10,037,000	-	-	\$10,037,000
Commercial Paper	Cash equivalents	1,399,700	-	-	1,399,700
Commercial Paper	Short-term investments	1,497,800	400	-	1,498,200

Total Investments	\$12,934,500	\$400	-	\$12,934,900
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At times the Company's cash balances may exceed federally insured limits and cash may also be deposited in foreign bank accounts that are not covered by federal deposit insurance. The Company does not believe that this results in any significant credit risk.

### **Inventory**

The Company sells or licenses products to customers. The Company uses the average cost method of accounting for its inventory and adjustments resulting from periodic physical inventory counts are reflected in costs of goods sold in the period of the adjustment. Inventory is carried at the lower of cost or net realisable value. Inventory consisted of the following at:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Raw materials inventory	\$1,771,300	\$1,318,600
Finished goods inventory	2,544,500	2,383,200
Total Inventory	<u>\$4,315,800</u>	<u>\$3,701,800</u>

The Company determined no allowance for obsolescence was necessary at 31 December 2020 or 2019.

### **Accounts Receivable**

Accounts receivable are reduced by an allowance for doubtful accounts, if needed. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. All accounts or portions thereof that are deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. The Company determined no allowance was necessary at 31 December 2020. The Company recorded an allowance of \$117,200 at 31 December 2019. This amount was subsequently collected and the allowance was reversed in the year ended 31 December 2020.

### **Property and Equipment**

Property and equipment are stated at cost. Depreciation is computed using the straight-line method. Office equipment (principally computers) is depreciated over an estimated useful life of three years. Laboratory equipment is depreciated over an estimated useful life of five years. Furniture is depreciated over a useful life of seven years. Leasehold improvements are amortised over the shorter of the estimated lease term or useful life. Instruments represent equipment held at a customer's site that is typically leased to customers on a short-term basis and is depreciated over an estimated useful life of five years.

Property and equipment include capitalised costs to develop internal-use software. Applicable costs are capitalised during the development stage of the project and include direct internal costs, third-party costs and allocated interest expenses as appropriate.

Property and equipment consist of the following:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Furniture and equipment	\$3,492,900	\$2,311,800
Instruments	1,424,600	1,223,700
Leasehold improvements	641,400	635,100
Internal-use software under development	-	30,300

Internal-use software	1,963,000	1,277,300
Accumulated depreciation and amortisation	(2,975,700)	(2,198,100)
Property and equipment, net	<u>\$4,546,200</u>	<u>\$3,280,100</u>

For the years ended 31 December 2020 and 2019, the Company transferred \$276,600 and \$571,000, respectively, of instruments previously classified as inventory to property and equipment leased to customers.

For the years ended 31 December 2020 and 2019, the Company incurred depreciation and amortisation expense of \$1,047,700 and \$613,500, respectively. Maintenance and repairs are charged to expense as incurred.

In the years ended 31 December 2020 and 2019, the Company capitalised approximately \$16,700 and \$13,800 of interest expense related to capitalised software development projects.

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The Company recognised no impairment in either of the years ended 31 December 2020 or 2019.

### **Revenue Recognition**

The Company analyses contracts to determine the appropriate revenue recognition using the following steps: (i) identification of contracts with customers, (ii) identification of distinct performance obligations in the contract, (iii) determination of contract transaction price, (iv) allocation of contract transaction price to the performance obligations and (v) determination of revenue recognition based on timing of satisfaction of the performance obligations.

In some arrangements, product and services have been sold together representing distinct performance obligations. In such arrangements the Company allocates the sale price to the various performance obligations in the arrangement on a relative selling price basis. Under this basis, the Company determines the estimated selling price of each performance obligation in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis.

The Company recognises revenue upon the satisfaction of its performance obligation (generally upon transfer of control of promised goods or services to its customers) in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.

The Company defers incremental costs of obtaining a customer contract and amortises the deferred costs over the period that the goods and services are transferred to the customer. The Company had no material incremental costs to obtain customer contracts in any period presented.

Deferred revenue results from amounts billed in advance to customers or cash received from customers in advance of services being provided.

### **Research and Development Costs**

Research and development costs consist of independent proprietary research and development

costs and the costs associated with work performed for fees from third parties. Research and development costs are expensed as incurred. Research costs performed for fees paid by customers are included in cost of goods sold.

### **Stock-Based Compensation**

The Company grants stock-based awards in exchange for employee, consultant and non-employee director services. The value of the award is recognised as expense on a straight-line basis over the requisite service period.

The Company utilises the Black-Scholes option pricing model for estimating fair value of its stock options granted. Option valuation models, including the Black-Scholes model, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant-date fair value of an award. These assumptions include the expected volatility, expected dividend yield, risk-free rate of interest and the expected life of the award. A discussion of management's methodology for developing each of the assumptions used in the Black-Scholes model is as follows:

#### **Expected volatility**

Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company does not currently have sufficient history with its own common stock to determine its actual volatility. The Company has been able to identify several public entities of similar size, complexity and stage of development; accordingly, historical volatility has been calculated at between 49% and 55% for the year ended 31 December 2020 and between 48% and 50% for the year ended 31 December 2019 using the volatility of these companies.

#### **Expected dividend yield**

The Company has never declared or paid common stock dividends and has no plans to do so in the foreseeable future. Additionally, the Company's long-term debt agreement restricts the payment of cash dividends.

#### **Risk-free interest rate**

This approximates the US Treasury rate for the day of each option grant during the year, having a term that closely resembles the expected term of the option. The risk-free interest rate was between 0.4% and 1.7% for the year ended 31 December 2020 and 1.6% and 2.6% for the year ended 31 December 2019.

#### **Expected term**

This is the period that the options granted are expected to remain unexercised. Options granted have a maximum term of ten years. The Company estimates the expected term of the options to be approximately six years for options with a standard four-year vesting period, using the simplified method. Over time, management intends to track estimates of the expected term of the option term so that estimates will approximate actual behaviour for similar options.

#### **Expected forfeiture rate**

The Company records forfeitures as they occur.

### **Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that such tax rate changes are enacted. The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more-likely-than-not that all or a portion of the deferred tax asset will not be realised.

Management uses a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, as well as guidance on derecognition, classification, interest and penalties and financial statement reporting disclosures. For those benefits to be recognised, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognises interest and penalties accrued on any unrecognised tax exposures as a component of income tax expense. The Company has not identified any uncertain income tax positions that could have a material impact to the consolidated financial statements.

The Company is subject to taxation in various jurisdictions in the United States and abroad and remains subject to examination by taxing jurisdictions for 2016 and all subsequent periods. The Company had a Federal Net Operating Loss ("NOL") carry forward of \$57.8 million as of 31 December 2020, which was generally available as a deduction against future income for US federal corporate income tax purposes, subject to applicable carryforward limitations. As a result of the March 2016 public offering of common stock and listing on the AIM market of the London Stock Exchange, the Company's NOLs are limited on an annual basis, subject to certain carryforward provisions, pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, as a result of a greater than 50% change in ownership that occurred in the three-year period ending at the time of the AIM listing and public offering. The Company has calculated that for the period ending 31 December 2022, the cumulative limitation amount exceeds the NOLs subject to the limitation. In addition, the Company's NOLs may also be limited as a result of ownership changes subsequent to the 2016 AIM listing. The Company has not yet calculated such subsequent limitations.

### **Leases**

Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. In transactions where the Company is the lessee, at the inception of a contract, the Company determines if the arrangement is, or contains, a lease. Operating lease ROU assets and liabilities are recognised at commencement date based on the present value of lease payments over the lease term. Lease expense is recognised on a straight-line basis over the lease term.

The Company has made certain accounting policy elections for leases where it is the lessee whereby the Company (i) does not recognise ROU assets or lease liabilities for short-term leases (those with original terms of 12-months or less) and (ii) combines lease and non-lease elements of its operating leases. See Note 9 for additional details over leases where the Company is the lessee.

All transactions where the Company is the lessor are short-term (one year or less) and have been classified as operating leases. All leases require upfront payments covering the full period of the lease and thus, there are no future payments expected to be received from existing leases. See Note 3 for details over revenue recognition related to lease agreements.

### **Loss Per Share**

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares of Common Stock outstanding during the period.

For periods of net income, and when the effects are not anti-dilutive, diluted earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of shares outstanding plus the impact of all potential dilutive common shares, consisting primarily of common stock options and stock purchase warrants using the treasury stock method.



For periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all dilutive potential common shares is anti-dilutive. The number of anti-dilutive shares, consisting of stock options and stock purchase warrants, which has been excluded from the computation of diluted loss per share, was 12.9 million and 10.4 million for the years ended 31 December 2020 and 2019, respectively.

### **Recent Accounting Pronouncements**

#### Recently Adopted

On January 1, 2020, the Company adopted new guidance addressing the accounting for implementation, setup and other upfront costs paid by a customer in a cloud computing or hosting arrangement. The guidance aligns the accounting treatment of these costs incurred in a hosting arrangement treated as a service contract with the requirements for capitalisation and amortisation costs to develop or obtain internal-use software. The adoption did not have a material effect on the Company's consolidated financial statements.

#### Unadopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance with respect to measuring credit losses on financial instruments, including trade receivables. The guidance eliminates the probable initial recognition threshold that was previously required prior to recognising a credit loss on financial instruments. The credit loss estimate can now reflect an entity's current estimate of all future expected credit losses. Under the previous guidance, an entity only considered past events and current conditions. The guidance is effective for fiscal years beginning after 15 December 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after 15 December 2018, including interim periods within those fiscal years. The adoption of certain amendments of this guidance must be applied on a modified retrospective basis and the adoption of the remaining amendments must be applied on a prospective basis. The Company is currently evaluating the impact, if any, that this new accounting pronouncement will have on its consolidated financial statements.

In August 2020, the FASB issued guidance with respect to (i) accounting for convertible instruments, (ii) accounting for contracts in an entity's own equity as derivatives and (iii) earnings per share calculations. The guidance attempts to simplify the accounting for convertible instruments by eliminating the requirement to separate embedded conversion options in certain circumstances. The guidance also provides for updated disclosure requirements for convertible instruments. The guidance further updates the criteria for determining whether a contract in an entity's own equity can be classified as equity. Lastly, the guidance specifically addresses how to account for the effect of convertible instruments and potential cash settled instruments in calculating diluted earnings per share. The guidance is effective for fiscal years beginning after 15 December 2021, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after 15 December 2020, including interim periods within those fiscal years. The adoption of this guidance may be applied on a modified retrospective basis or a full retrospective basis. The Company is currently evaluating the impact, if any, that this new accounting pronouncement will have on its consolidated financial statements.

The Company has evaluated all other issued and unadopted Accounting Standards Updates and believes the adoption of these standards will not have a material impact on its results of operations, financial position, or cash flows.

### **3. Revenue**

Revenue is principally from the sale or lease of instruments and processing assemblies, as well as from extended warranties. In some arrangements, product and services have been sold

together representing distinct performance obligations. In such arrangements the Company allocates the sale price to the various performance obligations in the arrangement on a relative selling price basis. Under this basis, the Company determines the estimated selling price of each performance obligation in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis.

Revenue is recognised at the time control is transferred to the customer and the performance obligation is satisfied. Revenue from the sale of instruments and processing assemblies is generally recognised at the time of shipment to the customer, provided no significant vendor obligations remain and collectability is reasonably assured. Revenue from equipment leases are recognised ratably over the contractual term of the lease agreement and when specific milestones are achieved by a customer. Licensing fee revenue is recognised ratably over the licence period. Revenue from fees for research services is recognised when services have been provided.

Disaggregated revenue for the year ended 31 December 2020 is as follows:

	<b>Revenue from Contracts with Customers</b>	<b>Revenue from Lease Elements</b>	<b>Total Revenue</b>
Product Sales	\$14,850,200	-	\$14,850,200
Leased Elements	-	10,717,400	10,717,400
Other	601,300	-	601,300
Total	<u>\$15,451,500</u>	<u>\$10,717,400</u>	<u>\$26,168,900</u>

Disaggregated revenue for the year ended 31 December 2019 is as follows:

	<b>Revenue from Contracts with Customers</b>	<b>Revenue from Lease Elements</b>	<b>Total Revenue</b>
Product Sales	\$12,917,800	-	\$12,917,800
Leased Elements	-	8,363,500	8,363,500
Other	339,400	-	339,400
Total	<u>\$13,257,200</u>	<u>\$8,363,500</u>	<u>\$21,620,700</u>

*Additional disclosures relating to Revenue from Contracts with Customers*

Changes in deferred revenue for the year ended 31 December 2020 were as follows:

Balance at 1 January 2020	\$3,452,800
Revenue recognised in the current period from amounts included in the beginning balance	3,191,200
Current period deferrals, net of amounts recognised in the current period	<u>4,752,700</u>
Balance at 31 December 2020	<u>\$5,014,300</u>

Changes in deferred revenue for the year ended 31 December 2019 were as follows:

Balance at 1 January 2019	\$2,770,100
Revenue recognised in the current period from amounts included in the beginning balance	2,435,000
Current period deferrals, net of amounts recognised in the current period	3,117,700

Remaining contract consideration for which revenue has not been recognised due to unsatisfied performance obligations with a duration greater than one year was approximately \$227,500 at 31 December 2020 of which the Company expects to recognise approximately \$56,200 in 2021, \$56,200 in 2022, \$41,900 in 2023 \$22,000 in 2024 and \$51,200 thereafter.

In the years ended 31 December 2020 and 2019, the Company did not incur, and therefore did not defer, any material incremental costs to obtain contracts or costs to fulfil contracts.

#### **4. Debt**

The Company originally entered into a credit facility with Midcap Financial SBIC, LP ("MidCap") in March 2014. In February 2019, the Company paid off the MidCap credit facility in full in accordance with its terms and conditions.

In November 2019, the Company entered into a new credit facility with MidCap. The credit facility provided for a \$5 million term loan maturing on 01 November 2024. The term loan provides for (i) an interest rate of one-month Libor plus 6.5% with a 1.5% Libor floor, (ii) monthly interest payments, (iii) 30 monthly principal payments of approximately \$166,700 beginning June 2022 and (iv) a 3% final payment fee. The Company used the proceeds from the credit facility for general operating purposes. The debt is collateralised by substantially all assets of the Company.

In conjunction with the credit facility the Company issued the lender a warrant to purchase 71,168 shares of common stock at a price of £1.09081 per share. The warrant is exercisable at any time through the tenth anniversary of issuance (see Note 5). In connection with the credit facility, the Company also incurred expenses of approximately \$47,300. The warrant and expenses resulted in recording a debt discount which is amortised as interest expense over the term of the loan. At 31 December 2020, the term loan had an outstanding principal balance of \$5 million and \$83,000 of unamortised debt discount.

In April 2020, the Company received a loan from Silicon Valley Bank in the amount of \$1,440,000 under the US Small Business Administration's Paycheck Protection Program ("PPP"). The PPP was established as part of the US Coronavirus Aid, Relief, and Economic Security ("CARES") Act and provides for potential forgiveness of the loan upon the Company meeting certain conditions as to the use of the proceeds. The loan provided for interest at 1% and a maturity date of April 2022. In May 2020, subsequent to the Company's 2020 equity raise (see Note 5), the Company repaid the loan in full.

#### **5. Stockholders' Equity**

##### **Common Stock**

In March 2019, the Company completed an equity capital raise issuing approximately 5.9 million shares of Common Stock at a price of £1.70 (or approximately \$2.25) per share. The transaction generated gross proceeds of approximately £10 million (or approximately \$13.3 million). In conjunction with the transaction, the Company incurred costs of approximately \$1.0 million which resulted in the Company receiving net proceeds of approximately \$12.3 million.

In May 2020, the Company completed an equity capital raise issuing 19,181,423 shares of its common stock at a price of £1.31 (or approximately \$1.60) per share in an unregistered offering. The transaction generated gross proceeds of approximately £25.1 million (or \$30.5 million). In conjunction with the transaction, the Company incurred costs of approximately

\$1.9 million which resulted in the Company receiving net proceeds of approximately \$28.6 million.

During the year ended 31 December 2020, the Company issued 797,467 shares of Common Stock as a result of stock option exercises, receiving gross proceeds of \$401,000. During the year ended 31 December 2019, the Company issued 162,500 shares of Common Stock as a result of stock option exercises, receiving gross proceeds of \$132,700.

### Warrant

In connection with the November 2019 credit facility the Company issued the lender a warrant to purchase 71,168 shares of Common Stock at an exercise price of £1.09081 per share. The warrant is exercisable at any time through the tenth anniversary of issuance. The warrant is classified as a liability as its strike price is in a currency other than the Company's functional currency. The warrant is recorded at fair value at the end of each reporting period with changes from the prior balance sheet date recorded on the consolidated statement of operations (see Note 6).

### Stock Options

The Company adopted the MaxCyte, Inc. Long-Term Incentive Plan (the "Plan") in January 2016 to amend and restate the MaxCyte 2000 Long-Term Incentive Plan to provide for the awarding of (i) stock options, (ii) restricted stock, (iii) incentive shares, and (iv) performance awards to employees, officers, and Directors of the Company and to other individuals as determined by the Board of Directors. Under the Plan, as amended, the maximum number of shares of Common Stock of the Company that the Company may issue is increased by ten percent (10%) of the shares that are issued and outstanding at the time awards are made under the Plan. On 10 December 2019 and 27 October 2020, the Company's Board resolved to increase the number of stock options under the Plan by 3,000,000 and 1,500,000, respectively to provide sufficient shares to allow competitive equity compensation in its primary markets for staff and consistent with practices of comparable companies.

At 31 December 2020 there were 4,175,737 awards available to be issued under the Plan.

The Company has not issued any restricted stock, incentive shares, or performance awards under the Plan. Stock options granted under the Plan may be either incentive stock options as defined by the Internal Revenue Code or non-qualified stock options. The Board of Directors determines who will receive options under the Plan and determines the vesting period. The options can have a maximum term of no more than ten years. The exercise price of options granted under the Plan is determined by the Board of Directors and must be at least equal to the fair market value of the Common Stock of the Company on the date of grant.

A summary of stock option activity for the years ended 31 December 2020 and 2019 is as follows

	Number of Options	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at 1 January 2019	8,388,500	\$1.49	7.4	\$10,354,900
Granted	2,538,500	\$2.17		
Exercised	(162,500)	\$0.82		\$217,600
Forfeited	(465,215)	\$ 2.48		
Outstanding at 31 December 2019	10,299,285	\$1.63	7.0	\$6,471,500

Granted	3,849,448	\$3.00		
Exercised	(797,467)	\$0.52		\$2,198,300
Forfeited	(487,036)	\$2.59		
Outstanding at 31 December 2020	<u>12,864,230</u>	\$2.11	7.1	\$65,576,300
Exercisable at 31 December 2020	<u>7,609,667</u>	\$1.53	5.9	\$43,196,900

The weighted-average fair value of the options granted during the years ended 31 December 2020 and 2019 was estimated to be \$1.39 and \$1.08, respectively.

As of 31 December 2020, total unrecognised compensation expense was \$7,130,900 which will be recognised over the next 2.9 years.

Stock-based compensation expense for the years ended 31 December was classified as follows on the consolidated statement of operations:

	<u>2020</u>	<u>2019</u>
General and administrative	\$1,230,700	\$827,500
Sales and marketing	484,700	325,700
Research and development	756,400	598,900
Total	<u>\$2,471,800</u>	<u>\$1,752,100</u>

## 6. Fair Value

The Company's consolidated balance sheets include various financial instruments (primarily cash and cash equivalents, short-term investments, accounts receivable and accounts payable) that are carried at cost, which approximates fair value due to the short-term nature of the instruments. Notes payable are reflective of fair value based on market comparable instruments with similar terms.

### *Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The Company has an outstanding warrant originally issued in connection with the November 2019 debt financing (see Note 4) that is accounted for as a liability whose fair value is determined using Level 3 inputs. The following table identifies the carrying amounts of this warrant at 31 December 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Liability classified warrant	-	-	\$441,200	\$441,200
Total at 31 December 2020	<u>-</u>	<u>-</u>	<u>\$441,200</u>	<u>\$441,200</u>

The following table identifies the carrying amounts of this warrant at 31 December 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Liability classified warrant	-	-	\$74,700	\$74,700
Total at 31 December 2019	<u>-</u>	<u>-</u>	<u>\$74,700</u>	<u>\$74,700</u>

The following table presents the activity for those items measured at fair value on a recurring basis using Level 3 inputs for the year ended 31 December 2020:

	<u>Mark-to-market</u> <u>liabilities -</u> <u>warrant</u>
Balance at 31 December 2019	\$74,700
Change in fair value	366,500
Balance at 31 December 2020	<u>\$441,200</u>

The following table presents the activity for those items measured at fair value on a recurring basis using Level 3 inputs for the year ended 31 December 2019:

	<u>Mark-to-market</u> <u>liabilities -</u> <u>warrant</u>
Balance at 31 December 2018	-
Issuance	60,700
Change in fair value	14,000
Balance at 31 December 2019	<u>\$74,700</u>

The gains and losses resulting from the changes in the fair value of the liability classified warrant are classified as other income or expense in the accompanying consolidated statements of operations. The fair value of the Common Stock purchase warrants is determined based on the Black-Scholes option pricing model or other option pricing models as appropriate and includes the use of unobservable inputs such as the expected term, anticipated volatility and expected dividends. Changes in any of the assumptions related to such unobservable inputs identified above may change the embedded conversion options' fair value; increases in expected term, anticipated volatility and expected dividends generally result in increases in fair value, while decreases in these unobservable inputs generally result in decreases in fair value.

The Company has no other financial assets or liabilities measured at fair value on a recurring basis.

*Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis*

Money market funds and commercial paper classified as held-to-maturity are measured at fair value on a non-recurring basis when they are deemed to be impaired on an other-than-temporary basis. No such fair value impairment was recognised during the years ended 31 December 2020 or 2019.

*Non-Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The Company has no non-financial assets and liabilities that are measured at fair value on a recurring basis.

*Non-Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis*

The Company measures its long-lived assets, including property and equipment, at fair value on a non-recurring basis. These assets are recognised at fair value when they are deemed to be impaired. No such fair value impairment was recognised during the years ended 31 December 2020 or 2019.

**7. Retirement Plan**

The Company sponsors a defined-contribution 401(k) retirement plan covering eligible employees. Participating employees may voluntarily contribute up to limits provided by the Internal Revenue Code. The Company matches employee contributions equal to 50% of the salary deferral contributions, with a maximum Company contribution of 3% of the employees' eligible compensation. In the years ended 31 December 2020 and 2019, Company matching contributions amounted to \$351,500 and \$277,700, respectively.

## 8. Income Taxes

The Company did not recognise a provision (benefit) for income taxes in 2020 or 2019. Based on the Company's historical operating performance, the Company has provided a full valuation allowance against its net deferred tax assets.

Net deferred tax assets as of 31 December are presented in the table below:

	2020	2019
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$14,998,000	\$12,842,100
Research and development credits	875,400	875,400
Stock-based compensation	1,662,600	1,146,200
Deferred revenue	1,387,200	965,800
Lease liability	566,900	647,800
Accruals and other	971,700	652,700
<b>Deferred tax liabilities:</b>		
ROU asset	(538,500)	(630,300)
Depreciation	-	(25,300))
	<u>19,923,300</u>	<u>16,474,500</u>
Valuation allowance	(19,923,300)	(16,474,500))
<b>Net deferred tax assets</b>	<u>-</u>	<u>-</u>

The Federal net operating loss ("NOL") carryforwards of approximately \$57.8 million as of 31 December 2020 will begin to expire in various years beginning in 2025. The use of NOL carryforwards is limited on an annual basis under Internal Revenue Code Section 382 when there is a change in ownership (as defined by this code section). Based on changes in Company ownership in the past, the Company believes that the use of its NOL carryforwards generated prior to the date of the change is limited on an annual basis; NOL carryforwards generated subsequent to the date of change in ownership can be used without limitation. The use of the Company's NOL carryforwards may be restricted further if there are future changes in Company ownership. Additionally, despite the net operating loss carryforwards, the Company may have a future tax liability due to state tax requirements.

Income tax expense reconciled to the tax computed at statutory rates for the years ended 31 December is as follows:

	2020	2019
Federal income taxes (benefit) at statutory rates	\$(2,481,400)	\$(2,707,900)
State income taxes (benefit), net of Federal benefit	(787,600)	(898,800)
Windfall tax benefits	(556,900)	(40,200)
Permanent differences, rate changes and other	377,100	(29,700)
Change in valuation allowance	<u>3,448,800</u>	<u>3,676,600</u>
<b>Total Income Tax Expense</b>	<u>-</u>	<u>-</u>

## 9. Commitments and Contingencies

### Operating Leases

From 2009 through September 2019 the Company entered into various new and amended leases for office and laboratory space. A member of the Company's Board of Directors is the CEO and Board member of the lessor of certain of these leases for which the rent payments totalled \$623,000 and \$416,800 in 2020 and 2019, respectively.

All the Company's long-term office and laboratory leases expire in October 2023 and provide for annual increases to the base rent of between 3% and 5%. The current monthly base lease

payment for all office and laboratory leases is approximately \$56,100. In addition to base rent, the Company pays a pro-rated share of common area maintenance ("CAM") costs for the entire building, which is adjusted annually based on actual expenses incurred. None of the Company's current operating leases contain any renewal provisions.

All the Company's long-term office and laboratory leases are classified as operating leases. The Company used a discount rate of 8% in calculating its lease liability under its operating leases. The September 2019 lease agreements and modifications resulted in the Company establishing approximately \$2,209,200 of ROU assets and \$2,247,400 of lease liabilities.

At 31 December 2020, the Company had a \$1,728,300 ROU asset, a \$572,500 short-term lease liability and \$1,234,600 long-term lease liability related to its operating leases.

In July 2020, the Company commenced a one-year office lease providing for monthly payments of \$2,900. The Company applied the practical expedient and consequently, no ROU asset or lease liability were recognised for this short-term lease.

At 31 December 2020 the weighted average remaining lease term for our operating leases was 2.8 years.

#### Finance Leases

In 2020, the Company entered into a three-year laboratory equipment lease that expires in April 2023. The lease provides for monthly payments of approximately \$9,200 per month and includes an end of lease bargain purchase option. The lease is classified as a finance lease. The Company used a discount rate of 5.5% in calculating its lease liability under this finance lease resulting in the establishment of approximately a \$301,700 ROU asset and offsetting lease liabilities.

At 31 December 2020, the Company had a \$218,300 ROU asset, a \$100,000 short-term lease liability included in "Accrued expenses and other" and \$142,200 long-term lease liability included in 'Other liabilities' related to its finance lease.

#### All Leases

Lease costs for the years ended 31 December are as follows:

	<b>2020</b>	<b>2019</b>
Finance lease cost		
Amortisation of ROU asset	\$83,400	-
Interest on expense	14,400	-
Operating lease cost	673,900	551,100
Short-term lease cost	19,100	-
Variable lease cost	289,500	217,700
<b>Total lease cost</b>	<b>\$1,080,300</b>	<b>\$768,800</b>

Maturities of lease liabilities as of 31 December 2020 were as follows:

	<b>Operating Leases</b>	<b>Finance Leases</b>
2021	\$696,300	\$110,800
2022	717,400	110,800
2023	614,800	36,900)
Total lease payments	2,028,500	258,500
Discount factor	(221,400)	(16,300)
Present value of lease liabilities	<b>\$1,807,100</b>	<b>\$242,200</b>



## **10. Subsequent Events**

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through 20 April 2021, the date the consolidated financial statements were available to be issued.

In February 2021, the Company completed a private placement offering of 5,740,000 shares of its Common Stock. The shares were sold at a price of £7.00 (or approximately \$9.64) per share generating approximately £40.2 million (or approximately \$55.3 million) of gross proceeds.

In March 2021, the Company paid off, in full, all amounts due under its \$5 million Midcap term loan in accordance with its terms.

In the first quarter of 2021, the Company elected to conclude all pre-clinical and clinical activities related to the CARMA platform which were substantially completed by March 2021.

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