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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

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

Commission File Number: 001-39049

EXAGEN INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0434866**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1261 Liberty Way Vista, California	**92081**
(Address of Principal Executive Offices)	**(Zip Code)**

(760) 560-1501

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, par value $0.001 per share	**XGN**	**The Nasdaq Global 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 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 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Total shares of common stock outstanding as of the close of business on August 1, 2024 was 17,386,389.

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Exagen Inc.

Unaudited Condensed Balance Sheets
(in thousands, except share and per share data)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 24,479	$ 36,493
Accounts receivable, net	11,703	6,551
Prepaid expenses and other current assets	4,612	4,797
Total current assets	40,794	47,841
Property and equipment, net	5,147	5,201
Operating lease right-of-use assets	2,853	3,286
Other assets	513	616
Total assets	$ 49,307	$ 56,944
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,330	$ 3,131
Accrued and other current liabilities	5,658	7,531
Operating lease liabilities	1,035	976
Borrowings-current portion	423	264
Total current liabilities	9,446	11,902
Borrowings-non-current portion, net of discounts and debt issuance costs	19,830	19,231
Operating lease liabilities - non-current portion	2,227	2,760
Other non-current liabilities	219	357
Total liabilities	31,722	34,250
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, $0.001 par value per share; 10,000,000 shares authorized, no shares issued or outstanding as of June 30, 2024 and December 31, 2023	—	—
Common stock, $0.001 par value per share; 200,000,000 shares authorized as of June 30, 2024 and December 31, 2023; 17,381,575 and 17,045,954 shares issued and outstanding as of June 30, 2024 and December 31, 2023, respectively	17	17
Additional paid-in capital	303,110	301,893
Accumulated deficit	(285,542)	(279,216)
Total stockholders' equity	17,585	22,694
Total liabilities and stockholders' equity	$ 49,307	$ 56,944

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

Exagen Inc.

Unaudited Condensed Statements of Operations
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue	$ 15,064	$ 14,137	$ 29,479	$ 25,367
Operating expenses:				
Costs of revenue	6,008	5,836	11,825	11,762
Selling, general and administrative expenses	10,464	11,953	21,006	23,837
Research and development expenses	1,179	1,263	2,238	2,389
Total operating expenses	17,651	19,052	35,069	37,988
Loss from operations	(2,587)	(4,915)	(5,590)	(12,621)
Interest expense	(560)	(574)	(1,109)	(1,212)
Interest income	181	476	373	1,132
Net loss	$ (2,966)	$ (5,013)	$ (6,326)	$ (12,701)
Net loss per share, basic and diluted	$ (0.16)	$ (0.28)	$ (0.35)	$ (0.72)
Weighted-average number of shares used to compute net loss per share, basic and diluted	18,178,185	17,655,483	18,061,312	17,591,478

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

Exagen Inc.

Unaudited Condensed Statements of Stockholders' Equity
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balances as of December 31, 2023	17,045,954	$ 17	$ 301,893	$ (279,216)	$ 22,694
Issuance of stock from vested restricted stock units	217,056	—	—	—	—
Issuance of stock under Employee Stock Purchase Plan	54,605	—	104	—	104
Exercise of stock options	326	—	—	—	—
Stock-based compensation	—	—	553	—	553
Net loss	—	—	—	(3,360)	(3,360)
Balances as of March 31, 2024	17,317,941	17	302,550	(282,576)	19,991
Issuance of stock from vested restricted stock units	62,998	—	—	—	—
Exercise of stock options	636	—	—	—	—
Stock-based compensation	—	—	560	—	560
Net loss	—	—	—	(2,966)	(2,966)
Balances as of June 30, 2024	17,381,575	$ 17	$ 303,110	$ (285,542)	$ 17,585

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

Exagen Inc.

Unaudited Condensed Statements of Stockholders' Equity
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balances as of December 31, 2022	16,549,984	$ 17	$ 297,970	$ (255,527)	$ 42,460
Issuance of stock from vested restricted stock units	113,378	—	—	—	—
Exercise of stock options	93,335	—	27	—	27
Issuance of stock under Employee Stock Purchase Plan	70,317	—	152	—	152
Stock-based compensation	—	—	986	—	986
Net loss	—	—	—	(7,688)	(7,688)
Balances as of March 31, 2023	16,827,014	17	299,135	(263,215)	35,937
Issuance of stock from vested restricted stock units	31,180	—	—	—	—
Stock-based compensation	—	—	978	—	978
Net loss	—	—	—	(5,013)	(5,013)
Balances as of June 30, 2023	16,858,194	$ 17	$ 300,113	$ (268,228)	$ 31,902

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

Exagen Inc.

Unaudited Condensed Statements of Cash Flows
(in thousands)

	Six Months Ended June 30,	
	2024	**2023**
Cash flows from operating activities:		
Net loss	$ (6,326)	$ (12,701)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	887	1,056
Amortization of debt discount and debt issuance costs	78	80
Non-cash interest expense	137	226
Loss on disposal of assets	111	129
Non-cash lease expense	433	473
Stock-based compensation	1,113	1,964
Changes in assets and liabilities:		
Accounts receivable, net	(5,152)	(10,158)
Prepaid expenses and other current assets	185	573
Other assets	102	(101)
Operating lease liabilities	(475)	(506)
Accounts payable	(820)	(1,750)
Accrued and other current liabilities	(1,739)	812
Net cash used in operating activities	(11,466)	(19,903)
Cash flows from investing activities:		
Purchases of property and equipment	(222)	(720)
Proceeds from disposal of property and equipment	—	2
Net cash used in investing activities	(222)	(718)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	27
Proceeds from common stock issued under Employee Stock Purchase Plan	104	152
Principal payments on finance lease obligations	(267)	(369)
Principal payment on note payable obligations	(163)	(114)
Principal payment on long-term debt	—	(10,000)
Net cash used in financing activities	(326)	(10,304)
Net change in cash, cash equivalents and restricted cash	(12,014)	(30,925)
Cash, cash equivalents and restricted cash, beginning of period	36,693	62,591
Cash, cash equivalents and restricted cash, end of period	$ 24,679	$ 31,666
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 871	$ 898
Supplemental disclosure of non-cash items:		
Equipment purchased under notes payable obligations	$ 706	$ 250
Costs incurred, but not paid, in connection with capital expenditures	$ 39	$ 61

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

Exagen Inc.

Notes to Unaudited Interim Condensed Financial Statements

Note 1. Organization

Description of Business

Exagen Inc. (the Company) is a commercial-stage diagnostics company which exists to provide clarity in autoimmune disease decision making with the goal of improving patients' clinical outcomes.

Liquidity

The Company has incurred recurring losses and negative cash flows from operating activities since inception. The Company anticipates that it will continue to incur net losses. As of June 30, 2024, the Company had cash and cash equivalents of $24.5 million and had an accumulated deficit of $285.5 million. Since inception, the Company has financed its operations primarily through a combination of equity financings, debt financing arrangements, and revenue from sales of the Company's products. Based on the Company's current business plan, management believes that its existing capital resources will be sufficient to fund the Company's obligations for at least twelve months following the issuance of these condensed financial statements.

To execute its business plans, the Company may need additional funding to support its continuing operations and pursue its growth strategy. Until such time as the Company can achieve significant cash flows from operations, if ever, it expects to finance its operations through the sale of its stock, debt financings or other strategic transactions. Although the Company has been successful in raising capital in the past, there is no assurance that it will be successful in obtaining such additional financing on terms acceptable to the Company, if at all. The terms of any financing may adversely affect the holdings or the rights of the Company's stockholders. If the Company is unable to obtain funding, the Company could be forced to delay, reduce or eliminate some or all of its programs, product portfolio expansion plans or commercialization efforts, which could have a material adverse effect on the Company's business, operating results and financial condition and the Company's ability to achieve its intended business objectives.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying interim condensed balance sheet as of June 30, 2024, condensed statements of operations and stockholders' equity for the three and six months ended June 30, 2024 and 2023, cash flows for the six months ended June 30, 2024 and 2023 and the related footnote disclosures are unaudited and have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC), and with accounting principles generally accepted in the United States (GAAP) applicable to interim financial statements. These unaudited condensed financial statements and related footnote disclosures should be read in conjunction with the Company’s audited financial statements for the fiscal year ended December 31, 2023, included in its Annual Report on Form 10-K filed with the SEC on March 18, 2024. In management's opinion, the unaudited interim condensed financial statements have been prepared on the same basis as the audited financial statements and include all normal adjustments, necessary for the fair presentation of the Company's financial position as of June 30, 2024 and its results of operations for the periods presented. The results for the three and six months ended June 30, 2024 are not necessarily indicative of the results expected for the full fiscal year or any other interim period. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The preparation of the accompanying condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the condensed financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates.

Significant estimates and assumptions made in the accompanying condensed financial statements include, but are not limited to revenue recognition, the recoverability of its long-lived assets and net deferred tax assets (and related

valuation allowance). The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors and adjusts those estimates and assumptions when facts and circumstances dictate. Actual results could materially differ from those estimates.

Concentration of Credit Risk and Other Risk and Uncertainties

Financial instruments that potentially subject the Company to credit risk consist principally of cash, cash equivalents and accounts receivable. Substantially all the Company's cash and cash equivalents are held at one financial institution that management believes is of high credit quality. Such deposits may, at times, exceed federally insured limits. The Company has not experienced any losses on its cash or cash equivalents.

Significant payors and customers are those which represent more than 10% of the Company's total revenue or accounts receivable balance at each respective balance sheet date. For each significant payor and customer, revenue as a percentage of total revenue and accounts receivable as a percentage of total accounts receivable are as follows:

	Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Medicare Advantage	25 %	19 %	21 %	18 %
Medicare	23 %	29 %	25 %	34 %
Blue Shield	11 %	10 %	*	*

* Less than 10%.

	Accounts Receivable, Net	
	June 30, 2024	December 31, 2023
Medicare	50 %	42 %
Medicare Advantage	10 %	16 %

* Less than 10%.

For the three months ended June 30, 2024 and 2023, approximately 90% and 88%, respectively, of the Company's revenue was related to the AVISE® CTD test. Revenue related to the AVISE® CTD test for the six months ended June 30, 2024 and 2023 was approximately 90% and 88%, respectively.

The Company is dependent on key suppliers for certain laboratory materials. For the three months ended June 30, 2024 and 2023, approximately 99% and 95%, respectively, of the Company's diagnostic testing supplies were purchased from two suppliers. For the six months ended June 30, 2024 and 2023, approximately 97% and 96%, respectively, of the Company's diagnostic testing supplies were purchased from two suppliers. An interruption in the supply of these materials would impact the Company's ability to perform testing services.

Disaggregation of Revenue

The following table includes the Company's revenues as disaggregated by payor and customer category (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue:				
Commercial	$ 8,672	$ 7,484	$ 15,535	$ 11,699
Government	3,457	4,189	7,643	8,615
Client(1)	2,910	2,273	6,194	4,680
Other(2)	25	191	107	373
Total revenue	$ 15,064	$ 14,137	$ 29,479	$ 25,367

(1) Includes hospitals, other laboratories, etc.
(2) Includes patient self-pay.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly-liquid investments purchased with a remaining maturity date of three months or less upon acquisition to be cash equivalents. These investments are stated at cost, which approximates fair value.

The Company has an arrangement with a financial institution with which it has an existing banking relationship, whereby in exchange for the issuance of corporate credit cards, the Company agreed to obtain a certificate of deposit with this financial institution in the amount of $0.2 million as collateral for the balances borrowed on these cards. The Company has classified the value of this certificate of deposit (including all interest earned thereon) within other assets in the accompanying balance sheets. The Company has the right to terminate the credit card program at any time. Upon termination of the credit card program and repayment of all outstanding balances owed, the Company may redeem the certificate of deposit (and all interest earned thereon).

Cash, cash equivalents, and restricted cash presented in the accompanying statements of cash flows consist of the following (in thousands):

	June 30, 2024	December 31, 2023
Cash and cash equivalents	$ 24,479	$ 36,493
Restricted cash	200	200
	$ 24,679	$ 36,693

Long-lived Assets

The Company’s long-lived assets are comprised principally of its property and equipment and operating lease assets. The Company amortizes all finite lived intangible assets over their respective estimated useful lives. Operating lease assets are amortized over the term of the leases. In considering whether long-lived assets are impaired, the Company combines its intangible assets and other long-lived assets, into groupings, a determination which is made principally on the basis of whether the assets are specific to a particular test offered or technology being developed. If the Company identifies a change in the circumstances related to its long-lived assets that indicates the carrying value of any such asset may not be recoverable, the Company will perform an impairment analysis. A long-lived asset is deemed to be impaired when the undiscounted cash flows expected to be generated by the asset (or asset group) are less than the asset’s carrying amount. Management’s estimates of future cash flows are impacted by projected test volume and levels of reimbursement, as well as expectations related to the future cost structure of the entity. Any required impairment loss would be measured as the amount by which the asset’s carrying value exceeds its fair value, and would be recorded as a reduction in the carrying value of the related asset and a charge to operating expense.

Revenue Recognition

Substantially all of the Company's revenue has been derived from sales of its testing products and is primarily comprised of a high volume of relatively low-dollar transactions. The Company primarily markets its testing products to rheumatologists and their physician assistants in the United States. The healthcare professionals who order the Company's testing products and to whom test results are reported are generally not responsible for payment for

these products. The parties that pay for these services (each, a payor) consist of commercial payors (healthcare insurers), government payors (primarily Medicare and Medicaid), client payors (hospitals, other laboratories, etc.) and patient self-pay.

The Company recognizes revenue in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* and follows a five-step process to determine the amount and timing of revenue recognized: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to performance obligations in the contract, and (5) recognize revenue when (or as) the performance obligation is satisfied. The Company's service is a single performance obligation that is completed upon the delivery of test results to the prescribing physician which triggers revenue recognition.

Payors are generally billed at the Company's list price, unless a separate pricing contract is in place. Net revenues recognized consist of amounts billed net of allowances for differences between amounts billed and the estimated consideration the Company expects to receive from such payors. The process for estimating revenues and the ultimate collection of accounts receivable involves significant judgment and estimation. The Company follows a standard process, which considers historical denial and collection experience, insurance reimbursement policies and other factors, to estimate allowances and implicit price concessions. Adjustments are recorded in the current period as changes in estimates occur. Further adjustments to the allowances, based on actual receipts, are recorded upon settlement. Included in revenues for the three months ended June 30, 2024 and 2023 was a $3.1 million net revenue increase and a $1.5 million net revenue increase, respectively, associated with changes in estimated variable consideration related to performance obligations satisfied in previous periods. Included in revenues for the six months ended June 30, 2024 and 2023 was a $5.1 million net revenue increase and a $1.8 million net revenue increase, respectively, associated with changes in estimated variable consideration related to performance obligations satisfied in previous periods. The transaction price is estimated using an expected value method on a portfolio basis.

Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. The Company's portfolios are grouped per payor (i.e. each individual commercial payor, Medicare, Medicaid, client payors, patient self-pay, etc.) and per test. Consideration may be constrained and excluded from the transaction price in situations where there is no contractually agreed upon reimbursement coverage or in absence of a predictable pattern and history of collectability with a payor. Accordingly, in such situations revenues are recognized on the basis of actual cash collections. Additionally, from time to time, the Company may issue refunds to payors for overpayments or amounts billed in error. Any refunds are accounted for as reductions in revenues in the statement of operations as an element of variable consideration. The estimated expected refunds are accrued as a liability on the Company’s balance sheet.

Collection of the Company's net revenues from payors is normally a function of providing complete and correct billing information, along with any requested medical or other claims-related information to the healthcare insurers. This generally occurs within 30 to 90 days of billing, however, the amount and timing of any reimbursements or collections for our billed tests may vary by payor and other circumstances. Contracts do not contain significant financing components based on the typical period of time between performance of services and collection of consideration.

Accounts Receivable and Allowance for Credit Losses

We accrue an allowance for credit losses against our accounts receivable based on management’s current estimate of amounts that will not be collected. Management’s estimates are typically based on historical loss information adjusted for current conditions. We generally do not perform evaluations of the financial condition of our customers and generally do not require collateral. The allowance for credit losses was zero as of June 30, 2024 and 2023. Adjustments for implicit price concessions attributable to variable consideration, as discussed above, are incorporated into the measurement of the accounts receivable balances and are not part of the allowance for credit losses.

Research and Development

Costs associated with research and development activities are expensed as incurred and include, but are not limited to, personnel-related expenses, including stock-based compensation expense; materials; laboratory

supplies; consulting costs; costs associated with setting up and conducting clinical studies; depreciation; amortization and allocated overhead, including rent and utilities.

Advertising and Marketing Costs

Costs associated with advertising and marketing activities are expensed as incurred. Total advertising and marketing costs were approximately $0.4 million for each of the three months ended June 30, 2024 and 2023. For the six months ended June 30, 2024 and 2023, total advertising and marketing costs were approximately $0.6 million and $0.7 million, respectively. These costs are included in selling, general and administrative expenses in the accompanying condensed statements of operations.

Shipping and Handling Costs

Costs incurred for shipping and handling are included in costs of revenue in the accompanying condensed statements of operations and were approximately $0.9 million and $0.6 million for the three months ended June 30, 2024 and 2023, respectively. For the six months ended June 30, 2024 and 2023, shipping and handling costs were approximately $1.7 million and $1.3 million, respectively.

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based awards to employees and directors based on the grant-date estimated fair values over the requisite service period of the awards (usually the vesting period) on a straight-line basis. The fair value of stock options and purchases under the Company's 2019 Employee Stock Purchase Plan (ESPP) rights is determined using the Black-Scholes-Merton (BSM) option pricing model, which requires management to make certain assumptions regarding a number of complex and subjective variables. Equity award forfeitures are recorded as they occur.

The BSM option pricing model incorporates various inputs, including the fair value of the Company's common stock, expected volatility, expected term and risk-free interest rates. Volatility is based on the Company's historical calculated volatility since being publicly traded. The weighted-average expected term of options was calculated using the simplified method, as we have concluded that our stock option exercise history does not provide a reasonable basis upon which to estimate the expected term. The risk-free interest rate for periods within the contractual term of the option is based on the U.S. Treasury yield in effect at the time of grant. The dividend yield is zero, as the Company has never declared or paid dividends and has no plans to do so in the foreseeable future.

The fair value of each restricted stock unit (RSU) is determined on the grant date using the closing price of the Company's common stock on that date. The Company's RSUs generally vest in equal annual installments over four years from the date of grant or, for grants to new hires, date of hire. Vesting of the RSU is subject to the holder's continued service with the Company. The Company issues new shares of common stock to satisfy the RSUs upon vesting.

Comprehensive Loss

Comprehensive loss is defined as a change in equity of a business enterprise during a period, resulting from transactions from nonowner sources. There have been no items qualifying as other comprehensive loss and, therefore, for all periods presented, the Company's comprehensive loss was the same as its reported net loss.

Net Loss Per Share

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. The weighted-average number of shares used to compute basic and diluted shares includes shares issuable upon the exercise of pre-funded warrants at a nominal price. Potentially dilutive common stock equivalents are comprised of warrants for the purchase of common stock, stock options, RSUs outstanding under the Company's 2019 Incentive Award Plan (the 2019 Plan) and shares of the Company's common stock pursuant to the ESPP. For the three and six months ended June 30, 2024 and 2023, there is no

difference in the number of shares used to calculate basic and diluted shares outstanding, as the inclusion of the potentially dilutive securities would be antidilutive.

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):

	June 30, 2024	June 30, 2023
Warrants to purchase common stock	409,108	409,108
Common stock options	817,046	994,526
Restricted stock units	1,679,469	1,598,578
Employee stock purchase plan	38,299	60,719
Total	2,943,922	3,062,931

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. The Company views its operations as, and manages its business in, one operating segment.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB), or other standard setting bodies and adopted by the Company as of the specified effective date. Under the Jumpstart Our Business Startups Act of 2012 (JOBS Act), the Company meets the definition of an emerging growth company. The Company has elected to use the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act. Unless otherwise discussed, Accounting Standards Updates (ASU) not included in the Company's disclosures were assessed and determined to be either not applicable or are not expected to have a material impact on the Company's financial statements or disclosures.

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* (ASU 2023-07), which requires public entities to disclose significant segment expenses that are regularly provided to the Chief Operating Decision Maker (CODM) and details of how the CODM uses financial reporting to assess the performance of a segment. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. This ASU will likely result in additional required disclosure when adopted. The Company is currently evaluating the provisions of this ASU and the impact on its financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (ASU 2023-09), which requires additional income tax disclosures in the rate reconciliation table for federal, state and foreign income taxes, in addition to more details about the reconciling items in some categories when items meet a certain quantitative threshold. ASU 2023-09 is effective for annual periods beginning after December 15, 2024 with early adoption permitted. The Company is currently evaluating the impact of this standard, but does not expect that it will have a material impact on its financial statements.

Note 3. Other Financial Information

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	June 30, 2024	December 31, 2023
Diagnostic testing supplies	$ 2,874	$ 2,871
Prepaid product royalties	33	35
Prepaid maintenance and insurance contracts	1,705	1,860
Other prepaid expenses and other current assets	—	31
Prepaid expenses and other current assets	$ 4,612	$ 4,797

Property and Equipment

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

	June 30, 2024	December 31, 2023
Furniture and fixtures	$ 98	$ 98
Laboratory equipment	4,524	5,312
Computer equipment and software	2,113	2,185
Leasehold improvements	3,089	3,316
Construction in progress	890	59
Total property and equipment	10,714	10,970
Less: accumulated depreciation and amortization	(5,567)	(5,769)
Property and equipment, net	$ 5,147	$ 5,201

Depreciation and amortization expense for the three months ended June 30, 2024 and 2023 was approximately $0.4 million and $0.5 million, respectively. For the six months ended June 30, 2024 and 2023, depreciation and amortization expense was approximately $0.9 million and $1.1 million, respectively.

Accrued and Other Current Liabilities

Accrued and other current liabilities consist of the following (in thousands):

	June 30, 2024	December 31, 2023
Accrued payroll and related expenses	$ 3,777	$ 4,738
Accrued interest	136	139
Accrued purchases of goods and services	519	720
Accrued royalties	218	463
Accrued clinical study activity	13	118
Finance lease obligations, current portion	362	490
Refund liability	266	302
Other accrued liabilities	367	561
Accrued and other current liabilities	$ 5,658	$ 7,531

Note 4. Borrowings

2017 Term Loan

In September 2017, the Company executed a term loan agreement (the 2017 Term Loan) with Innovatus Life Sciences Lending Fund I, LP (Innovatus), as amended (the Amended Loan Agreement), pursuant to which the Company borrowed $25.0 million. As of June 30, 2024, no additional amounts remained available to borrow under the Amended Loan Agreement.

On April 28, 2023, the Company entered into the Amended Loan Agreement. The Amended Loan Agreement was treated as a modification. In connection with the Amended Loan Agreement, the Company repaid $10.0 million of the principal balance outstanding, for which the prepayment premium was waived. Pursuant to the Amended Loan Agreement, the interest rate on all borrowings under the Amended Loan Agreement is the sum (the Basic Rate) of (a) the greater of 8.0% or The Wall Street Journal prime rate (the Prime Rate), plus (b) 2.0%, which is paid-in-kind in the form of additional term loans (PIK Loans). Under the Amended Loan Agreement, an amount equal to 1.5% of the Basic Rate will be payable in-kind and capitalized to the principal amount of the outstanding term loan on a monthly basis until April 1, 2026, after which interest is scheduled to accrue at the Basic Rate. The maturity date of the loan was extended to December 31, 2026. The Company estimated the effective interest rate of this loan to be approximately 11.0% as of June 30, 2024. Accrued interest is due and payable monthly, unless the Company elects to pay paid-in-kind interest. The outstanding principal and accrued interest under the Amended Loan Agreement is to be repaid in ten equal monthly installments commencing in April 2026. Upon repayment of the final installment under the Amended Loan Agreement, the Company is required to pay an additional fee of $1.0 million. This obligation is being accreted into interest expense over the term of the loan using the effective interest method. For each of the three months ended June 30, 2024 and 2023, the Company issued PIK Loans totaling $0.1 million. For the six months ended June 30, 2024 and 2023, the Company issued PIK Loans totaling $0.1 million and $0.2 million, respectively. The issuances of the PIK Loans are included in borrowings-non-current portion on the accompanying balance sheet.

The Amended Loan Agreement currently requires a prepayment premium of 1% of the aggregate outstanding principal for any prepayments made prior to November 1, 2024.

The Amended Loan Agreement is collateralized by a first priority security interest in substantially all of the Company's assets, including intellectual property. The affirmative covenants of the Amended Loan Agreement require that the Company timely file taxes, maintain good standing and government compliance, maintain liability and other insurance, provide prompt notification of significant corporate events, and furnish audited financial statements within 150 days of fiscal year end without qualification as to the scope of the audit or as to going concern and without any other similar qualification.

The affirmative covenants require that the Company achieve a specified level of revenue, as measured quarterly on a rolling twelve-month basis, however the Company is not required to comply with the revenue covenant for any quarter during which it maintains a minimum aggregate cash balance equal to fifty percent of the aggregate principal amount of the Amended Loan Agreement (excluding any capitalized interest paid-in-kind) at all times during such quarter. The consequences of failing to achieve the performance covenants, when applicable, will be cured if, (i) within thirty days of failing to achieve the performance covenant, the Company submits a new financial plan approved by the Company's board of directors (the Board) to Innovatus under which the Company is expected to break even on a cash flow basis prior to the maturity date, and (ii) within thirty days of the submission of such financial plan, the Company issues additional equity securities or subordinated debt with net proceeds sufficient to fund any cash flow deficiency generated from operations, as defined in the Amended Loan Agreement. The Amended Loan Agreement requires that the Company maintain certain levels of minimum liquidity and maintains an unrestricted cash balance of $2.0 million.

The negative covenants provide, among other things, that without the prior consent of Innovatus, subject to certain exceptions, the Company may not dispose of certain assets, engage in certain business combinations or acquisitions, incur additional indebtedness or encumber any of the Company's property, pay dividends on the Company's capital stock or make prohibited investments. The Amended Loan Agreement provides that an event of default will occur if, among other triggers, (i) the Company defaults in the payment of any amount payable under the agreement when due, (ii) there occurs any circumstance(s) that could reasonably be expected to result in a material adverse effect on the Company's business, operations or condition, or on the Company's ability to perform its obligations under the agreement, (iii) the Company becomes insolvent, (iv) the Company undergoes a change in control or (v) the Company breaches any negative covenants or certain affirmative covenants in the agreement or, subject to a cure period, otherwise neglects to perform or observe any material item in the agreement.

As of June 30, 2024, the Company was in compliance with all covenants of the Amended Loan Agreement.

Upon an event of default in any of the Amended Loan Agreement covenants, the repayment of the 2017 Term Loan may be accelerated, and the applicable interest rate will be increased by 4.0% until the default is cured. Although repayment of the 2017 Term Loan can be accelerated under certain circumstances, the Company believes acceleration of this loan is not probable as of the date of these condensed financial statements. Accordingly, the

Company has reflected the amounts of the Amended Loan Agreement due beyond twelve months of the balance sheet date as non-current.

Equipment Notes Payable

The Company has notes payable outstanding from the purchase of laboratory equipment. At June 30, 2024, the total notes payable balance related to this financed equipment was $1.3 million, with $0.4 million classified within borrowings-current portion and $0.9 million within borrowings-non-current portion, net of discounts and debt issuance costs in the accompanying balance sheets. The financed equipment is subject to a 5.28% effective interest rate and will mature on October 1, 2026.

Future Minimum Payments on the Outstanding Borrowings

As of June 30, 2024, future minimum aggregate payments, including interest, for outstanding borrowings are as follows (in thousands):

2024 (remaining)	$	1,087
2025		2,190
2026		21,483
2027		215
2028		67
Total		25,042
Less:		
Unamortized debt discount and issuance costs		(93)
Interest		(4,696)
Total borrowings, net of discounts and debt issuance costs		20,253
Less: Borrowings-current portion		(423)
Borrowings-non-current portion, net of discounts and debt issuance costs	$	19,830

Note 5. Commitments and Contingencies

Licensing Agreements

The Company has licensed technology for use in its diagnostic tests. In addition to the milestone payments required by these agreements, individual license agreements generally provide for ongoing royalty payments ranging from 2.0% to 7.0% on net sales of products which incorporate licensed technology, as defined in such agreements. Royalties are accrued when incurred and recorded in costs of revenue in the accompanying condensed statements of operations.

Collaboration Obligations

In May 2021, the Company entered into a master research collaboration agreement with Allegheny Health Network Research Institute (AHN), pursuant to which the Company is required to pay AHN a collaboration fee of $0.4 million per year. Collaboration expenses under the master research collaboration agreement were $0.1 million for each of the three months ended June 30, 2024 and 2023. For each of the six months ended June 30, 2024 and 2023, collaboration expenses under the master research collaboration agreement were $0.2 million. Collaboration expenses under the AHN collaboration are included in research and development expenses.

Supply Agreements

In December 2021, the Company amended a supply agreement with one supplier for reagents which includes minimum annual purchase commitments of $8.0 million and $9.2 million for the years ending December 31, 2024 and 2025, respectively.

Contingencies

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications; including for subpoenas and other civil investigative demands, from governmental agencies, Medicare or Medicaid and managed care organizations reviewing billing practices or requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made or that the Company believes to be immaterial. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Litigation

From time to time, the Company may be subject to various legal proceedings that arise in the ordinary course of business activities. The Company does not believe the outcome of any such matters will have a material effect on its financial position or results of operations.

In addition, in October 2023, the Company resolved an investigation with the U.S. Attorney's Office for the District of Massachusetts that was initiated by a qui tam lawsuit. Pursuant to a settlement agreement entered into by and between the Company and the U.S. Department of Justice (the Settlement Agreement), the Company made a single lump-sum remittance to the government in the amount of $0.7 million in connection with specimen processing arrangements that Exagen historically had with physicians. The U.S. Attorney's Office dismissed this "covered conduct" in the qui tam lawsuit with prejudice, while non-covered conduct was dismissed without prejudice. In November 2023 the complaint was unsealed and served on Exagen. Exagen filed a motion to dismiss the complaint. In December 2023, the Company's insurance carrier provided reimbursement for certain defense costs the Company incurred in the October 2023 qui tam lawsuit. In February 2024, the relator filed a motion for leave to amend the complaint. Exagen opposed this motion, and all motions are still pending. The Company cannot predict when these matters will be resolved, the outcome of these matters, or their potential impact, which may materially and adversely affect the Company's business, prospects, and financial condition. The Company intends to vigorously defend against the claims being asserted in the complaint.

The Company's participation in federal healthcare programs is not affected by the Settlement Agreement.

Note 6. Fair Value Measurements

The carrying value of the Company's cash, cash equivalents and restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued and other current liabilities approximate their fair values due to their short-term nature, which are determined to be a Level 1 measurement. The estimated fair value of the Company's long-term borrowings is determined by Level 2 inputs and based primarily on quoted market prices for the same or similar issues. As of June 30, 2024, the 2017 Term Loan had a carrying value of $18.9 million and a fair value of $18.9 million. As of December 31, 2023, the 2017 Term Loan had a carrying value of $18.7 million and a fair value of $19.7 million. The estimated fair value of the 2017 Term Loan was determined based on a discounted cash flow approach using available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. The carrying value of the Company's other long-term borrowing at June 30, 2024 was $1.3 million and approximated its fair value. At December 31, 2023, the carrying value of the Company's other long-term borrowing was $0.8 million and approximated its fair value.

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three-levels of the valuation hierarchy for disclosure of fair value measurements are defined as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are observable, unadjusted quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level 3 - Unobservable inputs that are supported by little or no market activity for the related assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis within the fair value hierarchy (in thousands):

	June 30, 2024			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds, included in cash and cash equivalents	$ 14,768	$ 14,768	$ —	$ —

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds, included in cash and cash equivalents	$ 14,386	$ 14,386	$ —	$ —

The fair value of the Company's money market funds is based on quoted market prices.

Note 7. Stockholders' Equity

Common Stock

Shelf Registration Statement

On November 17, 2023, the Company filed a registration statement on Form S-3, as amended (the 2023 Shelf Registration Statement), covering the offering, from time to time, of up to $150.0 million of common stock, preferred stock, debt securities, warrants and units. The 2023 Shelf Registration Statement became effective on November 29, 2023, and all $150.0 million remain available for sale as of June 30, 2024.

At The Market Sales Agreement

On September 15, 2022, the Company entered into a sales agreement, as amended on November 17, 2023 (the Sales Agreement) with Cowen and Company, LLC, as sales agent, pursuant to which the Company may offer and sell, from time to time, shares of Company common stock having an aggregate offering price of up to $50.0 million. The Company is not obligated to sell any shares of Company common stock in the offering. As of June 30, 2024, the Company has not sold any shares of its common stock pursuant to the Sales Agreement.

Outstanding Warrants

The following equity classified warrants to purchase common stock were outstanding as of June 30, 2024:

	Shares	Exercise Price	Issuance date	Expiration date
Common stock warrants	237,169	$ 1.84	January 19, 2016	January 19, 2026
Common stock warrants	67,086	$ 1.84	March 31, 2016	March 31, 2026
Common stock warrants	131	$ 1.84	April 1, 2016	April 1, 2026
Common stock warrants	83,778	$ 14.32	September 7, 2017	September 7, 2024
Common stock warrants	20,944	$ 14.32	December 7, 2018	December 7, 2025
Common stock warrants	804,951	$ 0.001	June 22, 2021	None
	1,214,059			

During the three and six months ended June 30, 2024, no warrants to purchase common stock were exercised.

Note 8. Stock Option Plan

2019 Incentive Award Plan

In September 2019, the Board adopted, and the Company's stockholders approved, the 2019 Plan. Under the 2019 Plan, which expires in September 2029, the Company may grant stock options, stock appreciation rights, restricted stock, RSUs and other awards to individuals who are then employees, officers, non-employee directors or consultants of the Company or its subsidiaries. The options generally expire ten years after the date of grant and are exercisable to the extent vested. Vesting is established by the Board and is generally four years from the date of grant or, for grants to new hires, date of hire. The 2019 Plan contains an "evergreen provision" that allows annual increases in the number of shares available for issuance on the first day of each calendar year through January 1, 2029 in an amount equal to the lesser of: (i) 4% of the outstanding capital stock on each December 31st, or (ii) such lesser amount determined by the Board. As of June 30, 2024, 2,109,692 shares of common stock remained available for future awards under the 2019 Plan.

Restricted Stock Units

RSU activity under the Company's 2019 Plan is set forth below:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding, December 31, 2023	1,387,459	$ 4.24
Awards granted	920,175	$ 1.89
Awards released	(280,054)	$ 5.94
Awards canceled	(348,111)	$ 4.33
Outstanding, June 30, 2024	1,679,469	$ 2.65

As of June 30, 2024, all of the outstanding RSUs were unvested. The fair value of RSUs vested in the six months ended June 30, 2024 and 2023 was $0.5 million and $0.4 million, respectively. The weighted average grant date fair value for RSUs granted in the six months ended June 30, 2024 and 2023 was $1.89 and $2.42, respectively. As of June 30, 2024, total unrecognized compensation cost related to RSUs was $3.8 million, which is expected to be recognized over a remaining weighted-average vesting period of 3.0 years.

Stock Options

Stock option activity under the 2019 Plan is set forth below:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, December 31, 2023	986,819	$ 11.87	6.44	$ 228
Granted	55,500	$ 1.99		
Exercised	(962)	$ 0.26		
Forfeited	(7,695)	$ 16.35		
Expired	(216,616)	$ 14.96		
Outstanding, June 30, 2024	817,046	$ 10.36	6.27	$ 202
Vested and expected to vest, June 30, 2024	817,046	$ 10.36	6.27	$ 202
Options exercisable, June 30, 2024	786,623	$ 10.59	6.16	$ 202

There were 55,500 and 58,500 stock options granted in the six months ended June 30, 2024 and 2023, respectively. The intrinsic value is calculated as the difference between the fair value of the Company's common stock and the exercise price of the stock options. The aggregate intrinsic value of options exercised during the six months ended June 30, 2024 was negligible. The aggregate intrinsic value of options exercised during the six months ended June 30, 2023 was $0.2 million. As of June 30, 2024, total unrecognized compensation cost related to option awards was $0.1 million, which is expected to be recognized over a remaining weighted-average vesting period of 2.23 years.

2019 Employee Stock Purchase Plan

In September 2019, the Board adopted, and the Company's stockholders approved, the ESPP. The ESPP became effective on the day the ESPP was adopted by the Board. The ESPP permits participants to purchase common stock through payroll deductions of up to 20% of their eligible compensation. The number of shares of common stock available for issuance under the ESPP will be annually increased on the first day of each calendar year during the term of the ESPP through January 1, 2029 in an amount equal to the lesser of (i) 1% of the outstanding capital stock on each December 31st, or (ii) such lesser amount determined by the Board. As of June 30, 2024, 565,187 shares of common stock remained available for issuance under the ESPP.

Stock-Based Compensation Expense

Total non-cash stock-based compensation expense recorded related to options granted, RSUs granted and stock purchase rights granted under the ESPP in the condensed statements of operations is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Costs of revenue	$ 39	$ 63	$ 56	$ 116
Selling, general and administrative	465	874	944	1,705
Research and development	56	41	113	143
Total	$ 560	$ 978	$ 1,113	$ 1,964

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

You should read the following discussion of our financial condition and results of operations in conjunction with the unaudited condensed financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023.

Forward Looking Statements

The following discussion and other parts of this quarterly report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical facts contained in this quarterly report, including statements regarding our future results of operations and financial position, estimates regarding profitability and the time that may elapse before we may become profitable, business strategy, current and future product offerings, reimbursement and coverage, the expected benefits from our partnership or promotion arrangements with third parties, research and development costs, timing and likelihood of success and plans and objectives of management for future operations, are forward-looking statements. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "should," "estimate," or "continue," and similar expressions or variations. The forward-looking statements in this quarterly report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy, and short-term and long-term business operations and objectives. These forward-looking statements speak only as of the date of this quarterly report and are subject to a number of risks, uncertainties and assumptions, including those described in Part I, Item IA, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

Overview

We exist to provide clarity in autoimmune disease decision making with the goal of improving patients' clinical outcomes. We have developed and are commercializing a portfolio of innovative testing products under our AVISE® brand, which allow for the differential diagnosis, prognosis and monitoring of complex autoimmune and autoimmune-related diseases. We believe our focus on and experience in the field of rheumatology, combined with our commitment to excellent customer service and support, position us very well to respond to the needs of rheumatologists and the patients they serve. There is an unmet need for rheumatologists to add clarity in their connective tissue disease (CTD) clinical evaluation, and we believe there is a significant opportunity for our tests in this market, particularly for potentially life-threatening diseases such as systemic lupus erythematosus (SLE).

Since inception we have devoted substantially all of our efforts to developing and marketing products for the diagnosis, prognosis and monitoring of autoimmune diseases. We commercially launched our lead testing product, AVISE® CTD, in 2012. Our proprietary AVISE® Lupus test is included as part of the AVISE® CTD panel and employs a patent-protected method for diagnosing patients with SLE based on levels of CB-CAPs (e.g. EC4d and BC4d), ANA, and ds-DNA. The AVISE® Lupus test also employs patent-protected algorithms used to generate risk scores to diagnose patients with SLE based on the levels of the biomarkers. These proprietary, patent-protected methods vastly improve the diagnostic sensitivity of our test compared to the current standard of care. AVISE® CTD enables differential diagnosis for patients presenting with symptoms indicative of a wide variety of CTDs and other related diseases with overlapping symptoms. Revenue from this product comprised 90% and 88% of our revenue for the six months ended June 30, 2024 and 2023, respectively. For the six months ended June 30, 2024 and 2023, we incurred net losses of $6.3 million and $12.7 million, respectively, and we expect to continue to incur operating losses in the near term. Our operations have been funded primarily through equity financings, debt financings and revenue from product sales. We have never been profitable and, as of June 30, 2024, we had $24.5 million of cash and cash equivalents and an accumulated deficit of $285.5 million.

Reimbursement for our testing services comes from several sources, including commercial payors (such as insurance companies and health maintenance organizations), government payors (such as Medicare and

Medicaid), client payors (such as hospitals, other laboratories, etc.) and patients. Reimbursement rates vary by product and payor.

All of our AVISE® tests are performed in our approximately 13,000 square-foot laboratory located in Vista, California, which is certified under the Clinical Laboratory Improvement Amendments of 1988 (CLIA) and accredited by the College of American Pathologists (CAP). Our laboratory is certified for performance of high-complexity testing by the Centers for Medicare & Medicaid Services (CMS) in accordance with CLIA and is licensed by all states requiring out-of-state licensure. Our clinical laboratory typically reports all AVISE® testing product results within five business days

In addition to providing diagnostic testing, we are leveraging our clinical laboratory to enter into agreements in the normal course of business with leading pharmaceutical companies and clinical research organizations for the use of our testing products and/or the data generated from such tests. We believe the quality of our testing, proprietary offerings and specialized knowledge give us an advantage in this space. We plan to continue to pursue additional partnerships with leading pharmaceutical companies and academic research centers that are synergistic with our evolving portfolio of testing products, as more of these organizations realize the extent of the service we can provide.

We market our AVISE® testing products using our specialized sales force covering 40 territories in the United States. Many diagnostic sales forces are trained only to understand the comparative benefits of the tests they promote. In contrast, the specialized backgrounds of our sales personnel, coupled with our comprehensive training, enables our sales representatives to interpret results from our de-identified patient test reports and provide unique insights in a highly tailored discussion with rheumatologists. We believe our focus on and experience in the field of rheumatology, combined with our commitment to excellent customer service and support, position us very well to respond to the needs of rheumatologists and the patients they serve.

Recent Developments

TC4d, TIgG and TIgM Biomarkers

Our collaborative efforts with the Allegheny Health Network Research Institute (AHN) have resulted in further development of three innovative biomarkers, TC4d, TIgG, and TIgM (the T-Cell Biomarkers), for which we obtained an exclusive, worldwide license from AHN in May 2021. These biomarkers have been clinically validated, exhibit a high degree of specificity for lupus and are more sensitive for lupus compared to conventional biomarkers. TC4d is patent protected through 2035, representing a proprietary expansion of CB-CAPs, involving a biochemical process wherein complement activation products are measured on T-cells. We currently plan to incorporate these three biomarkers into our AVISE® CTD test toward the end of 2024. Once incorporated, we believe these biomarkers will significantly enhance the diagnostic sensitivity for lupus of our AVISE® CTD tests beyond its current 80% sensitivity.

RA Sub-Profile

Approximately 70% of rheumatoid arthritis (RA) patients show serological evidence of RA, identified by key biomarkers: anti-CCP and Rheumatoid Factor. The remaining 30% of patients, despite lacking these serological markers, are clinically diagnosed with RA; this subgroup is referred to as “seronegative RA.” These patients often face delays in diagnosis due to the absence of serological evidence. In cases of early inflammatory arthritis, differential diagnosis is broad, including conditions like reactive arthritis, crystal arthropathy, spondyloarthropathy, and other systemic rheumatic diseases such as SLE and Sjogren’s syndrome, alongside seronegative RA. We have identified three unique biomarkers specific to seronegative RA (the RA Sub-Profile Biomarkers) that help bridge this diagnostic gap and would enable AVISE® CTD to correctly identify approximately a third of the traditional seronegative RA subgroup. We currently plan to incorporate these new biomarkers into our AVISE® CTD test toward the end of 2024, allowing for more timely and targeted treatment plans for these patients.

We believe that the addition of the biomarkers discussed above will further differentiate our core test offerings in the market and be accretive to our financial performance. Additionally, we anticipate progressive incremental improvements in demand for AVISE® CTD over time, as we educate physicians about the benefits these new markers provide. Given the financial impact we expect from the planned launch of these new biomarkers, we estimate that we will achieve positive cash flows within a year of launching both the T-Cell Biomarkers and the RA Sub-Profile Biomarkers. This estimate assumes, among other things, that we are able to incrementally increase the average selling price per test. This estimate may ultimately be incorrect.

Factors Affecting Our Performance

We believe there are several important factors that have impacted, and that we expect will impact, our operating performance and results of operations, including:

- ***Reimbursement for Our Testing Products***. Our revenue depends on achieving broad coverage and reimbursement for our tests from third-party payors, including both commercial payors and government payors. Payment from third-party payors differs depending on whether we are considered a "participating provider" (have entered into a contract with the payors as a participating provider) or a "non-participating provider" (do not have a contract and are considered a "non-participating provider"). Payors will often reimburse non-participating providers at a lower amount than participating providers, if at all. We have received a substantial portion of our revenue from a limited number of commercial payors, most of which have not contracted with us to be a participating provider. Historically, we have experienced situations where commercial payors proactively reduced the amounts they were willing to reimburse for our tests, and in other situations, commercial payors have determined that the amounts they previously paid were too high and have sought to recover those perceived excess payments by deducting such amounts from payments otherwise being made. When we contract to serve as a participating provider, reimbursements are made pursuant to a negotiated fee schedule and are limited to only covered indications. If we are not able to obtain or maintain coverage and adequate reimbursement from third-party payors, we may not be able to effectively increase our testing volume and revenue as expected. Additionally, changes in our estimated reimbursements for tests performed in prior periods can positively or negatively impact our revenue in the current period and cause our financial results to fluctuate. In addition, in connection with our revenue cycle management initiatives, we've held claims in the first half of the year which has resulted in increases in our accounts receivable and an accelerated decrease in our cash in the first half of the year. We expect this trend to reverse in the second half of the year, as cash is collected on billed tests.
- ***Continued Growth of Our Testing Products.*** Since the launch of AVISE® CTD in 2012 and through June 30, 2024, we have delivered approximately 950,000 of these tests. During the three months ended June 30, 2024, the number of AVISE® CTD tests delivered declined by approximately 13% over the same period in 2023. Revenue growth for our testing products will depend, in part, on our ability to continue to expand our base of ordering healthcare providers and increase our penetration with existing healthcare providers, in addition to our ability to successfully and timely launch the T-Cell Biomarkers and RA Sub-Profile Biomarkers we plan to add to our AVISE® CTD test.
- ***Development of Additional Testing Products.*** We rely on sales of our AVISE® CTD test to generate the significant majority of our revenue. We expect to continue to invest in research and development in order to develop additional testing products. Our success in developing new testing products will be important in our efforts to grow our business by expanding the potential market for our products and diversifying our sources of revenue.
- ***Maintain Meaningful Margin***. We seek to maintain meaningful margin through a continued focus on increasing operating leverage through the implementation of certain internal initiatives, such as leveraging validation, utility and reimbursement oriented clinical studies to facilitate payor coverage of our testing products. We center our efforts around long-term reimbursement and average sales price (ASP) growth and seek to improve our per-test costs by focusing on profitable, core test offerings and limiting fixed costs and overhead.
- ***Timing of Our Research and Development Expenses***. We conduct clinical studies to validate our new testing products, as well as ongoing clinical and outcome studies to further expand the published evidence that supports our commercialized AVISE® testing products. We also expend funds to secure clinical samples that can be used in discovery, product development, clinical validation, utility and outcome studies. Our spending on experiments and clinical studies may vary substantially from quarter to quarter, and the timing of these research and development activities is difficult to predict. If a substantial number of clinical samples are obtained in a given quarter or if a high-cost experiment is conducted in one quarter versus the next, the timing of these expenses will affect our financial results.
- ***How We Recognize Revenue***. We record revenue on an accrual basis, using an estimate of the amount that we will ultimately realize, as determined based on a historical analysis of amounts collected by test and by payor, among other factors. Changes to such estimates may increase or decrease revenue recognized in future periods.

While each of these areas present significant opportunities for us, they also pose significant risks and challenges that we must address. We discuss many of these risks, uncertainties and other factors in the section entitled *"Risk Factors"* in this Quarterly Report on Form 10-Q, as well as in the section entitled *"Risk Factors"* in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 18, 2024.

Seasonality

Based on our experience to date, we expect some seasonal variations in our financial results due to a variety of factors, such as: the year-end holiday period and other major holidays, vacation patterns of both patients and healthcare providers (including medical conferences), climate and weather conditions in our markets (for example, excess sun exposure can cause flares in SLE), seasonal conditions that may affect medical practices and provider activity (for example, influenza outbreaks that may reduce the percentage of patients that can be seen) and other factors relating to the timing of patient benefit changes, as well as patient deductibles and co-insurance limits.

Inflationary Environment

The current inflationary environment has resulted in higher prices, which have impacted our costs incurred to generate revenue from our laboratory testing services, costs to attract and retain personnel, and other operating costs. The severity and duration of the current inflationary environment remains uncertain and may continue to impact our financial condition and results of operations.

Financial Overview

Revenue

We recognize revenue in accordance with the provisions of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers.* We record revenue on an accrual basis, using an estimate of the amount we will ultimately receive, as determined based on a historical analysis of amounts collected by test and by payor, among other factors. These assessments require significant judgment by management.

To date, we have derived nearly all of our revenue from the sale of our testing products, most of which is attributable to our AVISE® CTD test. We primarily market our testing products to rheumatologists and their physician assistants in the United States. The healthcare professionals who order our testing products, and to whom results are reported, are generally not responsible for payment for these products. The parties that pay for these services (payors) consist of commercial payors (insurance companies, health maintenance organizations, etc.), government payors (primarily Medicare and Medicaid), client payors (hospitals, other laboratories, etc.), and patient self-pay. Our service is completed upon the delivery of test results to the prescribing rheumatologists which triggers billing for the service.

Our ability to increase our revenue will depend on our ability to further penetrate the market for our current and future testing products and increase our reimbursement and collection rates for tests delivered.

In April 2022, we were granted a Proprietary Laboratory Code (PLA) code for our protein-based test, AVISE® Lupus. Noridian, our Medicare Administrative Contractor, has set the current pricing for this PLA code at $840.65 per test through December 31, 2025. The process for obtaining and maintaining consistent reimbursement for new tests can be uncertain, lengthy and time consuming. A pricing determination is not synonymous with a coverage determination. Having a price associated with the PLA code for any particular test does not secure coverage or reimbursement for that PLA code from Medicare or any other third-party payor.

We submitted a formal request to Noridian for coverage of our AVISE® Lupus test under the new PLA Code, and on September 27, 2022, we received notice that Noridian has deemed our application for a Local Coverage Determination (LCD) to be valid. Ultimately receiving a favorable LCD is uncertain and may be time-consuming, resource intensive and require multiple quarterly or annual periods to complete and is subject to risks and uncertainties described in the section entitled *"Risk Factors"* in this Quarterly Report on Form 10-Q. In the meantime, we have continued to submit Medicare claims for AVISE® Lupus, appeal denials and respond to requests for additional information. On January 31, 2024, CMS released a coverage article under which all multi-analyte proteomic testing will be considered within the scope of molecular diagnostic services (MolDX) and reviewed through their technology assessment process. The article listed several such tests, including the AVISE® Lupus test, and requires all laboratories furnishing multi-analyte proteomics testing in MolDX jurisdictions to register with the

DEX® Diagnostics Exchange Registry and obtain a Z-Code® identifier. We were issued a Z-Code® in May 2024. To determine if the submitted tests are compliant with relevant policy requirements, these tests will undergo technical assessment by Palmetto GBA as part of the MolDX program.

We face consistent challenges relating to commercial payor claim processing and revenue. While collectability has improved with certain plans year-over-year, we continue to experience denials due to unfavorable medical policy with certain plans, and we expect this situation to persist.

During the year ended December 31, 2023, we implemented several revenue cycle management initiatives, including among others, withholding the submission of commercial payor claims for reimbursement until subsequent quarters, increasing appeals efforts, adjusting the documentation required of physicians when ordering our tests and implementing increases to our patient payment rates. Additionally, in November 2023, we increased the list price billed for our tests. These ongoing revenue cycle management initiatives aim to optimize our appeals process and the potential for cash collections. We experienced moderate declines in test volume in the second half of 2023 and into January 2024, as rheumatologists and patients adjusted to these changes. The number of AVISE® CTD tests delivered during the three months ended June 30, 2024 grew by approximately 8% as compared to the number of AVISE® CTD tests delivered during the three months ended March 31, 2024. We consider reporting of absolute test volumes to be a competitive disadvantage. As a result, beginning in the quarter ended June 30, 2024, we will be providing the percentage change in test volume on a quarterly basis and the annual test volume on an annual basis in our Annual Report on Form 10-K.

Operating Expenses

Costs of Revenue

Costs of revenue represents the expenses associated with obtaining and testing patient specimens. The components of our costs of revenue include materials costs, direct labor, equipment, infrastructure expenses, shipping charges to transport specimens, blood specimen collections fees, royalties, depreciation and allocated overhead (including rent and utilities).

Each payor, whether commercial, government, or individual, reimburses us at different amounts. These differences can be significant. As a result, our costs of revenue as a percentage of revenue may vary significantly from period to period due to the composition of payors for each period's billings.

We expect that our costs of revenue will remain relatively consistent in the near-term.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of personnel costs (including stock-based compensation expense), direct marketing expenses, accounting and legal expenses, consulting costs and allocated overhead (including rent, information technology, depreciation and utilities).

We expect that our selling, general and administrative expenses will remain relatively consistent in the near-term.

Research and Development Expenses

Research and development expenses include costs incurred to develop our technology, test products and product candidates, in addition to costs incurred to collect clinical specimens and conduct clinical studies to develop and support those products and product candidates. These costs consist of personnel-related expenses (including stock-based compensation expense), materials, laboratory supplies, consulting costs, costs associated with setting up and conducting clinical studies and allocated overhead (including rent and utilities). We expense all research and development costs in the periods in which they are incurred.

We expect that our research and development expenses will remain relatively consistent in the near-term.

Interest Expense

Interest expense consists of cash and non-cash interest expense associated with our financing arrangements, including the borrowings under our Amended Loan Agreement with Innovatus.

Interest Income

Interest income consists of interest income earned on our cash and cash equivalents.

Results of Operations

Comparison of the Three Months Ended June 30, 2024 and 2023 (in thousands):

	Three Months Ended June 30,		
	2024	2023	Change
Revenue	$ 15,064	$ 14,137	$ 927
Operating expenses:			
Costs of revenue	6,008	5,836	172
Selling, general and administrative expenses	10,464	11,953	(1,489)
Research and development expenses	1,179	1,263	(84)
Total operating expenses	17,651	19,052	(1,401)
Loss from operations	(2,587)	(4,915)	2,328
Interest expense	(560)	(574)	14
Interest income	181	476	(295)
Net loss	$ (2,966)	$ (5,013)	$ 2,047

Revenue

Revenue increased $0.9 million, or 6.6%, for the three months ended June 30, 2024 compared to the three months ended June 30, 2023, primarily due to improved ASP, and cash collections from tests performed in prior periods above accrued of $3.1 million, partially offset by decreased AVISE® CTD year-over-year volume in the amount of $1.7 million. The number of AVISE® CTD tests delivered, which accounted for 90% of revenue and 88% of revenue in the three months ended June 30, 2024 and 2023, respectively, declined by approximately 13% in the three months ended June 30, 2024 as compared to the same period in 2023.

Costs of Revenue

Costs of revenue increased $0.2 million, or 2.9%, for the three months ended June 30, 2024 compared to the three months ended June 30, 2023. This increase was primarily due to an increase of $0.4 million in direct labor; an increase of $0.2 million in shipping and handling costs resulting from increased cost-per-shipment, partially offset by reduced shipping volume; and an increase of $0.1 million in royalty expenses. These increases were partially offset by a decrease of $0.4 million in materials and supplies expenses, and a decrease of $0.1 million in facilities and allocated overhead expenses. Gross margin as a percentage of revenue increased to 60.1% for the three months ended June 30, 2024, compared to 58.7% for the three months ended June 30, 2023, primarily due to the changes to revenue and costs of revenue described above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $1.5 million, or 12.5%, for the three months ended June 30, 2024 compared to the three months ended June 30, 2023. This decrease was primarily due to decreases of $0.7 million in legal settlement costs, $0.5 million in employee-related expenses (including salaries, benefits and stock-based compensation) resulting from reduced headcount, $0.2 million in facilities and allocated overhead expenses, $0.1 million in audit and tax services, partially offset by an increase of $0.1 million in commissions.

Research and Development Expenses

Research and development expenses decreased $0.1 million, or 6.7%, for the three months ended June 30, 2024 compared to the three months ended June 30, 2023, primarily due to a decrease of $0.1 million in clinical trial expenses.

Interest Expense

Interest expense remained relatively consistent for the three months ended June 30, 2024 compared to the three months ended June 30, 2023.

Interest Income

Interest income decreased by $0.3 million for the three months ended June 30, 2024 compared to the three months ended June 30, 2023, primarily due to lower cash and cash equivalents balances of interest-earning accounts.

Comparison of the Six Months Ended June 30, 2024 and 2023 (in thousands):

	Six Months Ended June 30,		
	2024	2023	Change
Revenue	$ 29,479	$ 25,367	$ 4,112
Operating expenses:			
Costs of revenue	11,825	11,762	63
Selling, general and administrative expenses	21,006	23,837	(2,831)
Research and development expenses	2,238	2,389	(151)
Total operating expenses	35,069	37,988	(2,919)
Loss from operations	(5,590)	(12,621)	7,031
Interest expense	(1,109)	(1,212)	103
Interest income	373	1,132	(759)
Net loss	$ (6,326)	$ (12,701)	$ 6,375

Revenue

Revenue increased $4.1 million, or 16.2%, for the six months ended June 30, 2024 compared to the six months ended June 30, 2023, primarily due to improved ASP, and cash collections from tests performed in prior periods above accrued of $5.1 million, partially offset by decreased AVISE® CTD year-over-year volume in the amount of $3.6 million. The number of AVISE® CTD tests delivered, which accounted for 90% of revenue and 88% of revenue in the six months ended June 30, 2024 and 2023, respectively, declined by approximately 16% in the six months ended June 30, 2024 as compared to the same period in 2023.

Costs of Revenue

Costs of revenue increased $0.1 million, or 0.5%, for the six months ended June 30, 2024 compared to the six months ended June 30, 2023. This increase was primarily due to an increase of $0.4 million in direct labor; an increase of $0.4 million in shipping and handling costs resulting from increased cost-per-shipment, offset in-part by reduced shipping volume; and an increase of $0.2 million in royalty expenses. These increases were partially offset by a decrease of $0.9 million in materials and supplies expenses. Gross margin as a percentage of revenue increased to 59.9% for the six months ended June 30, 2024, compared to 53.6% for the six months ended June 30, 2023, primarily due to the changes to revenue and costs of revenue described above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $2.8 million, or 11.9%, for the six months ended June 30, 2024 compared to the six months ended June 30, 2023. This decrease was primarily due to decreases of $1.3 million in employee-related expenses (including salaries, benefits and stock-based compensation) resulting from reduced headcount, $0.8 million in legal settlement costs, $0.2 million in insurance expenses, $0.2 million in audit and tax services, $0.2 million in facilities and allocated overhead expenses, and $0.2 million in commissions.

Research and Development Expenses

Research and development expenses decreased $0.2 million, or 6.3%, for the six months ended June 30, 2024 compared to the six months ended June 30, 2023. This decrease was primarily due to decreases of $0.2 million in clinical trial expenses and $0.1 million in facilities and allocated overhead expenses, partially offset by an increase of $0.1 million in employee-related expenses (including salaries, benefits and stock-based compensation).

Interest Expense

Interest expense decreased by $0.1 million for the six months ended June 30, 2024 compared to the six months ended June 30, 2023. This decrease was due to interest savings related to the term loan agreement entered into in September 2017 (the 2017 Term Loan), by and between the Company and Innovatus Life Sciences Lending Fund I, LP, as amended.

Interest Income

Interest income decreased by $0.8 million for the six months ended June 30, 2024 compared to the six months ended June 30, 2023, primarily due to lower cash and cash equivalents balances of interest-earning accounts.

Liquidity and Capital Resources

We have incurred net losses since our inception. For the six months ended June 30, 2024 and 2023, we incurred a net loss of $6.3 million and $12.7 million, respectively, and we expect to incur additional losses in future periods. To date, we have generated only limited revenue, and, despite any estimates we may make regarding our ability to become profitable, we may never achieve revenue sufficient to offset our expenses. As of June 30, 2024, we had an accumulated deficit of $285.5 million and cash and cash equivalents of $24.5 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation. Currently, our funds are held in cash and money market funds.

Since becoming a public company, our primary sources of capital have been cash inflows from product sales, sales of our common stock and, to a lesser extent, borrowings under our 2017 Term Loan. In April 2023, we further amended the 2017 Term Loan, pursuant to which we prepaid $10.0 million of principal and amended additional terms of the agreement. See Note 4, Borrowings, to the unaudited condensed financial statements included in this Quarterly Report on Form 10-Q for additional information.

Our obligations under the Amended Loan Agreement are secured by a security interest in substantially all of our assets, including our intellectual property. The Amended Loan Agreement contains customary conditions to borrowing, events of default, and covenants, including covenants requiring us to maintain minimum liquidity of $2.0 million, covenants to achieve certain minimum amounts of revenue, and covenants limiting our ability to dispose of assets, undergo a change in control, merge with or acquire other entities, incur debt, incur liens, pay dividends or other distributions to holders of our capital stock, repurchase stock and make investments, in each case subject to certain exceptions. Per the Amended Loan Agreement, we are not required to comply with the revenue covenant for any quarter during which we maintain a minimum aggregate cash balance equal to fifty percent of the aggregate principal amount of the 2017 Term Loan funded (excluding any capitalized interest paid-in-kind) at all times during such quarter. The consequences of failing to achieve the performance covenants, when applicable, will be cured if, (i) within thirty days of failing to achieve the performance covenant, we submit a new financial plan approved by our Board of Directors to Innovatus under which we are expected to break even on a cash flow basis prior to the maturity date, and (ii) within thirty days of the submission of such financial plan, we issue additional equity securities or subordinated debt with net proceeds sufficient to fund any cash flow deficiency generated from operations, as defined in the Amended Loan Agreement. As of June 30, 2024, we were in compliance with all covenants of the Amended Loan Agreement with Innovatus. In addition, upon the occurrence of an event of default, Innovatus, among other things, can declare all indebtedness due and payable immediately, which would adversely impact our liquidity and reduce the availability of our cash flows to fund working capital needs, capital expenditures and other general corporate purposes.

On November 17, 2023, we filed a registration statement on Form S-3 covering the offering, from time to time, of up to $150.0 million of common stock, preferred stock, debt securities, warrants and units, all of which remained unsold at June 30, 2024.

On September 15, 2022, we entered into a sales agreement, as amended on November 17, 2023 (the Sales Agreement) with Cowen and Company, LLC, as sales agent, pursuant to which the Company may offer and sell, from time to time, shares of Company common stock having an aggregate offering price of up to $50.0 million. The Company is not obligated to sell any shares of Company common stock in the offering. As of June 30, 2024, the Company has not sold any shares of its common stock pursuant to the Sales Agreement.

Funding Requirements

Our primary use of cash is to fund our operations as we continue to grow our business. We expect to continue to incur operating losses in the near term. We believe we have sufficient laboratory capacity to support increased test volume. Cash used to fund operating expenses is impacted by the timing of when we pay expenses, as reflected in the change in our outstanding accounts payable and accrued expenses.

We expect that our near- and longer-term liquidity requirements will continue to consist of working capital and general corporate expenses associated with the growth of our business, including payments we may be required to make upon the achievement of previously negotiated milestones associated with intellectual property we have licensed, payments related to non-cancelable purchase obligations for reagents, payments related to our principal and interest under our long term borrowing arrangements, payments for operating leases related to our office and laboratory space in Vista, California and our office space in Carlsbad, California and payments for finance leases related to our laboratory equipment (see Note 4, Borrowings, and Note 5, Commitments and Contingencies, to our unaudited financial statements included in this Quarterly Report on Form 10-Q). Based on our current business plan, we believe that our existing cash and cash equivalents and our anticipated future revenue, will be sufficient to meet our anticipated cash requirements for at least the next 12 months from the date of this filing.

Our estimate of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties. Actual results could vary as a result of a number of factors, including:

- our ability to achieve sufficient market acceptance, coverage and adequate reimbursement from third-party payors and adequate market share and revenue for our testing products;
- our ability to maintain and grow sales of our AVISE® testing products, as well as the costs associated with conducting clinical studies to demonstrate the utility of our products and support reimbursement efforts;
- fluctuations in working capital;
- the costs of developing our product pipeline, including the costs associated with conducting our ongoing and future validation, utility and outcome studies as well as the success of our development efforts; and
- the extent to which we establish additional partnerships or in-license, acquire or invest in complementary businesses or products as well as the success of our existing partnerships and/or in-licenses.

Until such time, if ever, as we can generate revenue to support our costs structure, we expect to finance our operations through equity offerings, debt financings or other capital sources, including potentially collaborations, licenses and other similar arrangements. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders may be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. If additional funding is required or desired, there can be no assurance that additional funds will be available to us on acceptable terms on a timely basis, if at all, or that we will generate sufficient cash from operations to adequately fund our operating needs or achieve or sustain profitability. If we are unable to raise additional capital or generate sufficient cash from operations to adequately fund our operations, we will need to delay, reduce or eliminate some or all of our research and development programs, product portfolio expansion plans or commercialization efforts. Doing so will likely have an unfavorable effect on our ability to execute on our business plan and could have a negative impact on our commercial and strategic relationships. If we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, financial condition, and results of operations could be adversely affected.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Six Months Ended June 30,	
	2024	2023
Net cash used in:		
Operating activities	$ (11,466)	$ (19,903)
Investing activities	(222)	(718)
Financing activities	(326)	(10,304)
Net change in cash, cash equivalents and restricted cash	$ (12,014)	$ (30,925)

Cash Flows from Operating Activities

Net cash used in operating activities for the six months ended June 30, 2024 was $11.5 million, primarily resulting from (i) our net loss of $6.3 million adjusted for non-cash charges of $2.8 million primarily related to stock-based compensation, depreciation, amortization and non-cash lease expense and (ii) changes in our net operating assets of $7.9 million primarily related to net increases in accounts receivable and net decreases in accounts payable, operating lease liabilities and accrued and other current liabilities, partially offset by net decreases in prepaid expenses. The increase in accounts receivable was primarily due to delays in claim submission as part of our revenue cycle management initiatives.

Net cash used in operating activities for the six months ended June 30, 2023 was $19.9 million, primarily resulting from (i) our net loss of $12.7 million adjusted for non-cash charges of $3.9 million primarily related to stock-based compensation, depreciation, amortization, non-cash lease expense and non-cash interest and (ii) changes in our net operating assets of $11.1 million primarily related to net increases in accounts receivable and accrued and other current liabilities, partially offset by net decreases in accounts payable, prepaid expenses, other current assets and operating lease liabilities. The increase in accounts receivable was primarily due to delays in claim submission as part of our revenue cycle management initiatives and delayed claim processing by Medicare due to a request for medical records on submitted claims.

Cash Flows from Investing Activities

Net cash used in investing activities for the six months ended June 30, 2024 and 2023 was $0.2 million and $0.7 million, respectively, due to purchases of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities for the six months ended June 30, 2024 was $0.3 million, primarily resulting from payments on finance lease and notes payable obligations, partially offset by proceeds from purchases under the Company's 2019 Employee Stock Purchase Plan.

Net cash used in financing activities for the six months ended June 30, 2023 was $10.3 million, primarily resulting from the Term Loan Prepayment of $10.0 million.

Critical Accounting Estimates

Our management’s discussion and analysis of our financial condition and results of operations is based on our condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The year-end condensed balance sheets data was derived from audited financial statements, but does not include all disclosures required by 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 revenue generated and 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, and any such differences may be material.

For a description of our critical accounting estimates, please see the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates*" contained in our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the Securities and Exchange Commission (SEC) on March 18, 2024. There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2024 as compared to the critical accounting policies and estimates disclosed in the Management's Discussion and Analysis of Financial Condition and Operations included in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 18, 2024.

Recent Accounting Pronouncements

Please see Note 2, Summary of Significant Accounting Policies, to the unaudited condensed financial statements included in this Quarterly Report on Form 10-Q for a summary of recent accounting pronouncements.

JOBS Act Accounting Election

The Jumpstart Our Business Startups Act of 2012 (the JOBS Act), contains provisions that, among other things, reduce certain reporting requirements for an "emerging growth company." The JOBS Act permits an "emerging growth company" like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to use this extended transition period under the JOBS Act 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 audited financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

We will remain an emerging growth company until the last day of our fiscal year following the fifth anniversary of the date of the first sale of our common equity securities pursuant to an effective registration statement under the Securities Act of 1933, as amended, which will occur in on December 31, 2024. However, if certain events occur prior to the end of this five-year period, including if we become a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, our annual gross revenues exceed $1.235 billion or we issue more than $1.0 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company prior to this anniversary.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information we are required to disclose in such reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate.

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of June 30, 2024, our disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls and Procedures

Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Part II. Other Information

Item 1. Legal Proceedings

From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. Regardless of the outcome, such proceedings or claims can have an adverse impact on our business resulting from defense and settlement costs, diversion of resources and other factors. There can be no assurances that favorable outcomes will be obtained.

In October 2023, we resolved an investigation with the U.S. Attorney's Office for the District of Massachusetts that was initiated by a qui tam lawsuit. Pursuant to a settlement agreement entered into by and between us and the U.S. Department of Justice (the Settlement Agreement), we made a single lump-sum remittance to the government in the amount of $0.7 million plus interest in connection with specimen processing arrangements that we historically had with physicians. The U.S. Attorney's Office dismissed this "covered conduct" in the qui tam with prejudice, while non-covered conduct was dismissed without prejudice. In November 2023, the complaint was unsealed and served on us. We filed a motion to dismiss the complaint. In February 2024, the relator filed a motion for leave to amend the complaint. We opposed this motion, and all motions are still pending. We cannot predict when these matters will be resolved, the outcome of these matters, or their potential impact, which may materially and adversely affect our business, prospects, and financial condition. We intend to vigorously defend against the claims being asserted in the complaint.

Our participation in federal healthcare programs is not affected by the Settlement Agreement.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2023, other than those set forth below:

We may become subject to extensive regulatory requirements and may be required to conduct additional clinical trials prior to continuing to sell our existing tests or launching any other tests we may develop, which may increase the cost of conducting, or otherwise harm, our business.

We currently market our AVISE® tests as laboratory developed tests (LDTs) and may, in the future, market other tests as LDTs. Although historically the Food and Drug Administration (FDA) has applied a policy of enforcement discretion with respect to LDTs whereby the FDA does not generally actively enforce its regulatory requirements for such tests, in October 2023, the FDA issued a proposed rule to regulate LDTs under the current medical device framework. The agency's final rule was released to the public on April 29, 2024, officially published in the Federal Register on May 6, 2024, and became effective as of July 5, 2024. The agency's final rule provides that the LDT enforcement policy phase-out process will occur in gradual stages over a total period of four years, with pre-market approval applications for high-risk tests to be submitted by the 3.5-year mark. Moderate-risk and low-risks tests are expected to be in compliance at the 4-year mark, although the FDA has stated that if premarket submissions are pending review it will continue to exercise enforcement discretion with respect to those tests. The FDA's final rule is complex and, concurrently, the agency announced several exceptions from the requirement to comply with full medical device regulatory controls, depending upon the specific nature of the LDT and the clinical laboratory that is offering such LDT for use by health care providers. We have begun the process of evaluating the final rule's potential impact on our AVISE® tests, our operations, and our business more generally.

Moreover, on May 29, 2024, the American Clinical Laboratory Association (ACLA) and one of its members filed a complaint against the FDA in the Eastern District of Texas, alleging that the agency does not have authority to promulgate the LDT final rule and seeking to vacate the FDA's action. The outcome of such litigation is uncertain. The ongoing litigation could potentially affect the FDA's plans to implement these new LDT requirements, making the implementation timeline somewhat uncertain. Affected stakeholders also continue to press for a comprehensive legislative solution to create a harmonized paradigm for oversight of LDTs by both the FDA and CMS, instead of implementation of the FDA's final rule, which may be disruptive to the industry and to patient access to certain diagnostic tests. However, this FDA rulemaking was initiated after years of failed congressional attempts to

harmonize the regulatory paradigms applicable to LDTs and other *in vitro* diagnostic tests, as discussed further below, making it unclear whether any legislative efforts would be successful going forward.

If the FDA implements the LDT final rule or Congress enacts comprehensive legislation to regulate in vitro diagnostics, such that the agency begins to exercise oversight over LDTs, or if the FDA disagrees that our marketed tests are within the scope of its criteria used for defining LDTs, we may become subject to extensive regulatory requirements and may be required to stop selling our existing tests or launching any other tests we may develop and to conduct additional clinical trials or take other actions prior to continuing to market our tests. If the FDA allows our tests to remain on the market but there is uncertainty about our tests, if they are labeled investigational by the FDA or if labeling claims the FDA allows us to make do not include the claims necessary or desirable for successful commercialization, orders from healthcare providers or reimbursement for our tests may decline.

In addition, as noted above, Congress had been working on legislation to create an LDT and IVD, regulatory framework that would be separate and distinct from the existing medical device regulatory framework. Reform legislation called the Verifying Accurate Learning-edge IVCT Development ACT of 2023 (the VALID Act) garnered bipartisan and bicameral support in recent years but failed to move out of committee during the last congressional session. As drafted and re-introduced for consideration by the current Congress, the VALID Act would codify the term IVCT to create a new medical product category separate from medical devices to include products currently regulated as IVDs as well as LDTs, among other provisions. The VALID Act would also create a new system for laboratories to use to submit their tests electronically to the FDA for approval, which is aimed at reducing the amount of time it would take for the agency to approve such tests and establish a new program to expedite the development of diagnostic tests that can be used to address a current unmet need for patients. On March 21, 2024, the House Energy and Commerce held a subcommittee hearing titled “Evaluating Approaches to Diagnostic Test Regulation and the Impact of the FDA’s Proposed Rule.” The private witnesses testifying at the hearing expressed broad support for the bipartisan VALID Act instead of the FDA’s plan to use its medical device authorities to regulate LDTs. More recently, following FDA’s release of the final rule at the end of April, certain members of Congress have objected strenuously to the agency’s action. The FY2025 funding bill for FDA that was passed by the House Appropriations Committee on July 17, 2024 also recommends that the agency suspend its efforts to implement the rule and to instead partner with Congress on developing legislation for the field.

If Congress were to pass the VALID Act or any other legislation applicable to the FDA’s regulation of LDTs, we will likely be subject to increased regulatory burdens such as registration and listing requirements, adverse event reporting requirements and quality control requirements. Any legislation affecting LDTs is also likely to have premarket application requirements prohibiting commercialization without FDA authorization and controls regarding modification to the tests that may require further FDA submissions. The premarket review process can be lengthy, expensive, time-consuming and unpredictable. Further, obtaining premarket clearance may involve, among other things, successfully completing clinical trials, which require significant time and cash resources and are subject to a high degree of risk, including risks of experiencing delays, failing to complete the trial or obtaining unexpected or negative results. If we are required to obtain premarket clearance or approval and/or conduct premarket clinical trials, our development costs could significantly increase, marketing of any new tests we may develop may be delayed, and sales of our existing tests could be interrupted or stopped. Any of these outcomes could reduce our revenue or increase our costs and materially adversely affect our business, prospects, results of operations or financial condition.

The outcome and ultimate impact on our business of the changes to the federal government’s regulation of LDTs is difficult to predict. It is unclear whether Congress will take action, through the VALID Act or otherwise, to supersede FDA’s recent final rule with comprehensive diagnostic reform legislation, or whether such legislation would be signed into law by President Biden. In addition, at this time it is unclear what testing and data may be required to support any required FDA clearance or approval of our tests, should the final rule be fully implemented as envisioned by FDA and HHS. Failure to comply with any applicable FDA requirements could trigger a range of enforcement actions, including warning letters, fines, penalties, suspension of operations, product recalls or seizures, denial of applications for clearance or approval, injunctions and other civil or criminal sanctions, which could have a material and adverse effect upon our business, operating results and financial condition.

Furthermore, should it be required in the future under either the final rule or legislative amendments, we cannot be sure that our AVISE® tests, or any new tests that we may develop, will be reviewed and authorized for marketing by the FDA in a timely or cost-effective manner, if authorized at all. Even if such tests are authorized for marketing by

the FDA, the agency could limit the test's indications for use, which may significantly limit the market for that product and may adversely affect our business and financial condition.

Our operating results may fluctuate significantly, which makes our future operating results difficult to predict and could cause our operating results to fall below expectations or any guidance we may provide. We have a history of losses, we expect to incur net losses in the near term and we may not be able to generate sufficient revenue to achieve and maintain profitability. Our estimates regarding profitability and the time in which we may achieve profitability may ultimately be incorrect.

Our quarterly and annual operating results may fluctuate significantly, which makes it difficult for us to predict our future operating results. In addition, we have incurred net losses since our inception. For the years ended December 31, 2023 and 2022, we incurred net losses of $23.7 million and $47.4 million, respectively. As of June 30, 2024, we had an accumulated deficit of $285.5 million, and we expect to incur additional losses in the remainder of 2024 and in the near term. We also expect to continue to devote substantial resources to increase adoption of, and reimbursement for, our testing products and to develop future testing products. The estimated time in which we may achieve profitability and fluctuations in our operating results may vary from period to period due to a variety of factors, many of which are beyond our control. These factors include, but are not limited to:

- our ability to successfully market and sell our AVISE® testing products;
- our ability to increase the average selling price for our AVISE® testing products;
- the extent to which our current testing and future testing products, if any, are eligible for coverage and reimbursement from third-party payors;
- the timing and cost of, and level of investment in, research, development, regulatory approval and commercialization activities relating to our testing products, which may change from time to time;
- our ability to successfully commercialize new testing products and to do so in the timelines in which we expect, including the future launch of AVISE® CTD with our T-Cell Biomarkers and RA Sub-Profile Biomarkers;
- the cost of supplies, equipment and materials used for our testing products and laboratory operations, which may vary depending on the quantity of production and the terms of our agreements with third-party suppliers and manufacturers;
- expenditures that we may incur to acquire, develop or commercialize additional testing products and technologies;
- the level of demand for our testing products, which may vary significantly;
- the receipt, timing and mix of revenue for our testing products;
- future accounting pronouncements or changes in our accounting policies;
- our ability to collect timely reimbursement for our tests;
- the rate and extent to which payors make an overpayment determination and require us to return all or some portion of payments which we received in a prior period; and
- the timing and success or failure of competing products, or any other change in the competitive landscape of our industry, including consolidation among our competitors or partners.

The cumulative effects of these factors could result in large fluctuations and unpredictability in our quarterly and annual operating results and could cause our estimates regarding profitability to ultimately be incorrect. For instance during 2023, our operating results varied due, in part, to our efforts regarding revenue cycle management. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Investors should not rely on our past results as an indication of our future performance. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our revenue, profitability estimates or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, this could have a material adverse effect on our business, financial condition and results of operations and/or cause the market price of our common stock to decline.

Item 5. Other Information

Rule 10b5-1 trading arrangements

During the six months ended June 30, 2024, none of our directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/Furnished Herewith
		Form	File No.	Exhibit	Exhibit Filing Date	
3.1	Amended and Restated Certificate of Incorporation.	8-K	001-39049	3.1	9/23/2019	
3.2	Amended and Restated Bylaws.	8-K	001-39049	3.1	3/22/2021	
3.3	Amendment to Amended and Restated Bylaws, dated January 19, 2023	8-K	001-39049	3.1	1/23/2023	
4.1	Specimen stock certificate evidencing the shares of common stock.	S-1/A	333-233446	4.1	9/9/2019	
4.2	Amended and Restated Investors' Rights Agreement, dated July 12, 2019, by and among the Company and certain of its stockholders.	S-1/A	333-233446	4.2	9/9/2019	
4.3	Amended and Restated Stockholders' Agreement, dated July 12, 2019, by and among the Company and certain of its stockholders.	S-1/A	333-233446	4.3	9/9/2019	
4.4	Form of Common Stock Purchase Warrant issued to investors by the Company in connection with private placement financings.	S-1/A	333-233446	4.4	9/9/2019	
4.5	Form of Common Stock Purchase Warrant to purchase common stock issued to investors by the Company in 2016.	S-1/A	333-233446	4.8	9/9/2019	
4.6	Form of Exchange Warrant	10-Q	001-39049	4.5	8/9/2021	
10.1	Fourth Amendment to Loan and Security Agreement dated April 12, 2024, by and among Innovatus Life Sciences Lending I, LP, other lenders and the Company.	10-Q	001-39049	10.1	5/13/2024	
10.2#	Employment Agreement, dated as of September 1, 2024, by and between the Company and Jeffrey Black.	8-K	001-39049	10.1	8/2/2024	
10.3#	Exagen Inc. Amended and Restated Executive Change in Control and Severance Plan.					X
31.1	Certificate of Principal Executive Officer and Interim Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certifications Pursuant to U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002.					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, has been formatted in Inline XBRL.					X

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

Management Compensation Plan or Arrangement.

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 hereunto duly authorized.

EXAGEN INC.

Date: August 5, 2024

by: /s/ John Aballi

John Aballi

President and Chief Executive Officer and Interim Chief Financial Officer

(Principal Executive Officer and Interim Principal Financial and Accounting Officer)

EXAGEN INC.
AMENDED AND RESTATED
EXECUTIVE CHANGE IN CONTROL AND SEVERANCE PLAN

Effective as of April 25, 2022

Exagen Inc., a Delaware corporation (the "Company"), has adopted this Exagen Inc. Amended and Restated Executive Change in Control and Severance Plan, including the attached Exhibits (the "Plan"), for the benefit of Participants (as defined below) on the terms and conditions hereinafter stated. The Plan, as set forth herein, is intended to provide severance protections to a select group of management or highly compensated employees (within the meaning of ERISA (as defined below)) in connection with qualifying terminations of employment. This Plan is in effect for Participants who experience certain terminations of employment occurring after the Effective Date (as defined below) and before the termination of this Plan. This Plan supersedes any and all (i) severance plans and separation policies applying to Participants that may have been in effect before the Effective Date and (ii) the provisions of any offer letters or any agreements between any Participant and the Company that provide for severance payments and benefits.

1. **Defined Terms**. Capitalized terms used but not otherwise defined herein shall have the meanings indicated below:

1.1 "Actual Incentive Compensation" means the Participant's cash performance bonus, if any, for the year in which the Date of Termination occurs, based on actual performance during the year in which the Date of Termination occurs.

1.2 "Administrator" shall have the meaning set forth in Section 2 hereof.

1.3 "Base Compensation" means the Participant's annual base salary rate in effect immediately prior to a Date of Termination, disregarding any reduction which gives rise to Good Reason.

1.4 "Board" means the Board of Directors of the Company.

1.5 "Cash Severance" means an amount that is based on the Participant's Base Compensation determined in accordance with Exhibit A attached hereto.

1.6 "Cause" means the occurrence of any one or more of the following events that the Board has determined, in good faith, has occurred: (i) the Participant's failure to substantially perform the Participant's duties (other than a failure resulting from the Participant's disability), including the Participant's failure to follow any lawful directive from the Board or the Participant's immediate supervisor; (ii) the Participant's violation of any code or standard of behavior generally applicable to Employees or executives of the Company; (iii) engaging in conduct that may reasonably result in reputational, economic or financial injury to the Company or its affiliates; (iv) the Participant's commission of, indictment for or plea of nolo contendere to a felony, any crime involving fraud or embezzlement under federal, state or local laws or a crime involving moral turpitude; (v) the Participant's failure to devote substantially all of the Participant's working time to the business of the Company and its affiliates; (vi) the Participant's unlawful use (including being under the influence) or possession of illegal drugs on the premises of the Company or any of its affiliates or while performing the Participant's duties and responsibilities for the Company or any of its affiliates; (vii) the Participant's commission of an act of fraud, willful misconduct or gross negligence with respect to the Company or its affiliates, or the Participant's material breach of fiduciary duty against the Company or any of its affiliates; (viii) the Participant's engaging in misconduct in connection with the performance of any of the

Participant's duties, including by embezzlement or theft from the Company or its affiliates, misappropriating funds from the Company or its affiliates or securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or its affiliates; or (ix) the Participant's active disloyalty to the Company or its affiliates, including willfully aiding a competitor or improperly disclosing confidential information.

1.7 "Change in Control" shall have the meaning set forth in the Company's 2019 Incentive Award Plan.

1.8 "CIC Cash Salary Severance" means the portion of a Participant's CIC Cash Severance that is based on the Participant's Base Compensation determined in accordance with Exhibit A attached hereto.

1.9 "CIC Cash Severance" means the CIC Cash Salary Severance and, if applicable, the CIC Incentive Compensation Severance, determined in accordance with Exhibit A attached hereto.

1.10 "CIC Incentive Compensation Severance" means the portion of a Participant's CIC Cash Severance that is based on the Participant's Actual Incentive Compensation or Target Incentive Compensation, as applicable, as determined in accordance with Exhibit A attached hereto.

1.11 "CIC Protection Period" means the 12 month period beginning on a Change in Control and ending on and including the one-year anniversary of the date of a Change in Control.

1.12 "CIC Severance Benefits" means the severance payments and benefits to which a Participant may become entitled pursuant to Section 4 of the Plan and Exhibit A attached hereto.

1.13 "CIC Termination" means a Qualifying Termination that occurs during the CIC Protection Period.

1.14 "Claimant" shall have the meaning set forth in Section 11.1 hereof.

1.15 "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985.

1.16 "COBRA Period" means the number of months during which the Participant is entitled to COBRA Premium Payments, determined in accordance with Exhibit A or Exhibit B attached hereto, as applicable.

1.17 "COBRA Premium Payment" shall have the meaning set forth in Section 3.2 hereof.

1.18 "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

1.19 "Committee" means the Compensation Committee of the Board, or such other committee as may be appointed by the Board to administer the Plan.

1.20 "Date of Termination" means the effective date of the termination of the Participant's employment.

1.21 "Effective Date" means March , 2022.

1.22 "Employee" means an individual who is an employee (within the meaning of Code Section 3401(c)) of the Company or any of its subsidiaries.

1.23 "Equity Award" means a Company equity award that vests solely based on the passage of time.

1.24 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

1.25 "Excise Tax" shall have the meaning set forth in Section 7.1 hereof.

1.26 "Good Reason" means the occurrence of any one or more of the following events without the Participant's prior written consent, unless the Company fully corrects the circumstances constituting Good Reason (provided such circumstances are capable of correction) as provided below:

(a) a change in the Participant's position with the Company which materially diminishes such Participant's duties, responsibilities, or authority;

(b) a material diminution of the Participant's Base Compensation and/or Target Incentive Compensation; or

(c) a relocation of the Participant's principal place of employment by more than twenty (20) miles.

Notwithstanding the foregoing, the Participant will not be deemed to have resigned for Good Reason unless (1) the Participant provides the Company with written notice setting forth in reasonable detail the facts and circumstances claimed by the Participant to constitute Good Reason within 90 days after the date of the occurrence of any event that the Participant knows or should reasonably have known to constitute Good Reason, (2) the Company fails to cure such acts or omissions within 30 days following its receipt of such notice, and (3) the effective date of the Participant's termination for Good Reason occurs no later than 60 days after the expiration of the Company's cure period.

1.27 "Independent Advisors" shall have the meaning set forth in Section 7.2 hereof.

1.28 "Non-CIC Cash Salary Severance" means the portion of a Participant's Non-CIC Cash Severance that is based on the Participant's Base Compensation determined in accordance with Exhibit A attached hereto.

1.29 "Non-CIC Cash Severance" means the Non-CIC Cash Salary Severance and, if applicable, the Non-CIC Incentive Compensation Severance, determined in accordance with Exhibit A attached hereto.

1.30 "Non-CIC Incentive Compensation Severance" means the portion of a Participant's Non-CIC Cash Severance that is based on the Participant's Actual Incentive Compensation or Target Incentive Compensation, as applicable, as determined in accordance with Exhibit A attached hereto.

1.31 "Non-CIC Severance Benefits" means the severance payments and benefits to which a Participant may become entitled pursuant to Section 3 of the Plan and Exhibit A attached hereto.

1.32 "Participant" means each Employee who is selected by the Administrator to participate in the Plan and is provided with (and, if applicable, countersigns) a Participation Notice in accordance with Section 14.2 hereof, other than any Employee who, at the time of his or her termination of employment, is covered by a plan or agreement with the Company or a subsidiary that provides for cash severance or termination benefits that explicitly supersedes and/or replaces the payments and benefits provided under this Plan. For the avoidance of doubt, retention bonus payments, change in control bonus payments and other similar payments shall not constitute "cash severance" for purposes of this definition.

1.33 "Participation Notice" shall have the meaning set forth in Section 14.2 hereof.

1.34 "Qualifying Non-CIC Termination" means a termination of a Participant's employment with the Company without Cause that occurs other than during the CIC Protection Period.

1.35 "Qualifying Termination" means a termination of the Participant's employment with the Company or a subsidiary of the Company, as applicable, by the Company or such subsidiary, as applicable, without Cause, or by the Participant for Good Reason. A Qualifying Termination shall not include a termination due to the Participant's death or disability.

1.36 "Release" shall have the meaning set forth in Section 5 hereof.

1.37 "Severance Benefits" means the CIC Severance Benefits and the Non-CIC Severance Benefits, as applicable.

1.38 "Target Incentive Compensation" means the Participant's target cash performance bonus, if any, for the year in which the Date of Termination occurs.

1.39 "Total Payments" shall have the meaning set forth in Section 7.1 hereof.

2. **Administration**. Subject to Section 14.4 hereof, the Plan shall be interpreted, administered and operated by the Committee (the "Administrator"), which shall have complete authority, subject to the express provisions of the Plan, to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The Administrator shall, pursuant to a Participation Notice, notify each Participant that such Participant has been selected to participate in the Plan. The Administrator may delegate any of its duties hereunder to a subcommittee, or to such person or persons from time to time as it may designate other than to any Participant in the Plan, and the Administrator may delegate (other than to any Participant in the Plan) its duty to provide a Participation Notice to a Participant in the Plan. All decisions, interpretations and other actions of the Administrator (including with respect to whether a CIC Termination has occurred) shall be final, conclusive and binding on all parties who have an interest in the Plan.

3. **Severance Benefits Not in Connection with a Change in Control.** If the Participant experiences a Qualifying Non-CIC Termination, then, subject to the Participant's execution and, to the extent applicable, non-revocation of a Release in accordance with Section 5 hereof, and subject to any additional requirements specified in the Plan, Participant shall be

eligible to receive the following payments and benefits (collectively, the "Non-CIC Severance Benefits"):

3.1 Non-CIC Cash Severance Payment. The Company shall pay to the Participant an amount equal to the Non-CIC Cash Severance determined in accordance with Exhibit A attached hereto. Subject to Section 6.2 hereof, the Non-CIC Cash Severance (as set forth on Exhibit A) shall be paid in a lump sum on the 30th day following the Date of Termination.

3.2 COBRA. Subject to the requirements of the Code, if the Participant properly elects healthcare continuation coverage under the Company's group health plans pursuant to COBRA, to the extent that the Participant is eligible to do so, then the Company shall directly pay or, at its election, reimburse the Participant for the COBRA premiums for the Participant and the Participant's covered dependents (in an amount determined based on the same benefit levels as would have applied if the Participant's employment had not been terminated based on the Participant's elections in effect on the Date of Termination) (the "COBRA Premium Payment") until the earlier of the end of the month during which the Participant's COBRA Period, determined in accordance with Exhibit A attached hereto, ends or the date the Participant becomes eligible for healthcare coverage under a subsequent employer's health plan. Notwithstanding the foregoing, (i) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Code Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (ii) the Company is otherwise unable to continue to cover the Participant under its group health plans without penalty under applicable law (including without limitation, Section 2716 of the Public Health Service Act), then, in either case, an amount equal to each remaining Company reimbursement shall thereafter be paid to the Participant in substantially equal monthly installments over the COBRA Period (or the remaining portion thereof).

3.3 The payments and benefits described in this Section 3 shall be in lieu of any other benefits or payments under any severance or similar plan, policy or arrangement of the Company.

4. **Severance Benefits in Connection with a Change in Control.** If a Participant experiences a CIC Termination, then, subject to the Participant's execution and, to the extent applicable, non-revocation of a Release in accordance with Section 5 hereof, and subject to any additional requirements specified in the Plan, Participant shall be eligible to receive the following payments and benefits (collectively, the "CIC Severance Benefits"):

4.1 CIC Cash Severance Payment. The Company shall pay to the Participant an amount equal to the CIC Cash Severance determined in accordance with Exhibit A attached hereto. Subject to Section 6.2 hereof, the Cash Severance (as set forth on Exhibit A) shall be paid in a lump sum on the 30th day following the Date of Termination.

4.2 COBRA. Subject to the requirements of the Code, if the Participant properly elects healthcare continuation coverage under the Company's group health plans pursuant to COBRA, to the extent that the Participant is eligible to do so, then the Company shall directly pay or, at its election, reimburse the Participant for the COBRA Premium Payment until the earlier of the end of the month during which the Participant's COBRA Period, determined in accordance with Exhibit A attached hereto, ends or the date the Participant becomes eligible for healthcare coverage under a subsequent employer's health plan. Notwithstanding the foregoing, (i) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Code Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (ii) the Company is otherwise unable to continue to cover the Participant under its group health plans without penalty

under applicable law (including without limitation, Section 2716 of the Public Health Service Act), then, in either case, an amount equal to each remaining Company reimbursement shall thereafter be paid to the Participant in substantially equal monthly installments over the COBRA Period (or the remaining portion thereof).

4.3 Equity Award Treatment. Each outstanding Equity Award held by the Participant as of his or her Date of Termination shall become fully vested and, to the extent applicable, exercisable.

5. **Release**. Notwithstanding anything herein to the contrary, no Participant shall be eligible or entitled to receive or retain any Severance Benefits under the Plan unless he or she executes a general release of claims substantially in the form attached hereto as Exhibit B (the "Release") within 21 days (or longer, solely to the extent necessary to comply with applicable law) after the Date of Termination and, if he or she is entitled to a post-signing revocation period under applicable law, does not revoke such Release during such period.

6. **Section 409A**.

6.1 General. To the extent applicable, the Plan shall be interpreted and applied consistent and in accordance with Code Section 409A and Department of Treasury regulations and other interpretive guidance issued thereunder. Notwithstanding any provision of the Plan to the contrary, to the extent that the Administrator determines that any payments or benefits under the Plan may not be either compliant with or exempt from Code Section 409A and related Department of Treasury guidance, the Administrator may in its sole discretion adopt such amendments to the Plan or take such other actions that the Administrator determines are necessary or appropriate to (a) exempt the compensation and benefits payable under the Plan from Code Section 409A and/or preserve the intended tax treatment of such compensation and benefits, or (b) comply with the requirements of Code Section 409A and related Department of Treasury guidance; *provided*, *however*, that this Section 6.1 shall not create any obligation on the part of the Administrator to adopt any such amendment or take any other action, nor shall the Company have any liability for failing to do so.

6.2 Potential Six-Month Delay. Notwithstanding anything to the contrary in the Plan, no amounts shall be paid to any Participant under the Plan during the six-month period following such Participant's "separation from service" (within the meaning of Code Section 409A(a)(2)(A)(i) and Treasury Regulation Section 1.409A-1(h)) to the extent that the Administrator determines that paying such amounts at the time or times indicated in the Plan would result in a prohibited distribution under Code Section 409A(a)(2)(B)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Code Section 409A without resulting in a prohibited distribution, including as a result of the Participant's death), the Participant shall receive payment of a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Participant during such six-month period without interest thereon.

6.3 Separation from Service. A termination of employment shall not be deemed to have occurred for purposes of any provision of the Plan providing for the payment of any amounts or benefits that constitute "nonqualified deferred compensation" under Code Section 409A upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of the Plan, references to a "termination," "termination of employment" or like terms shall mean "separation from service".

6.4 Reimbursements. To the extent that any payments or reimbursements provided to a Participant under the Plan are deemed to constitute compensation to the Participant to which Treasury Regulation Section 1.409A-3(i)(1)(iv) would apply, such amounts shall be paid or reimbursed reasonably promptly, but not later than December 31st of the year following the year in which the expense was incurred. The amount of any such payments eligible for reimbursement in one year shall not affect the payments or expenses that are eligible for payment or reimbursement in any other taxable year, and the Participant's right to such payments or reimbursement of any such expenses shall not be subject to liquidation or exchange for any other benefit.

6.5 Installments. For purposes of applying the provisions of Code Section 409A to the Plan, each separately identified amount to which a Participant is entitled under the Plan shall be treated as a separate payment. In addition, to the extent permissible under Code Section 409A, the right to receive any installment payments under the Plan shall be treated as a right to receive a series of separate payments and, accordingly, each such installment payment shall at all times be considered a separate and distinct payment as permitted under Treasury Regulation Section 1.409A-2(b)(2)(iii). Whenever a payment under the Plan specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company.

7. **Limitation on Payments.**

7.1 Best Pay Cap. Notwithstanding any other provision of the Plan, in the event that any payment or benefit received or to be received by a Participant (including any payment or benefit received in connection with a termination of the Participant's employment, whether pursuant to the terms of the Plan or any other plan, arrangement or agreement) (all such payments and benefits, including the Severance Benefits, being hereinafter referred to as the "Total Payments") would be subject (in whole or part), to the excise tax imposed under Code Section 4999 (the "Excise Tax"), then, after taking into account any reduction in the Total Payments provided by reason of Code Section 280G in such other plan, arrangement or agreement, the Cash Severance benefits under the Plan shall first be reduced, and any noncash severance payments hereunder shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (a) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (b) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Participant would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

7.2 Certain Exclusions. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (a) no portion of the Total Payments, the receipt or retention of which the Participant has waived at such time and in such manner so as not to constitute a "payment" within the meaning of Code Section 280G(b), will be taken into account; (b) no portion of the Total Payments will be taken into account which, in the written opinion of an independent, nationally recognized accounting firm (the "Independent Advisors") selected by the Company, does not constitute a "parachute payment" within the meaning of Code Section 280G(b)(2) (including by reason of Code Section 280G(b)(4)(A)) and, in calculating the Excise Tax, no portion of such Total Payments will be taken into account which, in the opinion of Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Code Section 280G(b)(4)(B), in excess of the "base amount" (as defined in Code Section 280G(b)(3)) allocable to such reasonable compensation;

and (c) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Code Sections 280G(d)(3) and (4).

8. **No Mitigation**. No Participant shall be required to seek other employment or attempt in any way to reduce or mitigate any Severance Benefits payable under the Plan and the amount of any such Severance Benefits shall not be reduced by any other compensation paid or provided to any Participant following such Participant's termination of service.

9. **Successors**.

9.1 Company Successors. The Plan shall inure to the benefit of and shall be binding upon the Company and its successors and assigns. Any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume and agree to perform the obligations of the Company under the Plan.

9.2 Participant Successors. The Plan shall inure to the benefit of and be enforceable by each Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, legatees or other beneficiaries. If a Participant dies while any amount remains payable to such Participant hereunder, all such amounts shall be paid in accordance with the terms of the Plan to the executors, personal representatives or administrators of such Participant's estate.

10. **Notices**. All communications relating to matters arising under the Plan shall be in writing and shall be deemed to have been duly given when hand delivered, faxed, emailed or mailed by reputable overnight carrier or United States certified mail, return receipt requested, addressed, if to a Participant, to the address or email address on file with the Company or to such other address or email address as the Participant may have furnished to the other in writing in accordance herewith and, if to the Company, to such address as may be specified from time to time by the Administrator, except that notice of change of address shall be effective only upon actual receipt.

11. **Claims Procedure; Arbitration**.

11.1 Claims. Generally, Participants are not required to present a formal claim in order to receive benefits under the Plan. If, however, any person (the "Claimant") believes that benefits are being denied improperly, that the Plan is not being operated properly, that fiduciaries of the Plan have breached their duties, or that the Claimant's legal rights are being violated with respect to the Plan, the Claimant must file a formal claim, in writing, with the Administrator. This requirement applies to all claims that any Claimant has with respect to the Plan, including claims against fiduciaries and former fiduciaries, except to the extent the Administrator determines, in its sole discretion that it does not have the power to grant all relief reasonably being sought by the Claimant. A formal claim must be filed within 90 days after the date the Claimant first knew or should have known of the facts on which the claim is based, unless the Administrator consents otherwise in writing. The Administrator shall provide a Claimant, on request, with a copy of the claims procedures established under Section 11.2 hereof.

11.2 Claims Procedure. The Administrator has adopted procedures for considering claims (which are set forth in Exhibit C attached hereto), which it may amend or modify from time to time, as it sees fit. These procedures shall comply with all applicable legal requirements. These procedures may provide that final and binding arbitration shall be the ultimate means of contesting a denied claim (even if the Administrator or its delegates have

failed to follow the prescribed procedures with respect to the claim). The right to receive benefits under the Plan is contingent on a Claimant using the prescribed claims and arbitration procedures to resolve any claim.

12. **Covenants.**

12.1 Restrictive Covenants. A Participant's right to receive and/or retain the Severance Benefits payable under this Plan is conditioned upon and subject to the Participant's continued compliance with any restrictive covenants (e.g., confidentiality, non-solicitation, non-competition, non-disparagement) contained in any other written agreement between the Participant and the Company, as in effect on the Date of Termination, as well as the restrictive covenants set forth on Annex A attached hereto.

12.2 Return of Property. A Participant's right to receive and/or retain the Severance Benefits payable under the Plan is conditioned upon the Participant's return to the Company of all Company documents (and all copies thereof) and other Company property (in each case, whether physical, electronic or otherwise) in the Participant's possession or control.

13. **Limitations**; **Non-Duplication of Benefits**.

13.1 Limitations. Notwithstanding any provision of the Plan to the contrary, if a Participant's employment with the Company is terminated other than due to a CIC Termination or Qualifying Non-CIC Termination, the Participant shall not be entitled to receive any CIC Severance Benefits or Severance Benefits under the Plan, and the Company shall not have any obligation to such Participant under the Plan.

13.2 Non-Duplication of Benefits. Nothing in this Plan will entitle any Participant to receive duplicate benefits in connection with any voluntary or involuntary termination of employment. A Participant's right to receive any payments under this Plan will be expressly conditioned upon such Participant not receiving severance payments or benefits under any other agreement, program or arrangement.

14. **Miscellaneous.**

14.1 Entire Plan; Relation to Other Agreements. The Plan, together with any Participation Notice issued in connection with the Plan, contains the entire understanding of the parties relating to the subject matter hereof and supersedes any prior agreement, arrangement and understanding between any Participant, on the one hand, and the Company and/or any subsidiary, on the other hand, with respect to the subject matter hereof. By participating in the Plan and accepting the Severance Benefits or CIC Severance Benefits hereunder, the Participant acknowledges and agrees that any prior agreement, arrangement and understanding between any Participant, on the one hand, and the Company and/or any subsidiary, on the other hand, with respect to the subject matter hereof is hereby revoked and ineffective with respect to the Participant (including with respect to any severance arrangement contained in an effective offer letter, employment agreement or employment letter agreement by and between the Participant and the Company (and/or any subsidiary)).

14.2 Participation Notices. The Administrator shall have the authority, in its sole discretion, to select Employees to participate in the Plan and to provide written notice to any such Employee that he or she is a Participant in, and eligible to receive Severance Benefits or CIC Severance Benefits under, the Plan (a "Participation Notice") at or any time prior to his or her termination of employment.

14.3 No Right to Continued Service. Nothing contained in the Plan shall (a) confer upon any Participant any right to continue as an employee of the Company or any subsidiary, (b) constitute any contract of employment or agreement to continue employment for any particular period, or (c) interfere in any way with the right of the Company to terminate a service relationship with any Participant, with or without Cause.

14.4 Termination and Amendment of Plan. The Plan may be amended or terminated by the Administrator at any time and from time to time, in its sole discretion. From and after the consummation of a Change in Control, the Plan which relates to the CIC Severance Benefits may not be amended, modified, suspended or terminated except with the express written consent of each Participant who would be adversely affected by any such amendment, modification, suspension or termination.

14.5 Survival. Section 7 (Limitation on Payments), Section 11 (Claims Procedure; Arbitration) and Section 12 (Covenants) hereof shall survive the termination or expiration of the Plan and shall continue in effect.

14.6 Severance Benefit Obligations. Notwithstanding anything contained herein, Severance Benefits or CIC Severance Benefits paid or provided under the Plan may be paid or provided by the Company or any subsidiary employer, as applicable.

14.7 Withholding. The Company shall have the authority and the right to deduct and withhold an amount sufficient to satisfy federal, state, local and foreign taxes required by law to be withheld with respect to any Severance Benefits and CIC Severance Benefits payable under the Plan.

14.8 Benefits Not Assignable. Except as otherwise provided herein or by law, no right or interest of any Participant under the Plan shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including without limitation by execution, levy, garnishment, attachment, pledge or in any manner; no attempted assignment or transfer thereof shall be effective; and no right or interest of any Participant under the Plan shall be liable for, or subject to, any obligation or liability of such Participant. When a payment is due under the Plan to a Participant who is unable to care for his or her affairs, payment may be made directly to his or her legal guardian or personal representative.

14.9 Applicable Law. The Plan is intended to be an unfunded "top hat" pension plan within the meaning of U.S. Department of Labor Regulation Section 2520.104-23 and shall be interpreted, administered, and enforced as such in accordance with ERISA. To the extent that state law is applicable, the statutes and common law of the State of Delaware, excluding any that mandate the use of another jurisdiction's laws, will apply.

14.10 Validity. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect.

14.11 Captions. The captions contained in the Plan are for convenience only and shall have no bearing on the meaning, construction or interpretation of the Plan's provisions.

14.12 Expenses. The expenses of administering the Plan shall be borne by the Company or its successor, as applicable.

14.13 Unfunded Plan. The Plan shall be maintained in a manner to be considered "unfunded" for purposes of ERISA. The Company shall be required to make payments only as benefits become due and payable. No person shall have any right, other than

the right of an unsecured general creditor against the Company, with respect to the benefits payable hereunder, or which may be payable hereunder, to any Participant, surviving spouse or beneficiary hereunder. If the Company, acting in its sole discretion, establishes a reserve or other fund associated with the Plan, no person shall have any right to or interest in any specific amount or asset of such reserve or fund by reason of amounts which may be payable to such person under the Plan, nor shall such person have any right to receive any payment under the Plan except as and to the extent expressly provided in the Plan. The assets in any such reserve or fund shall be part of the general assets of the Company, subject to the control of the Company.

* * * * *

Annex A

RESTRICTIVE COVENANTS

(a) The Participant shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company and its subsidiaries and affiliates, which shall have been obtained by the Participant in connection with the Participant's employment by the Company and which shall not be or become public knowledge (other than by acts by the Participant or representatives of the Participant in violation of this Annex or Plan). After termination of the Participant's employment with the Company, the Participant shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data, to anyone other than the Company and those designated by it; provided, however, that if the Participant receives actual notice that the Participant is or may be required by law or legal process to communicate or divulge any such information, knowledge or data, the Participant shall promptly so notify the Company.

(b) While employed by the Company, the Participant shall not be engaged in any other business activity that would be competitive with the business of the Company and its subsidiaries or affiliates. In addition, while employed by the Company and, for a period of 12 months after the Date of Termination, the Participant shall not directly or indirectly solicit, induce, or encourage any employee or consultant of the Company and/or its subsidiaries and affiliates to terminate their employment or other relationship with the Company and its subsidiaries and affiliates or to cease to render services to the Company and/or its subsidiaries and affiliates and the Participant shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity except, in each case, to the extent the foregoing occurs as a result of general advertisements or other solicitations not specifically targeted to such employees and consultants. During the Participant's employment with the Company and thereafter, the Participant shall not use any trade secret of the Company or its subsidiaries or affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its subsidiaries and affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its subsidiaries and affiliates and the Participant shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(c) Subject to Section (d) of this Annex, during the Participant's service with the Company and thereafter, excepting any litigation between the parties, the Participant agrees not to publish or disseminate, directly or indirectly, any statements, whether written or oral, that are or could be harmful to or reflect negatively on any of the Company or any of its subsidiaries or affiliates, or that are otherwise disparaging of any policies, procedures, practices, decision-making, conduct, professionalism or compliance with standards of the Company, its affiliates or any of their past or present officers, directors, employees, advisors or agents.

(d) Notwithstanding anything in this Annex or the Plan to the contrary, nothing contained in this Annex or the Plan shall prohibit either party (or either party's attorney(s)) from (i) filing a charge with, reporting possible violations of federal law or regulation to, participating in any investigation by, or cooperating with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Equal Employment Opportunity Commission, the National Labor Relations Board, the

Occupational Safety and Health Administration, the U.S. Commodity Futures Trading Commission, the U.S. Department of Justice or any other securities regulatory agency, self-regulatory authority or federal, state or local regulatory authority (collectively, "Government Agencies"), or making other disclosures that are protected under the whistleblower provisions of applicable law or regulation, (ii) communicating directly with, cooperating with, or providing information (including trade secrets) in confidence to any Government Agencies for the purpose of reporting or investigating a suspected violation of law, or from providing such information to such party's attorney(s) or in a sealed complaint or other document filed in a lawsuit or other governmental proceeding, and/or (iii) receiving an award for information provided to any Government Agency. Pursuant to 18 USC Section 1833(b), the Participant will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (x) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (y) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Further, nothing in this Annex or the Plan is intended to or shall preclude either party from providing truthful testimony in response to a valid subpoena, court order, regulatory request or other judicial, administrative or legal process or otherwise as required by law. If the Participant is required to provide testimony, then unless otherwise directed or requested by a Government Agency or law enforcement, the Participant shall notify the Company as soon as reasonably practicable after receiving any such request of the anticipated testimony.

Exhibit A

Calculation of Non Change in Control Severance Amounts

Tier	Non-CIC Cash Severance	Non-CIC Incentive Compensation Severance	COBRA Period
1	Amount equal to 75% of Base Compensation	Pro-rated Actual Incentive Compensation (pro-rated based on the number of days worked during the year in which the Date of Termination occurs, divided by the total number of days in such year)*	9 months
2	Amount equal to 50% of Base Compensation		6 months

Calculation of Change in Control Severance Amounts

Tier	CIC Cash Salary Severance	CIC Incentive Compensation Severance	COBRA Period
1	125% Base Compensation plus Target Incentive Compensation	Pro-rated Actual Incentive Compensation (pro-rated based on the number of days worked during the year in which the Date of Termination occurs, divided by the total number of days in such year)*	15 months
2	100% Base Compensation plus Target Incentive Compensation		12 months

* Payable on the date on which annual bonuses are generally paid (but no later than March 15 of the year following year in which the Date of Termination occurs).

EXHIBIT B

FORM OF RELEASE

1. Release. For valuable consideration, including the payments or benefits under Section 3 or 4 of the Exagen Inc. Amended and Restated Executive Change in Control and Severance Plan (the "Severance Plan"), as applicable, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the "Releasees" hereunder, consisting of Exagen Inc., a Delaware corporation (the "Company"), and the Company's partners, subsidiaries, associates, affiliates, successors, heirs, assigns, agents, directors, officers, employees, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys' fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called "Claims"), which the undersigned now has or may hereafter have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination of employment of the undersigned by the Releasees, or any of them; any alleged breach of any express or implied contract of employment; any alleged torts or other alleged legal restrictions on Releasees' right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination In Employment Act, the Americans With Disabilities Act.

2. Claims Not Released. Notwithstanding the foregoing, this general release (the "Release") shall not operate to release any rights or claims of the undersigned (i) to payments or benefits under Section 3 or 4 of the Severance Plan, as applicable, with respect to the payments and benefits provided in exchange for this Release, (ii) to payments or benefits under any equity award agreement between the undersigned and the Company, (iii) to accrued or vested benefits the undersigned may have, if any, as of the date hereof under any applicable plan, policy, practice, program, contract or agreement with the Company, (iv) to any Claims, including claims for indemnification and/or advancement of expenses arising under any indemnification agreement between the undersigned and the Company or under the bylaws, certificate of incorporation or other similar governing document of the Company, (v) to any Claims which cannot be waived by an employee under applicable law or (vi) with respect to the undersigned's right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

3. Unknown Claims.

THE UNDERSIGNED ACKNOWLEDGES THAT THE UNDERSIGNED HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS THE UNDERSIGNED MAY HAVE THEREUNDER, AS WELL AS

UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

4. Exceptions. Notwithstanding anything in this Release to the contrary, nothing contained in this Release shall prohibit the undersigned from (i) filing a charge with, reporting possible violations of federal law or regulation to, participating in any investigation by, or cooperating with any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of applicable law or regulation and/or (ii) communicating directly with, cooperating with, or providing information (including trade secrets) in confidence to, any federal, state or local government regulator (including, but not limited to, the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, or the U.S. Department of Justice) for the purpose of reporting or investigating a suspected violation of law, or from providing such information to the undersigned's attorney or in a sealed complaint or other document filed in a lawsuit or other governmental proceeding. Pursuant to 18 USC Section 1833(b), the undersigned will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (x) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (y) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

5. Representations. The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which the undersigned may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer or any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

6. No Action. The undersigned agrees that if the undersigned hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

7. No Admission. The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

8. OWBPA. The undersigned agrees and acknowledges that this Release constitutes a knowing and voluntary waiver and release of all Claims the undersigned has or may have against the Company and/or any of the Releasees as set forth herein, including, but not limited to, all Claims arising under the Older Worker's Benefit Protection Act and the Age Discrimination in Employment Act. In accordance with the Older Worker's Benefit Protection Act, the undersigned is hereby advised as follows:

(i) the undersigned has read the terms of this Release, and understands its terms and effects, including the fact that the undersigned agreed to release and forever discharge the Company and each of the Releasees, from any Claims released in this Release;

(ii) the undersigned understands that, by entering into this Release, the undersigned does not waive any Claims that may arise after the date of the undersigned's execution of this Release, including without limitation any rights or claims that the undersigned may have to secure enforcement of the terms and conditions of this Release;

(iii) the undersigned has signed this Release voluntarily and knowingly in exchange for the consideration described in this Release, which the undersigned acknowledges is adequate and satisfactory to the undersigned and which the undersigned acknowledges is in addition to any other benefits to which the undersigned is otherwise entitled;

(iv) the Company advises the undersigned to consult with an attorney prior to executing this Release;

(v) the undersigned has been given at least [21] days in which to review and consider this Release. To the extent that the undersigned chooses to sign this Release prior to the expiration of such period, the undersigned acknowledges that the undersigned has done so voluntarily, had sufficient time to consider the Release, to consult with counsel and that the undersigned does not desire additional time and hereby waives the remainder of the [21]-day period; and

(vi) the undersigned may revoke this Release within seven days from the date the undersigned signs this Release and this Release will become effective upon the expiration of that revocation period if the undersigned has not revoked this Release during such seven-day period. If the undersigned revokes this Release during such seven-day period, this Release will be null and void and of no force or effect on either the Company or the undersigned and the undersigned will not be entitled to any of the payments or benefits which are expressly conditioned upon the execution and non-revocation of this Release. Any revocation must be in writing and sent to [*name*], via electronic mail at [*email address*], on or before [5:00 p.m. Pacific time] on the seventh day after this Release is executed by the undersigned.

9. Governing Law. This Release is deemed made and entered into in the State of California, and in all respects shall be interpreted, enforced and governed under the internal laws of the State of California, to the extent not preempted by federal law.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of _____, ____.

[_____]

EXHIBIT C

Detailed Claims Procedures

Section 1.1. Claim Procedure. Claims for benefits under the Plan shall be administered in accordance with Section 503 of ERISA and the Department of Labor Regulations thereunder. The Administrator shall have the right to delegate its duties under this Exhibit and all references to the Administrator shall be a reference to any such delegate, as well. The Administrator shall make all determinations as to the rights of any Participant, beneficiary, alternate payee or other person who makes a claim for benefits under the Plan (each, a "Claimant"). A Claimant may authorize a representative to act on his or her behalf with respect to any claim under the Plan. A Claimant who asserts a right to any benefit under the Plan he or she has not received, in whole or in part, must file a written claim with the Administrator. All written claims shall be submitted to [____].

(a) Regular Claims Procedure. The claims procedure in this subsection (a) shall apply to all claims for Plan benefits.

(1) Timing of Denial. If the Administrator denies a claim in whole or in part (an "adverse benefit determination"), then the Administrator will provide notice of the decision to the Claimant within a reasonable period of time, not to exceed 90 days after the Administrator receives the claim, unless the Administrator determines that an extension of time for processing is required. In the event that the Administrator determines that such an extension is required, written notice of the extension will be furnished to the Claimant before the end of the initial 90 day review period. The extension will not exceed a period of 90 days from the end of the initial 90 day period, and the extension notice will indicate the special circumstances requiring such extension of time and the date by which the Administrator expects to render the benefit decision.

(2) Denial Notice. The Administrator shall provide every Claimant who is denied a claim for benefits with a written or electronic notice of its decision. The notice will set forth, in a manner to be understood by the Claimant:

(i) the specific reason or reasons for the adverse benefit determination;

(ii) reference to the specific Plan provisions on which the determination is based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the claim and an explanation as to why such information is necessary; and

(iv) an explanation of the Plan's appeal procedure and the time limits applicable to such procedures, including a statement of the Claimant's right to bring an action under Section 502(a) of ERISA after receiving a final adverse benefit determination upon appeal.

(3) Appeal of Denial. The Claimant may appeal an initial adverse benefit determination by submitting a written appeal to the Administrator within 60 days of receiving notice of the denial of the claim. The Claimant:

(i) may submit written comments, documents, records and other information relating to the claim for benefits;

(ii) will be provided, upon request and without charge, reasonable access to and copies of all documents, records and other information relevant to the Claimant's claim for benefits; and

(iii) will receive a review that takes into account all comments, documents, records and other information submitted by the Claimant relating to the appeal, without regard to whether such information was submitted or considered in the initial benefit determination.

(4) Decision on Appeal. The Administrator will conduct a full and fair review of the claim and the initial adverse benefit determination. The Administrator holds regularly scheduled meetings at least quarterly. The Administrator shall make a benefit determination no later than the date of the regularly scheduled meeting that immediately follows the Plan's receipt of an appeal request, unless the appeal request is filed within 30 days preceding the date of such meeting. In such case, a benefit determination may be made by no later than the date of the second regularly scheduled meeting following the Plan's receipt of the appeal request. If special circumstances require a further extension of time for processing, a benefit determination shall be rendered no later than the third regularly scheduled meeting of the Administrator following the Plan's receipt of the appeal request. If such an extension of time for review is required, the Administrator shall provide the Claimant with written notice of the extension, describing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. The Administrator generally cannot extend the review period any further unless the Claimant voluntarily agrees to a longer extension. The Administrator shall notify the Claimant of the benefit determination as soon as possible but not later than five days after it has been made.

(5) Notice of Determination on Appeal. The Administrator shall provide the Claimant with written or electronic notification of its benefit determination on review. In the case of an adverse benefit determination, the notice shall set forth, in a manner intended to be understood by the Claimant:

(i) the specific reason or reasons for the adverse benefit determination;

(ii) reference to the specific Plan provisions on which the adverse benefit determination is based;

(iii) a statement that the Claimant is entitled to receive, upon request and without charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits;

(iv) a statement describing any voluntary appeal procedures offered by the Plan and the Claimant's right to obtain the information about such procedures; and

(v) a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

(b) Exhaustion; Judicial Proceedings. No action at law or in equity shall be brought to recover benefits under the Plan until the claim and appeal rights described in the Plan have been exercised and the Plan benefits requested in such appeal have been denied in whole or in part. If any judicial proceeding is undertaken to appeal the denial of a claim or bring any other action under ERISA other than a breach of fiduciary claim, the evidence presented may be strictly limited to the evidence timely presented to the Administrator. Any such judicial proceeding must be filed by the earlier of: (a) one year after the Administrator's final decision regarding the claim appeal or (b) one year after the Participant or other Claimant commenced payment of the Plan benefits at issue in the judicial proceeding. The jurisdiction and venue for any judicial proceedings arising under or relating to the Plan will be exclusively in the courts in California, including the federal courts located there should federal jurisdiction exist. This paragraph (c) shall not be construed to prohibit the enforcement of any arbitration agreements.

(c) Administrator's Decision is Binding. Benefits under the Plan shall be paid only if the Administrator decides in its sole discretion that a Claimant is entitled to them. In determining claims for benefits, the Administrator has the authority to interpret the Plan, to resolve ambiguities, to make factual determinations, and to resolve questions relating to eligibility for and amount of benefits. Subject to applicable law, any decision made in accordance with the above claims procedures is final and binding on all parties and shall be given the maximum possible deference allowed by law. A misstatement or other mistake of fact shall be corrected when it becomes known and the Administrator shall make such adjustment on account thereof as it considers equitable and practicable.

Exhibit 31.1

EXAGEN INC.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Aballi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Exagen Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2024

/s/ John Aballi

John Aballi

President and Chief Executive Officer and Interim Chief Financial Officer

(Principal Executive Officer and Interim Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Exagen Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

1. The accompanying quarterly report on Form 10-Q of the Company for the quarterly period ended June 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: August 5, 2024

/s/ John Aballi
John Aballi
President and Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive Officer and Interim Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.