

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2022**

**OR**

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

**For the transition period from to  
Commission File Number: 001-39345**

**QUANTUMSCAPE CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**1730 Technology Drive**  
**San Jose, CA**  
(Address of principal executive offices)

**85-0796578**  
(I.R.S. Employer  
Identification No.)

**95110**  
(Zip Code)

**Registrant's telephone number, including area code: (408) 452-2000**

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

Title of each class	Trading Symbol (s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001 per share	QS	The New York Stock Exchange

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

The number of shares of the registrant's Class A Common Stock, par value \$0.0001 per share outstanding was 356,503,201, and the number of shares of the registrant's Class B Common Stock, par value \$0.0001 per share outstanding was 79,454,147, as of October 21, 2022.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

*Unless the context otherwise requires, all references to “QuantumScape,” “we,” “us,” “our,” or the “Company” in this Quarterly Report on Form 10-Q (this “Report”) refer to the current QuantumScape Corporation and its subsidiaries.*

The Company makes forward-looking statements in this Report and in documents incorporated herein by reference. All statements, other than statements of present or historical fact included in or incorporated by reference in this Report, regarding the Company’s future financial performance, as well as the Company’s strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Report, the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intends,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “will,” “would,” the negative of such terms, and other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on management’s current expectations, assumptions, hopes, beliefs, intentions and strategies regarding future events and are based on currently available information as to the outcome and timing of future events. The Company cautions you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond the control of the Company and incident to its business.

These forward-looking statements are based on information available as of the date of this Report, and current expectations, forecasts and assumptions, and involve a number of risks and uncertainties. Accordingly, forward-looking statements in this Report and in any document incorporated herein by reference should not be relied upon as representing the Company’s views as of any subsequent date, and the Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable laws.

As a result of a number of known and unknown risks and uncertainties, the Company’s actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Some factors that could cause actual results to differ include the below and those which we discuss in greater detail in the section titled “Risk Factors” in this Report:

- delays in or the inability to achieve our technology development objectives, delays in delivering battery cell samples to our customers, delays in achieving high volume production of battery cells at commercial size with acceptable quality, consistency, throughput and cost for successful commercialization of our technologies;
- delays in implementing or the inability to successfully implement the manufacturing processes, related automation, and technologies necessary for development efforts, volume production and successful commercialization of our technologies;
- the inability to establish supply relationships for necessary components or being required to pay higher than anticipated supply costs;
- our relationship with Volkswagen, including our ability to meet Volkswagen’s time, cost, performance and volume requirements, and our ability to commercialize solid-state batteries (i.e. batteries containing solid state films that separate their anode and cathode) from our joint development relationship with Volkswagen and as a potential customer;
- the failure of our batteries to perform as expected;
- delays in starting up the expected operations of our current and planned facilities, including the addition of a pre-pilot line (“QS-0”) facility in California, a 1GWh pilot-production line (“QS-1”), and subsequently the expansion to the full 21GWh target (“QS-1 Expansion”);
- the inability to attract and retain customers during the development stage or for high volume commercial production;
- the Company’s future financial and business performance, including financial projections and business metrics;
- changes in the Company’s strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects and plans;
- the Company’s ability to scale in a cost-effective manner;
- the Company’s ability to raise capital;
- developments relating to the Company’s competitors and industry;
- the outcome of any known and unknown litigation and regulatory proceedings; and any changes to regulations;
- the impact of worldwide economic, political, industry, and market conditions, including the continued effects of the global COVID-19 pandemic; and
- the effectiveness of the Company’s disclosure controls and procedures and internal control over financial reporting and the operation of our new enterprise resource planning system.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**QuantumScape Corporation**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
*(In Thousands, Except per Share Amounts)*

	September 30, 2022	December 31, 2021
<b>Assets</b>		
Current assets		
Cash and cash equivalents (\$3,372 and \$3,382 as of September 30, 2022 and December 31, 2021, respectively, for joint venture)	\$ 297,960	\$ 320,700
Marketable securities	857,339	1,126,975
Prepaid expenses and other current assets	10,349	15,757
Total current assets	1,165,648	1,463,432
Property and equipment, net	268,225	166,183
Right-of-use assets - finance lease	28,731	30,886
Right-of-use assets - operating lease	62,254	36,913
Other assets	18,253	18,234
Total assets	\$ 1,543,111	\$ 1,715,648
<b>Liabilities, redeemable non-controlling interest and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 17,213	\$ 14,182
Accrued liabilities	15,224	6,078
Accrued compensation and benefits	9,062	9,119
Operating lease liability, short-term	3,394	1,209
Finance lease liability, short-term	501	19
Total current liabilities	45,394	30,607
Operating lease liability, long-term	63,643	36,760
Finance lease liability, long-term	38,688	39,378
Other liabilities	7,592	315
Total liabilities	155,317	107,060
Commitments and contingencies (see Note 7)		
Redeemable non-controlling interest	1,691	1,693
Stockholders' equity		
Preferred stock- \$0.0001 par value; 100,000 shares authorized; none issued and outstanding as of September 30, 2022 and December 31, 2021	—	—
Common stock - \$0.0001 par value; 1,250,000 shares authorized (1,000,000 Class A and 250,000 Class B); 356,140 Class A and 79,454 Class B shares issued and outstanding as of September 30, 2022, 332,869 Class A and 95,450 Class B shares issued and outstanding as of December 31, 2021	43	43
Additional paid-in-capital	3,734,584	3,634,665
Accumulated other comprehensive loss	(22,078)	(4,208)
Accumulated deficit	(2,326,446)	(2,023,605)
Total stockholders' equity	1,386,103	1,606,895
Total liabilities, redeemable non-controlling interest and stockholders' equity	\$ 1,543,111	\$ 1,715,648

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

**QuantumScape Corporation**  
**Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)**  
*(In Thousands, Except per Share Amounts)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating expenses:				
Research and development	\$ 87,582	\$ 39,467	\$ 214,060	\$ 104,708
General and administrative	33,072	14,365	93,124	43,421
Total operating expenses	120,654	53,832	307,184	148,129
Loss from operations	(120,654)	(53,832)	(307,184)	(148,129)
Other income (loss):				
Interest expense	(600)	(359)	(1,807)	(597)
Interest income	3,487	605	5,813	1,201
Change in fair value of assumed common stock warrant liabilities	—	68,934	—	168,674
Other income	114	3	335	101
Total other income	3,001	69,183	4,341	169,379
Net income (loss)	(117,653)	15,351	(302,843)	21,250
Less: Net income (loss) attributable to non-controlling interest, net of tax of \$0 for the three and nine months ended September 2022 and 2021	7	—	(2)	(10)
Net income (loss) attributable to common stockholders	\$ (117,660)	\$ 15,351	\$ (302,841)	\$ 21,260
Net income (loss)	\$ (117,653)	\$ 15,351	\$ (302,843)	\$ 21,250
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities	(2,933)	65	(17,870)	(598)
Total comprehensive income (loss)	(120,586)	15,416	(320,713)	20,652
Less: Comprehensive income (loss) attributable to non-controlling interest	7	—	(2)	(10)
Comprehensive income (loss) attributable to common stockholders	\$ (120,593)	\$ 15,416	\$ (320,711)	\$ 20,662
Net income (loss) per share of common stock attributable to common stockholders				
Basic	\$ (0.27)	\$ 0.04	\$ (0.70)	\$ 0.05
Diluted	\$ (0.27)	\$ (0.13)	\$ (0.70)	\$ (0.36)
Weighted-average shares used in computing net income (loss) per share of common stock				
Basic	434,051	417,829	431,654	397,370
Diluted	434,051	420,649	431,654	404,369

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

**QuantumScape Corporation**  
**Condensed Consolidated Statements of Redeemable Non-Controlling Interest and Stockholders' Equity (Unaudited)**  
*(In Thousands, Except per Share Amounts)*

	Redeemable Non- Controlling Interest	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
		Shares	Amount				
<b>Three Months Ended September 30, 2022</b>							
Balance as of June 30, 2022	\$ 1,684	432,669	\$ 43	\$ 3,699,039	\$ (2,208,786)	\$ (19,145)	\$ 1,471,151
Exercise of stock options	—	1,437	—	1,967	—	—	1,967
Shares issued upon vesting of restricted stock units	—	1,488	—	—	—	—	—
Stock-based compensation	—	—	—	33,578	—	—	33,578
Net income (loss)	7	—	—	—	(117,660)	—	(117,660)
Unrealized loss on marketable securities	—	—	—	—	—	(2,933)	(2,933)
Balance as of September 30, 2022	\$ 1,691	435,594	\$ 43	\$ 3,734,584	\$ (2,326,446)	\$ (22,078)	\$ 1,386,103
<b>Nine Months Ended September 30, 2022</b>							
Balance as of December 31, 2021	\$ 1,693	428,319	\$ 43	\$ 3,634,665	\$ (2,023,605)	\$ (4,208)	\$ 1,606,895
Exercise of stock options and employee stock purchase plan	—	3,480	—	6,934	—	—	6,934
Shares issued upon vesting of restricted stock units	—	3,795	—	—	—	—	—
Stock-based compensation	—	—	—	92,985	—	—	92,985
Net loss	(2)	—	—	—	(302,841)	—	(302,841)
Unrealized loss on marketable securities	—	—	—	—	—	(17,870)	(17,870)
Balance as of September 30, 2022	\$ 1,691	435,594	\$ 43	\$ 3,734,584	\$ (2,326,446)	\$ (22,078)	\$ 1,386,103
<b>Three Months Ended September 30, 2021</b>							
Balance as of June 30, 2021	\$ 1,694	414,540	\$ 41	\$ 3,478,814	\$ (1,971,730)	\$ (694)	\$ 1,506,431
Exercise of stock options	—	1,244	—	1,880	—	—	1,880
Shares issued upon vesting of restricted stock units	—	992	—	—	—	—	—
Exercise of warrants	—	5,667	1	118,633	—	—	118,634
Stock-based compensation	—	—	—	12,727	—	—	12,727
Net income	—	—	—	—	15,351	—	15,351
Unrealized loss on marketable securities	—	—	—	—	—	65	65
Balance as of September 30, 2021	\$ 1,694	422,443	\$ 42	\$ 3,612,054	\$ (1,956,379)	\$ (629)	\$ 1,655,088
<b>Nine Months Ended September 30, 2021</b>							
Balance as of December 31, 2020	\$ 1,704	363,994	\$ 36	\$ 2,329,406	\$ (1,977,639)	\$ (31)	\$ 351,772
Exercise of stock options	—	11,773	1	11,331	—	—	11,332
Shares issued upon vesting of restricted stock units	—	3,998	—	—	—	—	—
Exercise of warrants	—	15,497	2	672,454	—	—	672,456
Issuance of Class A Common Stock, net of issuance costs of \$15.5 million	—	11,960	1	462,925	—	—	462,926
Issuance of Class A Common Stock pursuant to Legacy QuantumScape Series F Preferred Stock Purchase Agreement, net of issuance costs of \$0.1 million	—	15,221	2	99,928	—	—	99,930
Stock-based compensation	—	—	—	36,010	—	—	36,010
Net income (loss)	(10)	—	—	—	21,260	—	21,260
Unrealized loss on marketable securities	—	—	—	—	—	(598)	(598)
Balance as of September 30, 2021	\$ 1,694	422,443	\$ 42	\$ 3,612,054	\$ (1,956,379)	\$ (629)	\$ 1,655,088

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

**QuantumScape Corporation**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
*(In Thousands)*

	Nine Months Ended September 30,	
	2022	2021
<b>Operating activities</b>		
Net income (loss)	\$ (302,843 )	\$ 21,250
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	18,975	7,632
Amortization of right-of-use assets and non-cash lease expense	5,671	2,590
Amortization of premiums and accretion of discounts on marketable securities	4,504	9,055
Stock-based compensation expense	92,985	36,010
Change in fair value of assumed common stock warrant liabilities	—	(168,674 )
Impairment of fixed assets	7,806	—
Other	474	223
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	5,393	2,419
Accounts payable, accrued liabilities and accrued compensation	9,516	7,361
Other long-term liabilities	2,100	—
Operating lease liability	311	(1,168 )
Net cash used in operating activities	(155,108 )	(83,302 )
<b>Investing activities</b>		
Purchases of property and equipment	(121,004 )	(82,396 )
Proceeds from maturities of marketable securities	634,390	611,005
Proceeds from sales of marketable securities	15,105	172,293
Purchases of marketable securities	(402,247 )	(1,106,167 )
Net cash (used in) provided by investing activities	126,244	(405,265 )
<b>Financing activities</b>		
Proceeds from exercise of stock options and employee stock purchase plan	6,934	11,332
Proceeds from exercise of warrants	—	151,431
Payment of Business Combination share issuance costs	—	(1,016 )
Proceeds from issuance of common stock, net of issuance costs paid	—	462,926
Proceeds from issuance of Class A Common Stock pursuant to Legacy QuantumScape Series F Preferred Stock Purchase Agreement, net of issuance costs	—	99,930
Principal payment for finance lease, net of credit	(809 )	5,210
Net cash provided by financing activities	6,125	729,813
Net increase (decrease) in cash, cash equivalents and restricted cash	(22,739 )	241,246
Cash, cash equivalents and restricted cash at beginning of period	338,223	115,410
Cash, cash equivalents and restricted cash at end of period	\$ 315,484	\$ 356,656
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 1,207	\$ 238
Purchases of property and equipment, not yet paid	\$ 13,828	\$ 21,724
Fair value of assumed common stock warrants exercised	\$ —	\$ 521,025

The following presents the Company's cash, cash equivalents and restricted cash by category in the Company's Condensed Consolidated Balance Sheets (Unaudited) (amounts in thousands):

	As of September 30,	
	2022	2021
Cash and cash equivalents	\$ 297,960	\$ 346,156
Other assets	17,524	10,500
Total cash, cash equivalents and restricted cash	\$ 315,484	\$ 356,656

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

**QuantumScape Corporation**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**September 30, 2022**

**Note 1. Organization**

The original QuantumScape Corporation, now named QuantumScape Battery, Inc. (“Legacy QuantumScape”), a wholly owned subsidiary of the Company (as defined below), was founded in 2010 with the mission to revolutionize energy storage to enable a sustainable future.

On November 25, 2020 (the “Closing Date”), Kensington Capital Acquisition Corp. (“Kensington”), a special purpose acquisition company, consummated the Business Combination Agreement (the “Business Combination Agreement”) dated September 2, 2020, by and among Kensington, Kensington Merger Sub Corp., a Delaware corporation and wholly owned subsidiary of Kensington (“Merger Sub”), and Legacy QuantumScape.

Pursuant to the terms of the Business Combination Agreement, a business combination between Kensington and Legacy QuantumScape was effected through the merger of Merger Sub with and into Legacy QuantumScape, with Legacy QuantumScape surviving as the surviving company and as a wholly-owned subsidiary of Kensington (the “Merger” and, collectively with the other transactions described in the Business Combination Agreement, the “Business Combination”). On the Closing Date, Kensington changed its name to QuantumScape Corporation (the “Company”).

The Company is focused on the development and commercialization of its solid-state lithium-metal batteries. Planned principal operations have not yet commenced. As of September 30, 2022, the Company had not derived revenue from its principal business activities.

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

**Basis of Presentation**

The Company’s unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as determined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) and pursuant to the regulations of the U.S. Securities and Exchange Commission (“SEC”). Certain prior period balances have been reclassified to conform to the current period presentation in the consolidated financial statements and the accompanying notes.

On November 25, 2020, the Company consummated the Business Combination Agreement dated September 2, 2020, with Legacy QuantumScape surviving the merger as a wholly owned subsidiary of the Company. At the effective time of the Merger, and subject to the terms and conditions of the Business Combination Agreement, each share of Legacy QuantumScape Class A common stock, par value \$0.0001 per share, and each share of the Legacy QuantumScape Preferred Stock that was convertible into a share of Legacy QuantumScape Class A Common Stock, was canceled and converted into the right to receive the number of shares of the Company’s Class A Common Stock, \$0.0001 par value per share (the “Class A Common Stock”), equal to 4.02175014920 (the “Exchange Ratio”), and each share of Legacy QuantumScape Class B Common Stock, par value \$0.0001 per share, and each share of the Legacy QuantumScape Preferred Stock that was convertible into a share of Legacy QuantumScape Class B Common Stock was canceled and converted into the right to receive the number of shares of the Company’s Class B Common Stock, \$0.0001 par value per share equal to the Exchange Ratio.

Pursuant to the Business Combination Agreement, the merger between Merger Sub and Legacy QuantumScape was accounted for as a reverse recapitalization in accordance with U.S. GAAP (the “Reverse Recapitalization”). Under this method of accounting, Kensington was treated as the “acquired” company and Legacy QuantumScape was treated as the acquirer for financial reporting purposes.

Legacy QuantumScape was determined to be the accounting acquirer based on the following predominant factors:

- Legacy QuantumScape’s shareholders have the largest portion of voting rights in the Company;
- the Company’s Board of Directors (the “Board”) and management are primarily composed of individuals associated with Legacy QuantumScape; and
- Legacy QuantumScape was the larger entity based on historical operating activity and Legacy QuantumScape has the larger employee base at the time of the Business Combination.

Accordingly, for accounting purposes, the Reverse Recapitalization was treated as the equivalent of Legacy QuantumScape issuing stock for the net assets of Kensington, accompanied by a recapitalization. The net assets of Kensington were stated at historical cost, with no goodwill or other intangible assets recorded.



## Principles of Consolidation

The Company's policy is to consolidate all entities that it controls by ownership of a majority of the outstanding voting stock. In addition, the Company consolidates entities that meet the definition of a variable interest entity ("VIE") for which the Company is the related party most closely associated with and is the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. For consolidated entities that are less than wholly owned, the third party's holding of an equity interest is presented as redeemable non-controlling interests in the Company's Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Redeemable Non-Controlling Interest and Stockholders' Equity. The portion of net earnings (loss) attributable to the redeemable non-controlling interests is presented as net income (loss) attributable to non-controlling interests in the Company's Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company was a single-legal entity prior to becoming a partner with Volkswagen in QSV Operations LLC ("QSV"). As noted in the section titled "*Joint Venture and Redeemable Non-Controlling Interest*" below, the Company determined QSV was a VIE for which it was required to consolidate the operations upon its formation in 2018. The Company continued to consolidate the operations of QSV in the nine months ended September 30, 2022, as the determination of the VIE has not changed.

All intercompany accounts and transactions are eliminated in consolidation.

## Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements as well as reported amounts of expenses during the reporting periods. Estimates made by the Company include, but are not limited to, those related to the valuation of common stock prior to the Business Combination, valuation of awards under the Extraordinary Performance Award Program (the "EPA Program"), and valuation of Assumed Common Stock Warrants among others. The Company bases these estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates.

## Unaudited Interim Condensed Consolidated Financial Statements

The accompanying interim Condensed Consolidated Balance Sheets as of September 30, 2022, the interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), the interim Condensed Consolidated Statements of Redeemable Non-Controlling Interest and Stockholders' Equity for the three and nine months ended September 30, 2022 and 2021, and the interim Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021, are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements and, in management's opinion, include adjustments consisting of only normal recurring adjustments necessary for the fair statement of the Company's financial position as of September 30, 2022 and its results of operations for the three and nine months ended September 30, 2022 and 2021, and cash flows for the nine months ended September 30, 2022 and 2021. The financial data and the other financial information disclosed in the notes to these condensed consolidated financial statements related to the three and nine months are also unaudited. The results of operations for the three and nine months ended September 30, 2022 and 2021 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's audited annual consolidated financial statements for the year ended December 31, 2021, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed on February 28, 2022 (the "Annual Report").

## Joint Venture and Redeemable Non-Controlling Interest

QSV was incorporated as a limited liability company in 2018. Volkswagen Group of America, Inc. ("VWGoA"), Volkswagen Group of America Investments, LLC ("VGA") and QuantumScape executed a Joint Venture Agreement ("JVA"), effective September 2018, with the goal of jointly establishing a manufacturing facility to produce the pilot line of the Company's product through QSV. In connection with this agreement, the parties also have entered into two operating agreements: (i) the Limited Liability Company Agreement of QSV to govern the respective rights and obligations as members of QSV and (ii) the Common IP License Agreement for the Company to license certain intellectual property rights pertaining to automotive battery cells as defined in the JVA to VWGoA, VGA and QSV.

Volkswagen is a related party stockholder (approximately 21.6% and 19.8% voting interest holder of the Company as of September 30, 2022 and December 31, 2021, respectively). Upon the effectiveness of the JVA, each party contributed \$1.7 million in cash to capitalize QSV in exchange for 50% equity interests.

The joint venture is considered a VIE with a related party and therefore the related party whose business is more closely related to the planned operations of the joint venture is required to consolidate the operations.

The Company determined its operations were most closely aligned with the operations of the joint venture and therefore has consolidated the results of QSV's operations in its Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), and Condensed Consolidated Statements of Redeemable Non-Controlling Interest and Stockholders' Equity. QSV had minimal operations through September 30, 2022.

The Company classifies non-controlling interests with redemption features that are not solely within the control of the Company within temporary equity on the Company's Condensed Consolidated Balance Sheets in accordance with ASC 480-10-S99-3A, SEC Staff Announcement: *Classification and Measurement of Redeemable Securities* ("ASC 480-10-S99-3A"). The non-controlling interest was recorded outside of stockholders' equity because the non-controlling interest provides the holder with put rights in the event of, amongst others, (i) the failure by the Company to meet specified development milestones within certain timeframes, (ii) the parties to the JVA cannot agree to certain commercial terms within certain timeframes, or (iii) a change of control of the Company, which such events are considered not solely within the Company's control. The Company adjusts redeemable non-controlling interests for the portion of net loss attributable to the redeemable non-controlling interests. As of September 30, 2022, the redeemable non-controlling interest is equivalent to the value of Volkswagen's interest in the joint venture.

### **Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents and marketable securities. As of September 30, 2022 and December 31, 2021, approximately \$231.9 million and \$227.8 million of our total cash and cash equivalents and marketable securities are held in U.S. money market funds, and \$616.5 million and \$722.3 million are invested in U.S. government and agency securities, respectively. The Company seeks to mitigate its credit risk with respect to cash and cash equivalents and marketable securities by making deposits with large, reputable financial institutions and investing in high credit rated shorter-term instruments.

### **Cash and Cash Equivalents and Restricted Cash**

Management considers all highly liquid investments with an insignificant interest rate risk and original maturities of three months or less to be cash equivalents.

Restricted cash is maintained under an agreement that legally restricts the use of such funds and is reported within other assets as the date of availability or disbursement for all restricted cash is more than one year from September 30, 2022.

Restricted cash is comprised of \$17.5 million, as of both September 30, 2022 and December 31, 2021, all of which is pledged as a form of security for the Company's lease agreements for its headquarters and pre-pilot manufacturing facilities.

### **Marketable Securities**

The Company's investment policy is consistent with the definition of available-for-sale securities. The Company does not buy and hold securities principally for the purpose of selling them in the near future. The Company's policy is focused on the preservation of capital, liquidity, and return. From time to time, the Company may sell certain securities, but the objectives are generally not to generate profits on short-term differences in price.

These securities are carried at estimated fair value with unrealized holding gains and losses included in other comprehensive loss in stockholders' equity until realized. Gains and losses on marketable security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned.

Fair Value Measurement

The Company applies fair value accounting for all financial assets and liabilities measured on a recurring and nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The accounting guidance established a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, used to determine the fair value of its financial instruments. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, 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 assets and liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Property and Equipment

Property and equipment are recorded at historical cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related asset. Improvements that increase functionality of the fixed asset are capitalized and depreciated over the asset’s remaining useful life. Construction-in-progress is not depreciated until the asset is placed in service. Fully depreciated assets are retained in property and equipment, net, until removed from service.

The estimated useful lives of assets are generally as follows:

Computer equipment, hardware, and software	3 - 5 years
Furniture and fixtures	7 - 10 years
Machinery and equipment	3 - 10 years
Leasehold improvements	Shorter of the lease term (including estimated renewals) or the estimated useful lives of the improvements

Impairment of Long-Lived Assets

The Company evaluates the carrying value of long-lived assets when indicators of impairment exist. The carrying value of a long-lived asset is considered impaired when the estimated separately identifiable, undiscounted cash flows from such an asset are less than the carrying value of the asset. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. During the three and nine months ended September 30, 2022, the Company incurred cancellation charges of \$11.3 million related to the purchase of equipment. This amount includes a write-off of \$7.8 million of previously capitalized amounts, and \$3.5 million for the estimated loss contingency recorded in accrued liabilities. The Company canceled the purchase to focus on the development of equipment designed to deliver higher throughput for the same process step. These charges are recorded in Research and Development expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). There was no material impairment charge in the three and nine months ended September 30, 2021.

Leases

The Company classifies arrangements meeting the definition of a lease as operating or financing leases, and leases are recorded on the Condensed Consolidated Balance Sheets as both a right-of-use (“ROU”) asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company’s incremental borrowing rate which is the rate incurred to borrow on a collateralized basis over a similar term. Lease liabilities are increased by interest and reduced by payments each period, and the ROU asset is reduced over the lease term. For operating leases, interest on the lease liability and the non-cash lease expense result in straight-line rent expense over the lease term. For finance leases, interest on the lease liability and the amortization of the ROU asset results in front-loaded expense over the lease term. Variable lease expenses, including common maintenance fees, insurance and property tax, are recorded when incurred.

In calculating the right-of-use asset and lease liability, the Company elects to combine lease and non-lease components for all classes of assets. The Company excludes short-term leases having initial terms of 12 months or less as an accounting policy election, and instead recognizes rent expense on a straight-line basis over the lease term.

### **Assumed Common Stock Warrants Liability**

The Company assumed 11,499,989 Public Warrants and 6,650,000 Private Placement Warrants (the "Assumed Common Stock Warrants") upon the Business Combination, all of which were issued in connection with Kensington's initial public offering (other than 75,000 Private Placement Warrants that were issued in connection with the closing of the Business Combination, which are referred to as the Working Capital Warrants) and entitled each holder to purchase one share of Class A Common Stock at an exercise price of \$11.50 per share.

The Company evaluated the Assumed Common Stock Warrants under ASC 815-40, *Derivatives and Hedging—Contracts in Entity's Own Equity* ("ASC 815-40") and concluded they did not meet the criteria to be classified in stockholders' equity. Specifically, the exercise of the Assumed Common Stock Warrants could have been settled in cash upon the occurrence of a tender offer or exchange that involves 50% or more of our holders of Class A Common Stock. Because not all of the voting stockholders need to participate in such tender offer or exchange to trigger the potential cash settlement and the Company does not control the occurrence of such an event, the Company concluded that the Assumed Common Stock Warrants did not meet the conditions to be classified in equity. Since the Assumed Common Stock Warrants meet the definition of a derivative under ASC 815, the Company recorded these warrants as liabilities on the Condensed Consolidated Balance Sheets at fair value, with subsequent changes in their respective fair values recognized in the change in fair value of Assumed Common Stock Warrant liabilities within the Condensed Consolidated Statement of Operations and Condensed Comprehensive Income (Loss) at each reporting date prior to exercise or redemption. The Public Warrants were publicly traded and thus had an observable market price to estimate fair value, and the Private Placement Warrants were effectively valued similar to the Public Warrants when the Public Warrants were publicly traded, and consistent with the intrinsic value of the Company's common stock subsequent to the redemption of the Public Warrants.

As described in Note 8 below, all Public Warrants and Private Placement Warrants were exercised or redeemed during the year ended December 31, 2021.

### **Segments**

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's CODM is its Chief Executive Officer. The Company has determined that it operates in one operating segment and one reportable segment, as the CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance.

### **Research and Development Cost**

Costs related to research and development are expensed as incurred.

### **General and Administrative Expenses**

General and administrative expenses represent costs incurred by the Company in managing the business, including salary, benefits, incentive compensation, marketing, insurance, professional fees and other operating costs associated with the Company's non-research and development activities.

### **Stock-Based Compensation**

The Company measures and recognizes compensation expense for all stock-based awards made to employees, directors, and non-employees, including stock options, restricted share units and restricted shares, based on estimated fair values recognized over the requisite service period.

The fair values of options granted with only service conditions are estimated on the grant date using the Black-Scholes option pricing model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (weighted-average period of time that the options granted are expected to be outstanding), the volatility of the Company's common stock, and an assumed risk-free interest rate. The Company accounts for forfeitures when they occur.

The fair values of options granted with performance (e.g. business milestone) and market conditions (e.g. stock price target) are estimated at the grant date using a Monte Carlo simulation model. The model determined the grant date fair value of each vesting tranche and the future date when the market condition for such tranche is expected to be achieved. The Monte Carlo valuation requires the Company to make assumptions and judgments about the variables used in the calculation including the expected term, volatility of the Company's common stock, an assumed risk-free interest rate, and cost of equity.

For performance-based awards with a vesting schedule based entirely on the attainment of both performance and market conditions, each quarter the Company assesses whether it is probable that it will achieve each performance condition that has not previously been achieved or deemed probable of achievement and if so, the future time when the Company expects to achieve that business milestone, or its “expected business milestone achievement time.” When the Company first determines that a business milestone has become probable of being achieved, the Company allocates the entire expense for the related tranche over the number of quarters between the grant date and the then-applicable “expected vesting date.” The “expected vesting date” at any given time is generally the later of (i) the expected time when the performance condition will be achieved (if the related performance condition has not yet been achieved) and (ii) the expected time when the market condition will be achieved (if the related market condition has not yet been achieved). The Company immediately recognizes a cumulative catch-up expense for all accumulated expense for the quarters from the grant date through the quarter in which the performance condition was first deemed probable of being achieved. Each quarter thereafter, the Company recognizes the prorated portion of the then-remaining expense for the tranche based on the number of quarters between such quarter and the then-applicable expected vesting date, except that upon vesting of a tranche, all remaining expense for that tranche is immediately recognized. The Company accounts for forfeitures when they occur.

The Company estimates the fair value of restricted stock units based on the closing price of the Company’s Class A Common Stock on the date of grant.

The Company’s 2020 Employee Stock Purchase Plan (“ESPP”) is compensatory in accordance with ASC 718-50-25. The Company measures and recognizes compensation expense for shares to be issued under the ESPP based on estimated grant date fair value recognized on a straight-line basis over the offering period.

The ESPP provides eligible employees with the opportunity to purchase shares of the Company’s Class A Common Stock at a discount through payroll deductions. A participant may purchase a maximum of 1,000 shares of Class A Common Stock during each six-month offering period. As of September 30, 2022, 11.6 million shares of Class A Common Stock were reserved for future issuance under the ESPP. During the nine months ended September 30, 2022, 218,200 shares were purchased under the ESPP.

### **Income Taxes**

The Company accounts for income taxes under an asset and liability approach. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and operating loss carryforwards, measured by applying currently enacted tax laws. Valuation allowances are provided when necessary to reduce net deferred tax assets to an amount that is more likely than not to be realized.

The Company recognizes tax liabilities based upon its estimate of whether, and the extent to which, additional taxes will be due when such estimates are more likely than not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

The Company has no provision for income taxes for the three and nine months ended September 30, 2022 and 2021. The Company has no current tax expense from losses and no deferred expense from the valuation allowance. The Company’s effective tax rate differs from the U.S. statutory rate primarily due to a valuation allowance against its net deferred tax assets as it is more likely than not that some or all of the deferred tax assets will not be realized.

### Note 3. Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception and it also simplifies the diluted earnings per share calculation in certain areas. The ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than for fiscal years beginning after December 15, 2021, and adoption must be as of the beginning of the Company's annual fiscal year. The Company adopted this guidance in the first quarter of fiscal 2022. The adoption of such guidance had no impact on the Company's unaudited interim condensed consolidated financial statements as the Company does not have any convertible instruments as of September 30, 2022.

In November 2021, the FASB issued ASU 2021-10, Government Assistance (Topic 832), Disclosures by Business Entities About Government Assistance, which requires entities to provide disclosures on material government transactions for annual reporting periods. The disclosures include information around the nature of the assistance, the related accounting policies used to account for government assistance, the effect of government assistance on the entity's financial statements, and any significant terms and conditions of the agreements, including commitments and contingencies. The ASU is effective for financial statements issued for annual periods beginning after December 15, 2021, with early adoption permitted. The Company adopted this guidance in the first quarter of fiscal 2022. The adoption of such guidance had no impact on the Company's unaudited interim condensed consolidated financial statements as of September 30, 2022.

### Note 4. Fair Value Measurement

The Company's financial assets subject to fair value measurements on a recurring basis and the level of inputs used for such measurements were as follows (amounts in thousands):

	Fair Value Measured as of September 30, 2022		Total
	Level 1	Level 2	
Assets included in:			
Money market funds <sup>(1)</sup>	\$ 231,866	\$ —	\$ 231,866
Commercial paper <sup>(2)</sup>	—	107,198	107,198
U.S. government securities <sup>(2)</sup>	—	616,489	616,489
Corporate notes and bonds <sup>(2)</sup>	—	196,575	196,575
Total fair value	\$ 231,866	\$ 920,262	\$ 1,152,128

	Fair Value Measured as of December 31, 2021		Total
	Level 1	Level 2	
Assets included in:			
Money market funds <sup>(1)</sup>	\$ 227,826	\$ —	\$ 227,826
Commercial paper <sup>(2)</sup>	—	233,400	233,400
U.S. government securities <sup>(2)</sup>	—	722,310	722,310
Corporate notes and bonds <sup>(2)</sup>	—	257,384	257,384
Total fair value	\$ 227,826	\$ 1,213,094	\$ 1,440,920

(1) Money market funds are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets.

(2) As of September 30, 2022 and December 31, 2021, marketable securities with original maturities of three months or less of \$62.9 million and \$86.1 million, respectively, are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets.

*Level 1 assets:* Money market funds are classified as Level 1 within the fair value hierarchy, as fair value is based on unadjusted quoted prices in active markets for identical assets.

*Level 2 assets:* Investments in commercial paper, U.S. government securities and corporate notes and bonds are classified as Level 2 as they were valued based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

The Company had no financial liabilities subject to fair value measurements on a recurring basis as of September 30, 2022 and December 31, 2021.

There have been no changes to the valuation methods utilized during the nine months ended September 30, 2022. As of September 30, 2022 and December 31, 2021, the carrying values of cash and cash equivalents, accounts payable and accrued liabilities approximate their respective fair values due to their short-term nature.

### Marketable Securities

The following table summarizes, by major security type, the Company's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. Amortized cost net of unrealized gain (loss) is equal to fair value as of September 30, 2022 and December 31, 2021. The fair value as of September 30, 2022 and December 31, 2021 are as follows (amounts in thousands):

September 30, 2022				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Level 1 securities				
Money market funds	\$ 231,866	\$ —	\$ —	\$ 231,866
Level 2 securities				
Commercial paper	107,198	—	—	107,198
U.S. government securities	629,591	7	(13,109)	616,489
Corporate notes and bonds	205,551	—	(8,976)	196,575
Total	<u>\$ 1,174,206</u>	<u>\$ 7</u>	<u>\$ (22,085)</u>	<u>\$ 1,152,128</u>

  

December 31, 2021				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Level 1 securities				
Money market funds	\$ 227,826	\$ —	\$ —	\$ 227,826
Level 2 securities				
Commercial paper	233,400	—	—	233,400
U.S. government securities	724,554	—	(2,244)	722,310
Corporate notes and bonds	259,348	—	(1,964)	257,384
Total	<u>\$ 1,445,128</u>	<u>\$ —</u>	<u>\$ (4,208)</u>	<u>\$ 1,440,920</u>

Realized gains and losses and interest income are included in interest income.

The Company regularly reviews its available-for-sale marketable securities in an unrealized loss position and evaluates the current expected credit loss by considering factors such as historical experience, market data, issuer-specific factors, and current economic conditions. The following tables display additional information regarding gross unrealized losses and fair value by major security type for the 100 and 118 marketable securities in an unrealized loss position as of September 30, 2022 and December 31, 2021, respectively (amounts in thousands):

September 30, 2022						
	Less than 12 Consecutive Months		12 Consecutive Months or Longer		Total	
	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value
U.S. government securities	\$ (7,873)	\$ 497,088	\$ (5,236)	\$ 107,960	\$ (13,109)	\$ 605,048
Corporate notes and bonds	(1,395)	48,643	(7,581)	147,932	(8,976)	196,575
Total	<u>\$ (9,268)</u>	<u>\$ 545,731</u>	<u>\$ (12,817)</u>	<u>\$ 255,892</u>	<u>\$ (22,085)</u>	<u>\$ 801,623</u>

  

December 31, 2021						
	Less than 12 Consecutive Months		12 Consecutive Months or Longer		Total	
	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value
U.S. government securities	\$ (2,239)	\$ 700,318	\$ (5)	\$ 17,011	\$ (2,244)	\$ 717,329
Corporate notes and bonds	(1,964)	257,384	—	—	(1,964)	257,384
Total	<u>\$ (4,203)</u>	<u>\$ 957,702</u>	<u>\$ (5)</u>	<u>\$ 17,011</u>	<u>\$ (4,208)</u>	<u>\$ 974,713</u>

The unrealized losses were attributable to changes in interest rates that impacted the value of the investments, and not increased credit risk. During the nine months ended September 30, 2022, the Company received proceeds of \$15.2 million, including interest, from the sale of available-for-sale marketable securities. There were no sales during the three months ended September 30, 2022. During the three and nine months ended September 30, 2021, the Company received proceeds of \$51.0 million and \$173.3 million, including interest, from the sale of available-for-sale marketable securities. The Company realized immaterial gains and losses as a result of such sales for the three and nine months ended September 30, 2022 and 2021. The Company does not intend to sell the investments that are in an unrealized loss position, nor is it more likely than not that the Company will be required to sell the investments before the recovery of the amortized cost basis, which may be its maturity. Accordingly, the Company did not record an allowance for credit losses associated with these investments.

The estimated amortized cost and fair value of available-for-sale securities by contractual maturity as of September 30, 2022 are as follows (amounts in thousands):

	September 30, 2022	
	Amortized Cost	Fair Value
Due within one year	\$ 900,414	\$ 893,149
Due after one year and through five years	273,792	258,979
Total	<u>\$ 1,174,206</u>	<u>\$ 1,152,128</u>

## Note 5. Balance Sheet Components

### Property and Equipment

Property and equipment as of September 30, 2022 and December 31, 2021, consisted of the following (amounts in thousands):

	September 30, 2022	December 31, 2021
Computer equipment, hardware, and software	\$ 6,402	\$ 2,740
Furniture and fixtures	56,363	15,116
Machinery and equipment	108,615	66,953
Leasehold improvements	69,015	23,192
Construction-in-progress	88,802	101,420
Property and equipment, gross	329,197	209,421
Accumulated depreciation and amortization	(60,972)	(43,238)
Property and equipment, net	<u>\$ 268,225</u>	<u>\$ 166,183</u>

Depreciation and amortization expense related to property and equipment was \$8.0 million and \$2.9 million for the three months ended September 30, 2022 and 2021, respectively. Depreciation and amortization expense related to property and equipment was \$18.3 million and \$8.1 million for the nine months ended September 30, 2022 and 2021, respectively.

### Accrued Liabilities

Accrued liabilities as of September 30, 2022 and December 31, 2021, consisted of the following (amounts in thousands):

	September 30, 2022	December 31, 2021
Accrued property and equipment	\$ 3,705	\$ 1,815
Accrued facilities expense	728	1,637
Accrued purchase cancellation fees	3,508	31
Other	7,283	2,595
Accrued liabilities	<u>\$ 15,224</u>	<u>\$ 6,078</u>



### Other liabilities

Other liabilities as of September 30, 2022 and December 31, 2021, consisted of the following (amounts in thousands):

	September 30, 2022	December 31, 2021
Long-term advance payments	\$ 2,415	\$ 315
Asset retirement obligation	5,177	—
Other liabilities	\$ 7,592	\$ 315

### Note 6. Leases

The Company leases its headquarters, pre-pilot manufacturing facilities, other warehouse space and certain equipment, with current lease terms running through 2032. Fixed rent generally escalates each year, and the Company is responsible for a portion of the landlords' operating expenses such as property tax, insurance and common area maintenance.

In April 2021, the Company entered into a lease agreement for premises consisting of approximately 197,000 rentable square feet of space located in San Jose, California to be used for QS-0. The lease expires in September 2032. Under this QS-0 lease, the Company has two five-year renewal options, which have not been included in the calculation of the lease liability and right-of use asset at the lease inception as the exercise of the options was not reasonably certain. This initial QS-0 lease is classified as a finance lease.

In June 2021, the Company amended the terms of its 2013 headquarter lease to provide for, among other things, an extension of the lease term to September 2032. Under the amended headquarter lease, the Company retained its one five-year renewal option, which has not been included in the calculation of lease liabilities and right of use assets at the amendment date, as the exercise of the option was not reasonably certain.

In November 2021, the Company entered into lease agreements for additional premises consisting of approximately 222,000 rentable square feet of space in San Jose, California adjacent to the site of QS-0. The November 2021 leases represent an expansion of space for QS-0 and the Company's engineering and development activities. Such leases will expire in September 2032 but include an option to extend the terms of the lease for an additional 10-year period. The November 2021 leases commenced in November 2021, January 2022, and April 2022 and were classified as operating leases. The additional 10-year extension period has not been included in the calculation of the lease liability and right-of-use asset at the lease inception as the exercise of the option was not reasonably certain.

The Company's leases do not have any contingent rent payments and do not contain residual value guarantees.

The components of lease related expense are as follows (amounts in thousands):

Lease cost	Three Months Ended	Nine Months Ended
	September 30, 2022	
Finance lease costs:		
Amortization of right-of-use assets	\$ 718	\$ 2,155
Interest on lease liabilities	600	1,807
Operating lease costs	2,310	6,568
Variable lease costs	620	1,753
Total lease expense	\$ 4,248	\$ 12,283

The components of supplemental cash flow information related to leases are as follows (amounts in thousands):

	Nine Months Ended September 30, 2022	
Operating outgoing cash flows - finance lease	\$	1,207
Financing outgoing cash flows - finance lease		809
Operating outgoing cash flows - operating leases		2,572
Right-of-use assets obtained in exchange for new operating lease liabilities		28,845

The table below displays additional information for leases as of September 30, 2022:

	<u>As of September 30,</u> <u>2022</u>
<b>Finance lease</b>	
Weighted-average remaining lease term - finance lease (in years)	10.00
Weighted-average discount rate - finance lease	6.06 %
<b>Operating lease</b>	
Weighted-average remaining lease term - operating leases (in years)	9.9
Weighted-average discount rate - operating leases	6.36 %

As of September 30, 2022, future minimum payments during the next five years and thereafter are as follows (amounts in thousands):

Fiscal Year	Operating Leases	Finance Lease
2022 (remaining three months)	\$ 2,096	\$ 403
2023	7,416	3,751
2024	8,847	5,131
2025	9,061	5,272
2026	9,025	5,417
2027	9,135	5,566
Thereafter	46,370	28,066
Total	91,950	53,606
Less present value discount	(24,913 )	(14,417 )
Lease liabilities	<u>\$ 67,037</u>	<u>\$ 39,189</u>

As the Company's lease agreements do not provide an implicit rate, the Company used an estimated incremental borrowing rate that will be incurred to borrow on a collateralized basis over a similar term at the lease commencement date or modification date in determining the present value of lease payments.

#### *Asset Retirement Obligations*

The Company establishes assets and liabilities for the present value of estimated future costs to return certain of our leased facilities to their original condition upon the termination or expiration of a lease. The recognition of an asset retirement obligation requires the Company to make assumptions and judgments including the actions required to satisfy the liability, inflation rates and the credit-adjusted risk-free rate. The initially recognized asset retirement cost is amortized using the same method and useful life as the long-lived asset to which it relates. Accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value.

## Note 7. Commitments and Contingencies

From time to time, and in the ordinary course of business, the Company may be subject to certain claims, charges and litigation concerning matters arising in connection with the conduct of the Company's business activities.

### *Warrants Litigation*

Purported Company warrantholders filed actions against the Company in the New York State Supreme Court on December 11, 2020 and December 23, 2020 and in the United States District Court for the Southern District of New York on October 26, 2021 and November 18, 2021, alleging, among other things, that they were entitled to exercise their warrants within 30 days of the closing of the Business Combination and that the preliminary and final versions of the proxy statement/prospectus/information statement dated September 21, 2020, and November 12, 2020, were misleading and/or omitted material information concerning the exercise of the warrants. The lawsuit in the New York State Supreme Court was voluntarily discontinued on account of being duplicative of the federal lawsuit brought by the same plaintiffs. The three lawsuits pending in the United States District Court for the Southern District of New York have been consolidated for the purposes of discovery and motion practice. The operative consolidated complaint, filed January 21, 2022, seeks monetary damages for alleged breach of contract, securities law violations, and fraud. QuantumScape continues to believe it has meritorious defenses to the claims and intends to defend itself vigorously.

### *Securities Class Action Litigation*

Between January 5, 2021 and May 4, 2021, four putative class action lawsuits were filed in the United States District Court for the Northern District of California by purported purchasers of Company securities. The court consolidated the actions and appointed a lead plaintiff and counsel. Lead plaintiff filed a consolidated complaint on June 21, 2021, which alleges a purported class that includes all persons who purchased or acquired our securities between November 27, 2020 and April 14, 2021. The consolidated complaint names the Company, its Chief Executive Officer, its Chief Financial Officer, and its Chief Technology Officer as defendants. The consolidated complaint alleges that the defendants purportedly made false and/or misleading statements and failed to disclose material adverse facts about the Company's business, operations, and prospects, including information regarding the Company's battery technology. On January 14, 2022, defendants' motion to dismiss the consolidated complaint was substantially denied and the case continues. QuantumScape continues to believe it has meritorious defenses to the claims and intends to defend itself vigorously.

### *Shareholder Derivative Litigation*

Two shareholder derivative suits were filed in February 2021 in the United States District Court for the Northern District of California against eleven officers and directors of the Company and have been consolidated into one action, with the first-filed complaint being designated the operative one. The Company is the nominal defendant. The complaint alleges that the individual defendants breached various duties to the Company and contains additional similar allegations based on the same general allegations in the class action described immediately above. VGA is also named as a defendant in the derivative litigation. The derivative litigation is currently stayed.

Four shareholder derivative suits were filed on June 7, 2022, June 23, 2022, July 22, 2022, and August 24, 2022 in the Court of Chancery of the State of Delaware against current and former directors and officers of the Company. The Company is the nominal defendant. The complaints allege that the individual defendants breached various duties to the Company. VGA is also named as a defendant in two of those actions. The four shareholder derivative suits have been consolidated and are currently stayed.

Another shareholder derivative suit was filed in the Court of Chancery of the State of Delaware on August 16, 2022, against former and current directors and officers of the Company and of Kensington. The Company is the nominal defendant. The complaint alleges that the individual defendants breached various duties to the Company.

For many legal matters, particularly those in early stages, the Company cannot reasonably estimate the possible loss (or range of loss), if any. The Company records an accrual for legal matters at the time or times it determines that a loss is both probable and reasonably estimable. Amounts accrued as of September 30, 2022 and December 31, 2021 were not material. Regarding matters for which no accrual has been made (including the potential for losses in excess of amounts accrued), the Company currently believes, based on its own investigations, that any losses (or ranges of losses) that are reasonably possible and estimable will not, in the aggregate, have a material adverse effect on its financial position, results of operations, or cash flows. However, the ultimate outcome of legal proceedings involves judgments, estimates, and inherent uncertainties and cannot be predicted with certainty. Should the ultimate outcome of any legal matter be unfavorable, the Company's business, financial condition, results of operations, or cash flows could be materially and adversely affected. The Company may also incur substantial legal fees, which are expensed as incurred, in defending against legal claims.

### *Other commitments*

The Company's minimum purchase commitments consist of non-cancellable agreements to purchase goods and services, primarily for materials, and licenses and hosting services, entered into in the ordinary course of business.

As of September 30, 2022, future minimum purchase commitments in aggregate during the next five years and thereafter are as follows (amounts in thousands):

Fiscal Year	Minimum Purchase Commitments
2022 (remaining three months)	\$ 391
2023	2,820
2024	3,191
2025	2,358
2026	1,891
2027	1,418
Thereafter	—
Total	\$ 12,069

#### Note 8. Assumed Common Stock Warrants

The Company assumed 11,499,989 Public Warrants and 6,650,000 Private Placement Warrants upon the Business Combination, all of which were issued in connection with Kensington's initial public offering (other than 75,000 Private Placement Warrants that were issued in connection with the closing of the Business Combination, which are referred to as the Working Capital Warrants) and entitled each holder to purchase one share of Class A Common Stock at an exercise price of \$11.50 per share.

The Company recorded these warrants as liabilities on the Condensed Consolidated Balance Sheets at fair value, with subsequent changes in their respective fair values recognized in the Change in fair value of Assumed Common Stock Warrant liabilities within the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) at each reporting date prior to exercise or redemption. The Public Warrants were publicly traded and thus had an observable market price to estimate fair value, and the Private Placement Warrants were effectively valued similar to the Public Warrants. As a result, the Company recognized a \$68.9 million and \$168.7 million non-cash change in fair value of Assumed Common Stock Warrant liabilities in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2021, respectively.

All Public Warrants and Private Placement Warrants were exercised or redeemed during the year ended December 31, 2021.

#### Note 9. Stockholders' Equity

As of September 30, 2022 and December 31, 2021, 1,350,000,000 shares, \$0.0001 par value per share are authorized, of which, 1,000,000,000 shares are designated as Class A Common Stock, 250,000,000 shares are designated as Class B Common Stock, and 100,000,000 shares are designated as Preferred Stock.

##### Common Stock

Holders of the common stock are entitled to dividends when, as, and if, declared by the Board, subject to the rights of the holders of all classes of stock outstanding having priority rights to dividends. As of September 30, 2022, the Company had not declared any dividends. The holder of each share of Class A Common Stock is entitled to one vote, and the holder of each share of Class B Common Stock is entitled to ten votes.

In March 2021, the Company completed an underwritten public offering of shares of its Class A Common Stock and issued 11,960,000 shares for an aggregate purchase price of \$462.9 million, net of issuance costs of \$15.5 million (the "March 2021 Public Offering").

##### Equity Incentive Plans

Prior to the Business Combination, the Company maintained its 2010 Equity Incentive Plan (the "2010 Plan"), under which the Company granted options and restricted share units to purchase or directly issue shares of common stock to employees, directors, and non-employees.

Upon the closing of the Business Combination, awards under the 2010 Plan were converted at the Exchange Ratio and assumed into the 2020 Equity Incentive Award Plan (the "2020 Plan", and together with the 2010 Plan, the "Plans"). The 2020 Plan permits the granting of awards in the form of incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares, restricted share units and performance awards to employees, directors, and non-employees.

As of September 30, 2022, 62,915,959 shares of Class A Common Stock are authorized for issuance pursuant to awards under the 2020 Plan, plus any shares of Class A Common Stock subject to stock options, restricted stock units or other awards that were assumed in the Business Combination and terminate as a result of being unexercised or are forfeited or repurchased by the Company, with the maximum number of shares to be added to the 2020 Plan equal to 69,846,580 shares of Class A Common Stock.

## Stock Options

Stock option activity under the Plans, including the EPA Program discussed below is as follows:

	Number of Shares Outstanding (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Intrinsic value (in thousands)
Balance as of December 31, 2021 <sup>(1)</sup>	53,078	\$ 7.74	6.78	
Cancelled and forfeited <sup>(2)</sup>	(1,207)	16.82	—	
Exercised	(3,261)	1.44	—	
Balance as of September 30, 2022	48,610	\$ 7.94	6.13	\$ 225,633
Vested and expected to vest as of September 30, 2022 <sup>(3)</sup>	40,295	\$ 4.82	5.49	\$ 225,633
Vested and exercisable as of September 30, 2022	30,765	\$ 1.68	4.58	\$ 207,022

(1) This includes 14.7 million options granted in December 2021 pursuant to the EPA Program.

(2) This includes 0.8 million options forfeited from the EPA program.

(3) This includes 5.5 million options granted pursuant to the EPA Program that are currently expected to vest. None of the options granted pursuant to the EPA Program were vested and exercisable as of September 30, 2022.

There were no options granted during the nine months ended September 30, 2022 or September 30, 2021. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2022 and 2021 was \$38.1 million and \$355.0 million, respectively.

Stock-based compensation expense is based on the grant-date fair value. The Company recognizes compensation expense for all stock-based awards with only service conditions on a straight-line basis over the requisite service period of the awards, which is generally the option vesting term of four years. Excluding options granted pursuant to the EPA Program, as of September 30, 2022, the Company had stock-based compensation of \$7.9 million related to unvested stock options not yet recognized that are expected to be recognized over an estimated weighted average period of 1.89 years.

### *EPA Program*

In December 2021, the Company granted stock options for the purchase of an aggregate of approximately 14.7 million shares of the Company's Class A Common Stock to the Company's Chief Executive Officer and other members of the Company's management team pursuant to the EPA Program that was approved by the Company's stockholders in December 2021. There are 2.1 million remaining shares that may be granted under the EPA Program within the one-year anniversary of the initial grant. The EPA Program consists of five equal tranches (each a "Tranche") that vest if the Company meets certain business milestones (performance conditions) and stock price targets (market conditions).

#### **Business Milestones**

The compensation committee of the Board selected the following eleven business milestones for the EPA Program, of which one milestone must be achieved for each tranche.

- Delivery of an A-sample battery cell that meets specifications agreed upon with an automaker
- The validation by an auto maker of a completed B-sample battery cell (a B-sample battery cell is a functional, complete battery cell prototype produced from our pre-pilot or sample production line)
- Delivery of at least 1-gigawatt hour (GWh) of battery cells to a single customer
- Delivery of at least 3-gigawatt hour (GWh) of battery cells to each of three or more customers, with at least one of such customer being an auto maker
- \$5 billion in GAAP revenue over a period of trailing four quarters
- \$10 billion in GAAP revenue over a period of trailing four quarters
- Total cumulative battery cell production of 500 GWh
- Total cumulative battery cell production of 1,000 GWh
- Adjusted EBITDA margin of at least 25% over four consecutive quarters
- 10% of worldwide market share in automotive battery cells (excluding China)
- 20% of worldwide market share in automotive battery cells (excluding China)

Once a business milestone has been achieved, that business milestone will be considered achieved, even if later the Company does not maintain performance at that level.

#### **Stock Price Targets**

The stock price targets of the five tranches of the EPA Program are \$60, \$120, \$180, \$240 and \$300.

To meet the stock price targets, the stock price must be sustained and not merely momentarily achieved. Except in the case of a change in control, the Company's stock price for the purposes of assessing the stock price target will be the 120-day trailing average closing price (based on trading days), but a stock price target will not be achieved unless the trailing average closing price of the last 30 trading days of such 120-trading day period also meets or exceeds the applicable stock price target. For a stock price target for any given Tranche to be achieved, the last day of the 120-day measurement period must occur on or after the date that the requisite number of business milestones have been achieved for such Tranche.

#### **Vesting Tranches**

Each of the five Tranches vest only if the Company achieves one of the business milestones (in addition to the business milestones already achieved in a prior Tranche) and achieves the applicable stock price target on or after the business milestone is achieved, within 10 years of the initial grants. Additionally, in order to vest in any Tranche, Participants generally must continue to provide service through the date of vesting in the same position, or a similar or higher role, as when the EPA Program awards are granted.

Tranche	Business Milestone Requirement	Stock Price Target
1	Achievement of 1 business milestone	\$60
2	Achievement of 2 business milestones (inclusive of the business milestone applicable to Tranche 1)	\$120
3	Achievement of 3 business milestones (inclusive of the business milestone applicable to Tranche 2)	\$180
4	Achievement of 4 business milestones (inclusive of the business milestone applicable to Tranche 3)	\$240
5	Achievement of 5 business milestones (inclusive of the business milestone applicable to Tranche 4)	\$300

#### Change in Control

In the event of a change in control of the Company, a portion of the EPA Program awards may also be eligible to vest; in such event, the business milestone requirement will not be applicable and the Company's stock price for the purposes of the stock price targets will be the price per share paid in such change in control. In the event that the Company's stock price by this measure falls between two stock price targets, linear interpolation between the two applicable stock price targets will be used to determine an additional portion of the EPA Program awards that will vest. Any portion of an EPA Program award that is not vested upon and after giving effect to a change in control will terminate.

The Company accounts for the compensation expense associated with each tranche when it determines that achievement of a related business milestone is considered probable. As of September 30, 2022, two tranches were considered probable.

For the three and nine months ended September 30, 2022, the Company recorded stock-based compensation expense of \$12.1 million and \$37.7 million, respectively related to the EPA Program. As of September 30, 2022, the Company had approximately \$72.7 million of total unrecognized stock-based compensation expense for the business milestones currently considered probable of achievement, which will be recognized over an estimated weighted-average period of 2.3 years. As of September 30, 2022, the Company had approximately \$172.4 million of total unrecognized stock-based compensation expense for the business milestones currently considered not probable of achievement.

#### Restricted Stock Units

Restricted stock unit activity under the Plans are as follows:

	Number of Restricted Stock Units (in thousands)	Weighted Average Grant Date Fair Value
Balance as of December 31, 2021	10,555	\$ 14.48
Granted	10,467	14.17
Vested	(3,795)	12.79
Forfeited	(849)	16.33
Balance as of September 30, 2022	16,378	\$ 14.52

The fair value of restricted stock units which vested during the nine months ended September 30, 2022 and September 30, 2021 was \$53.3 million and \$156.3 million, respectively.

As of September 30, 2022, unrecognized compensation costs related to restricted stock units granted were \$219.0 million and are expected to be recognized over a weighted average period of 3.0 years.

*Stock-Based Compensation Expense*

Total stock-based compensation expense recognized in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for all equity awards is as follows (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Research and development	\$ 17,233	\$ 7,489	\$ 45,255	\$ 20,490
General and administrative	16,345	5,238	47,730	15,520
Total stock-based compensation expense	<u>\$ 33,578</u>	<u>\$ 12,727</u>	<u>\$ 92,985</u>	<u>\$ 36,010</u>

**Note 10. Earnings (Loss) Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share adjusts basic earnings per share for the potentially dilutive impact of stock options and warrants. As the Company has reported a loss for the three and nine months ended September 30, 2022, potentially dilutive securities including stock options and warrants, are antidilutive and accordingly, basic net loss per share equals diluted net loss per share.

The following table sets forth the computation of basic and diluted earnings (loss) per Class A Common Stock and Class B Common Stock (amounts in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net income (loss) attributable to common stockholders - Basic	\$ (117,660)	\$ 15,351	\$ (302,841)	\$ 21,260
Less: Change in fair value of assumed common stock warrant liabilities	—	(68,934)	—	(168,674)
Net loss attributable to common stockholders - Diluted	<u>\$ (117,660)</u>	<u>\$ (53,583)</u>	<u>\$ (302,841)</u>	<u>\$ (147,414)</u>
<b>Denominator:</b>				
Weighted average Class A and Class B Common Stock outstanding - Basic	434,051	417,829	431,654	397,370
Effect of dilutive shares	—	2,820	—	6,999
Weighted average Class A and Class B Common Stock - Diluted	<u>434,051</u>	<u>420,649</u>	<u>431,654</u>	<u>404,369</u>
Net income (loss) per share attributable to Class A and Class B Common stockholders - Basic	\$ (0.27)	\$ 0.04	\$ (0.70)	\$ 0.05
Net loss per share attributable to Class A and Class B Common stockholders - Diluted	<u>\$ (0.27)</u>	<u>\$ (0.13)</u>	<u>\$ (0.70)</u>	<u>\$ (0.36)</u>

Basic and diluted earnings per share was the same for the three and nine months ended September 30, 2022, as the inclusion of all potential Class A Common Stock and Class B Common Stock outstanding would have been anti-dilutive.

The following table presents the potential common stock outstanding that was excluded from the computation of diluted net loss per share of common stock as of the periods presented because including them would have been anti-dilutive (amounts in thousands):

	As of September 30,	
	2022	2021
Options outstanding	48,610	43,177
Restricted stock units	16,378	10,998
Total	<u>64,988</u>	<u>54,175</u>



**Note 11. Joint Venture and Redeemable Non-Controlling Interest**

As described in Note 2, in September 2018, the Company entered into a JVA with VWGoA and VGA and formed QSV. The Company determined the entity was a VIE with a related party, and the Company's operations were more closely associated with QSV. As such, the Company consolidates QSV for financial reporting purposes, and a non-controlling interest is recorded for VGA's interest in the net assets and operations of QSV's operations to the extent of the VGA investment. The Company's Condensed Consolidated Balance Sheets includes \$3.4 million cash and cash equivalents of QSV as of September 30, 2022 and December 31, 2021. Although the Company has consolidated the net assets of QSV, it has no right to the use of those assets for its standalone operations.

The following table sets forth the change in redeemable non-controlling interest for the nine months ended September 30, 2022 and 2021 (amounts in thousands):

	<b>Redeemable Non-Controlling Interest</b>
Balance as of December 31, 2021	\$ 1,693
Net loss attributable to redeemable non-controlling interest in QSV	(2)
Balance as of September 30, 2022	<u>\$ 1,691</u>

  

	<b>Redeemable Non-Controlling Interest</b>
Balance as of December 31, 2020	\$ 1,704
Net loss attributable to redeemable non-controlling interest in QSV	(10)
Balance as of September 30, 2021	<u>\$ 1,694</u>

In May 2020, the Company amended the JVA and other related agreements regarding QSV in connection with VGA's investment of \$200.0 million in the Company's Series F convertible preferred stock. The Company determined the amendments represented a reconsideration event and determined that QSV is still a variable interest entity. As the significance and nature of the business of QSV continues to be more aligned with the core business of the Company and the Company continues to absorb a majority of the variability associated with QSV's anticipated economic performance, the Company continues to be the related party most closely associated with QSV.

In September 2020, the Company entered into an agreement with VWGoA under which the Company agreed to reserve \$134.0 million from the aggregate proceeds of the Series F Preferred Stock financings and the Business Combination to fund its expected equity contributions to QSV, which amounts are included in cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2022.

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

On November 25, 2020, Kensington acquired us. The Business Combination was accounted for as a reverse recapitalization in accordance with U.S. GAAP. Under this method of accounting, Kensington was treated as the “acquired” company for financial reporting purposes. Except as otherwise provided herein, our financial statement presentation includes (1) the results of Legacy QuantumScape and its consolidated subsidiaries as our accounting predecessor for periods prior to the completion of the Business Combination, and (2) the results of the Company (including the consolidation of Legacy QuantumScape and its subsidiaries) for periods after the completion of the Business Combination.

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes appearing elsewhere in this Report. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section titled “Risk Factors” as set forth in this Report. Unless the context otherwise requires, references in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to “the Company”, “we”, “us” and “our” refer to the business and operations of Legacy QuantumScape and its consolidated subsidiaries prior to the Business Combination and to QuantumScape Corporation and its consolidated subsidiaries, following the closing of the Business Combination.

### **Overview**

We are developing next-generation battery technology for EVs and other applications. We believe that our technology will enable a new category of battery that meets the requirements for broader market adoption. The lithium-metal solid-state battery technology that we are developing is being designed to offer greater energy density, faster charging, and greater safety when compared to today’s conventional lithium-ion batteries.

We are a development stage company with no revenue to date, have incurred a net loss from operations of approximately \$120.7 million and \$307.2 million for the three and nine months ended September 30, 2022, respectively, and an accumulated deficit of approximately \$2.3 billion from our inception through September 30, 2022. We expect to incur significant expenses and continuing losses for the foreseeable future.

### **Key Trends, Opportunities and Uncertainties**

We are a pre-revenue company. We believe that our performance and future success depend on several factors that present significant opportunities for us but also pose significant risks and challenges, including those discussed below and in the section titled “Risk Factors” appearing elsewhere in this Report.

### ***Product Development***

We are developing our battery technology with the goal of commercialization via the production of C-sample battery cells made available for sale to a third party. We have demonstrated capabilities of our solid-state separator and battery technology in single-layer, four-layer, and 10-layer cells, and have shown early 16-layer and 24-layer cell cycling data. We are now working to develop A-sample battery cells, to validate the performance of these cells and to continue to improve the quality and consistency of our battery cells.

Our research and development currently includes programs for the following areas:

- *Multi-layering.* We are working to continue increasing the number of layers in our cells. We have demonstrated capabilities of our solid-state separator and battery technology in single-layer, four-layer, and 10-layer solid-state cells in commercially relevant areas (ranging from approximately 60x75mm to 70x85mm). In 2022, we have announced early cycling test results for 16-layer and 24-layer cells also in commercially relevant areas. In order to advance the maturity of our prototype cells and produce commercially-viable solid-state battery cells, we must produce battery cells with dozens of layers, the exact number of which depends on our customers' requirements. We are targeting two dozen layers for our first A-sample battery cells and additional layers for our B-sample battery cells; the final layer count will depend upon customer preference, cell design considerations, and other factors. We will need to overcome the developmental challenges to increase the layer count and implement the appropriate cell design for our solid-state battery cell.
- *Continued improvement in the quality of our solid-state separator.* We are working to improve the quality and uniformity of our solid-state separators, to further improve, among other things, the cycling behavior, power, operating conditions of our cells and to continue to reduce separator thickness.
- *Improvement of our separator manufacturing process.* We use a method of continuous processing found at scale in both the battery and ceramic industries and are working on continuous improvement of this process, including better consistency and higher throughput. Regarding consistency, tightening the variability of separator quality results in better yield. Regarding throughput, increasing the volume of separator production results in the increased quantities required for prototypes with higher layer counts and delivery of more test cells to prospective customers. We are automating our manufacturing process and purchasing larger-scale manufacturing equipment. We will need to substantially improve our manufacturing processes to increase throughput required for higher layer counts and to achieve the cost, performance and volume levels required for commercial shipments.

- *Continued improvement of the cathode.* Our cathodes use a conventional cathode active material such as NMC mixed with a catholyte. We plan to benefit from industry cathode chemistry improvements and/or cost reduction, which in the future may include use of other cathode active materials, including cobalt-free compositions, including LFP, as well as cathode processing advances such as dry electrode processing. Over the years, we have developed catholytes made of differing mixtures of organic polymer and organic liquid electrolyte to optimize performance across multiple metrics such as voltage, temperature, power, and safety, among others. We continue to test solid, gel and liquid catholytes in our cells. The solid catholyte is part of our ongoing research and development investigation into inorganic catholytes. Our solid-state catholyte platform is being designed to enable high rates of charge and discharge for even thicker cathode electrodes, which when combined with a lithium-metal anode, may further increase cell energy densities.

Our team of scientists, engineers, technicians, and other staff is highly motivated and committed to solving these challenges ahead. However, any delays in the completion of these tasks will require additional cash use and delay market entry. As we grow our team, expand the size of our engineering line capacity, and build-out and bring up QS-0 and QS-1, we expect our rate of cash utilization to also increase significantly.

### ***Process Development***

Our architecture depends on our proprietary solid-state ceramic separator which we plan to manufacture ourselves. Though our separator's design is unique, its manufacturing relies on established or similar, high-volume production processes already deployed in other industries.

The solid-state separator is being designed to enable our 'anode-free' architecture. As manufactured, our solid-state battery cell has no anode; the lithium-metal anode is formed during the first charge of the cell; the lithium that forms the anode comes from the cathode material we purchase. Eliminating the anode bill of materials and associated manufacturing costs found in conventional lithium-ion cells could result in a meaningful cost of goods sold (COGS) advantage for us. In addition, our solid-state battery cell is being designed to reduce the time and capital-intensity of the formation and aging process step as compared to conventional lithium-ion manufacturing.

We are focused on the continued expansion of the throughput and capability of our San Jose, California engineering line as well as the planning and setup of QS-0 and planning for QS-1. As part of the continued expansion of our throughput we are automating our manufacturing process and purchasing larger-scale battery-cell manufacturing equipment. We will need to substantially improve our battery cell manufacturing processes to increase throughput required for higher numbers of battery cells and to achieve the cost, performance and volume levels required for commercial shipments.

Continued expansion of the throughput and capability of our San Jose engineering line and QS-0 serves three purposes. First, the engineering line and QS-0 are intended to provide a sufficient quantity of solid-state separators and cells for internal development, customer sampling (including pre A-sample, A-sample, and B-sample cells). Second, our San Jose engineering line and QS-0 are intended to provide the basis for continued manufacturing process development and help inform tool selection and specifications for equipment for QS-1. Delays in the successful buildout of our San Jose engineering line and QS-0 may impact both our development and the QS-1 timelines. And third, as we continue to buildout our manufacturing capabilities, we target the start of commercialization via the initial production of C-sample battery cells at QS-0 to be made available for sale to a third party.

We will need to achieve significant cost savings in battery design and manufacturing, in addition to the cost savings associated with the elimination of an anode from our solid-state battery cells, while controlling costs associated with the manufacture of our solid-state separator, including achieving substantial improvements in consistency and throughput required to hit commercial targets. Further, we will need to capture industry cost savings in the materials, components, equipment, and processes that we share, notably in the cathode, cell design, and factory.

### ***Commercialization and Market Focus***

Delivery of the A sample represents the beginning of the automotive qualification process, which involves several major delivery milestones — A, B and C samples — followed by the start of production. Each major sampling stage may consist of several generations of increasingly mature prototypes. We are currently targeting approximately 18 months between the A sample and prototype B-sample cells, which may use some low-volume processes. We anticipate a similar timeframe to go from B samples to C samples. These timelines involve uncertainty and will be influenced by a number of factors, including product and process development risks; the specification, ordering, and qualification of production tooling; other supply chain dynamics; and OEM validation timeframes.

We are currently targeting the initial production of C-sample battery cells at QS-0. We have demonstrated the performance capabilities of our solid-state separator and battery technology in single-layer, four-layer, and 10-layer solid-state cells and more recently announced early cycling test results of 16-layer and 24-layer solid-state cells, in each case in commercially relevant areas (ranging approximately from 60x75mm to 70x85mm). We will work to continue improving quality, consistency, and throughput and optimize all components of the cell. We will continue to work to further develop and validate the volume manufacturing processes to enable high volume manufacturing and minimize manufacturing costs. Finally, we intend to continue to use and expand on our engineering line in San Jose to prepare for high volume manufacturing, to continue to order QS-0 equipment and prepare QS-0, and to plan QS-1 through our joint venture partnership with Volkswagen.

QS-1, to be built and run by QSV, and the subsequent QS-1 Expansion, would represent a small fraction of Volkswagen's demand for batteries and implies vehicle volumes under 2.5% of Volkswagen's total production in 2021, assuming a 100kWh battery pack size. Our goal is to significantly expand the production capacity of the joint venture, in partnership with Volkswagen, to meet more of their projected demand. While Volkswagen is the first automotive original equipment manufacturer ("OEM") that we signed an agreement with the goal of commercializing vehicles using our battery technology, we intend to work closely with other OEMs to make our solid-state battery cells widely available over time. In addition to Volkswagen, we have signed customer sampling agreements with five other OEMs, ranging from top ten manufacturers by global revenue to premium performance and luxury carmakers, to collaborate with us in the testing and validation of our solid-state battery cells with the goal of providing such cells to the OEM for inclusion into pre-production prototype vehicles and ultimately into serial production vehicles. The agreement follows testing of the Company's early-stage cells by the OEM in its labs. We are currently focused on automotive EV applications, which have among the most stringent sets of requirements for batteries. However, we recognize that our solid-state battery technology has applicability in other large and growing markets including stationary storage and consumer electronics such as smartphones and wearables and intend to explore opportunities in those areas as appropriate.

We believe that our technology enables a variety of business models. In addition to joint ventures, such as the one with Volkswagen, we may operate solely-owned manufacturing facilities or license technology to other manufacturers. We intend to continue to invest in research and development to improve battery cell performance, improve manufacturing processes, and reduce cost.

#### ***Access to Capital***

Assuming we experience no significant delays in the research and development of our solid-state battery cells, we believe that our cash resources will last through 2024. However, any delays could materially impact us.

#### ***Regulatory Landscape***

We operate in an industry that is subject to many established environmental regulations, which have generally become more stringent over time, particularly in hazardous waste generation and disposal and pollution control. Regulations in our target markets include economic incentives to purchasers of EVs, tax credits for EV manufacturers, and economic penalties that may apply to a car manufacturer based on its fleet-wide emissions which may indirectly benefit us to the extent that the regulations expand the market size of EVs. While we also expect environmental regulations to provide a tailwind to our growth, it is possible for certain regulations to result in margin pressures. Trade restrictions and tariffs, while historically minimal between the European Union and the United States where most of our production and sales are initially expected, are subject to unknown and unpredictable change that could impact our ability to meet projected sales or margins.

#### ***COVID-19***

Beginning in March 2020, the COVID-19 pandemic and the measures imposed to contain this pandemic have disrupted and may continue to impact the Company's business. In California and other cities across the world, although many of the COVID-19 restrictions have been removed, there is still concern that some or all of these restrictions may be reimposed if there are new variants (which may be more contagious or severe and may be less responsive to vaccines or treatments) and resurgences of COVID-19 cases. The magnitude of the impact of the COVID-19 pandemic (or epidemics) on the Company's supply chain, productivity, results of operations and financial position, and its disruption to the Company's business and battery development and timeline, will depend in part, on the length and severity of these restrictions and on the Company's ability to conduct business in the ordinary course.

#### ***Basis of Presentation***

We currently conduct our business through one operating segment. As a pre-revenue company with no commercial operations, our activities to date have been limited and were conducted primarily in the United States. Our historical results are reported under U.S. GAAP and in U.S. dollars. Upon commencement of commercial operations, we expect to expand our global operations substantially, including in the United States and the European Union, and as a result we expect our future results to be sensitive to foreign currency transaction and translation risks and other financial risks that are not reflected in our historical financial statements. As a result, we expect that the financial results we report for periods after we begin commercial operations will not be comparable to the financial results included in this Report.

#### ***Components of Results of Operations***

We are a research and development stage company and we have not generated any revenues to date. Our historical results may not be indicative of our future results for reasons that may be difficult to anticipate. Accordingly, the drivers of our future financial results, as well as the components of such results, may not be comparable to our historical or projected results of operations.

#### ***Operating Expenses***

### ***Research and Development Expense***

To date, our research and development expenses have consisted primarily of personnel-related expenses for scientists, experienced engineers and technicians as well as costs associated with the expansion and ramp up of our engineering and QS-0 facilities in San Jose, including the material and supplies to support the product development and process engineering efforts. As we ramp up our engineering operations to complete the development of our solid-state, lithium-metal batteries and required process engineering to meet automotive cost targets, we anticipate that research and development expenses will increase significantly for the foreseeable future as we continue to invest in additional plant and equipment for product development (e.g. multi-layer cell stacking, packaging engineering), building prototypes, and testing of battery cells as our team works to meet the full set of automotive product requirements. We also recognize significant non-cash stock-based compensation to employees directly involved in research and development activities. For stock-based compensation awards with performance and market conditions, such as the awards granted under our Extraordinary Performance Award Program (the “EPA Program”) in December 2021, the non-cash expense recognized is based on a probability assessment of the performance conditions, and as such, we expect research and development expenses to fluctuate in the future as the performance conditions are re-assessed at each reporting period. Further, should the stated market conditions of the EPA Program grants be achieved prior to the expected achievement period, we may accelerate the stock-based compensation expense recognized, which could result in significant fluctuations in research and development expense recognized in the future. For more information on the EPA Program and grants thereunder, see Note 9 to our unaudited consolidated financial statements elsewhere in this Report.

As we ramp up towards commercial manufacturing operations, we will begin to incur expenses that are directly associated with manufacturing, including allocation of indirect costs from research and development.

### ***General and Administrative Expense***

General and administrative expenses consist mainly of personnel-related expenses for our executive, sales and marketing and other administrative functions and expenses for director and officer insurance and outside professional services, including legal, accounting and other advisory services. We have expanded our personnel headcount and we are continuing to expand our supporting systems, in anticipation of planning for and supporting the ramp up of commercial manufacturing operations and due to the ongoing requirements of being a public company. Accordingly, we expect our general and administrative expenses to increase significantly in the near term and for the foreseeable future. Upon commencement of commercial operations, we also expect general and administrative expenses to include customer and sales support and advertising costs. We also recognize significant non-cash stock-based compensation to executives and certain employees. The non-cash expense recognized for EPA Program grants is based on a probability assessment of the performance conditions, and as such, we expect general and administrative expenses to fluctuate in the future as the performance conditions are re-assessed at each reporting period. Further, should the stated market conditions of the EPA Program awards be achieved prior to the expected achievement period, we may accelerate the stock-based compensation expense recognized, which could result in significant fluctuations in general and administrative expense recognized in the future.

As we ramp up towards commercial manufacturing operations, we will begin to incur expenses that are directly associated with manufacturing, including allocation of indirect costs from general and administrative activities.

### ***Other Income (Expense)***

#### ***Interest Expense***

Interest expense consists primarily of interest expense associated with our QS-0 facility leases.

#### ***Interest Income***

Interest income consists primarily of interest income from marketable securities.

#### ***Other Income (Expense)***

Our other income (expense) consists of miscellaneous income and expenses.

### ***Income Tax Expense / Benefit***

Our income tax provision consists of an estimate for U.S. federal and state income taxes based on enacted rates, as adjusted for allowable credits, deductions, uncertain tax positions, changes in deferred tax assets and liabilities, and changes in tax law. We maintain a valuation allowance against the full value of our U.S. and state net deferred tax assets because we believe the recoverability of the tax assets is not more likely than not.

## Results of Operations

### Comparison of the Three and Nine Months Ended September 30, 2022 to the Three and Nine Months Ended September 30, 2021

The following table sets forth our historical operating results for the periods indicated (amounts in thousands):

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2022	2021			2022	2021		
Operating expenses:								
Research and development	\$ 87,582	\$ 39,467	\$ 48,115	122 %	\$ 214,060	\$ 104,708	\$ 109,352	104 %
General and administrative	33,072	14,365	18,707	130 %	93,124	43,421	49,703	114 %
Total operating expenses	120,654	53,832	66,822	124 %	307,184	148,129	159,055	107 %
Loss from operations	(120,654)	(53,832)	(66,822)	124 %	(307,184)	(148,129)	(159,055)	107 %
Other income (loss):								
Interest expense	(600)	(359)	(241)	67 %	(1,807)	(597)	(1,210)	203 %
Interest income	3,487	605	2,882	476 %	5,813	1,201	4,612	384 %
Change in fair value of assumed common stock warrant liabilities	—	68,934	(68,934)	(100) %	—	168,674	(168,674)	(100) %
Other income	114	3	111	3700 %	335	101	234	232 %
Total other income:	3,001	69,183	(66,182)	(96) %	4,341	169,379	(165,038)	(97) %
Net income (loss)	(117,653)	15,351	(133,004)	(866) %	(302,843)	21,250	(324,093)	(1525) %
Less: Net income (loss) attributable to non-controlling interest	7	—	7	100 %	(2)	(10)	8	(80) %
Net income (loss) attributable to common stockholders	<u>\$ (117,660)</u>	<u>\$ 15,351</u>	<u>\$ (133,011)</u>	<u>(866) %</u>	<u>\$ (302,841)</u>	<u>\$ 21,260</u>	<u>\$ (324,101)</u>	<u>(1524) %</u>

### Research and Development

The increase in research and development expense in the three months ended September 30, 2022 compared to the three months ended September 30, 2021 primarily resulted from an increase of \$14.5 million in personnel cost due to the growth in research and development headcount to support our battery technology development, \$11.3 million of equipment purchase cancellation charges to instead focus on the development of equipment designed to deliver higher throughput for the same process step, an increase of \$4.9 million related to depreciation and amortization, an increase of \$4.0 million in engineering and research and development consulting fees, outside services and other, and an increase of \$2.5 million in facility expenses primarily related to the QS-0 facility, and an increase of \$1.2 million for research and development material supplies and equipment maintenance expenses to support the growth in product development and manufacturing engineering efforts. Additionally, non-cash stock-based compensation expense increased by \$9.7 million from \$7.5 million for the three months ended September 30, 2021 to \$17.2 million for the three months ended September 30, 2022 primarily due to the effect of restricted stock units (“RSUs”) granted subsequent to September 30, 2021 and the EPA Program grants in December 2021.

The increase in research and development expense in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 primarily resulted from the \$36.9 million increase in personnel cost due to the growth in research and development headcount to support technology development, \$11.3 million of equipment purchase cancellation charges as discussed above, an increase of \$11.0 million related to depreciation and amortization, an increase of \$10.7 million in facility expenses primarily related to the QS-0 facility, an increase of \$9.3 million in engineering and research and development consulting fees, outside services and other, and an increase of \$5.4 million in material supplies and equipment maintenance to support the growth in product development and manufacturing engineering efforts. Additionally, non-cash stock-based compensation expense increased by \$24.8 million from \$20.5 million for the nine months ended September 30, 2021 to \$45.3 million for the nine months ended September 30, 2022 primarily due to the effect of RSUs granted subsequent to September 30, 2021 and the EPA Program grants in December 2021.

### ***General and Administrative***

The increase in general and administrative expenses in the three months ended September 30, 2022 compared to the three months ended September 30, 2021 primarily resulted from the \$5.1 million increase in professional fees and other corporate expenses due to costs associated with business growth and an increase of \$2.0 million in personnel costs due to the headcount increase to support business growth. Additionally, non-cash stock-based compensation expense increased by \$11.1 million, from \$5.2 million for the three months ended September 30, 2021 to \$16.3 million for the three months ended September 30, 2022, primarily due to the effect of RSUs granted subsequent to September 30, 2021 and the EPA Program grants in December 2021.

The increase in general and administrative expenses in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 primarily resulted from the \$11.0 million increase in professional fees and other corporate expenses due to costs associated with business growth and an increase of \$5.1 million in personnel costs due to the headcount increase to support business growth. Additionally, non-cash stock-based compensation expense increased by \$32.3 million, from \$15.5 million for the nine months ended September 30, 2021 to \$47.7 million for the nine months ended September 30, 2022, primarily due to the effect of RSUs granted subsequent to September 30, 2021 and the EPA Program grants in December 2021.

### ***Interest Expense***

The increase in interest expense during the nine months ended September 30, 2022 was due to the interest expense associated with a finance lease, which commenced in May 2021.

### ***Interest Income***

The increase in interest income during the three and nine months ended September 30, 2022 compared to the three and nine months ended September 30, 2021 was mainly due to an increase in interest rates.

### ***Change in Fair Value of Assumed Common Stock Warrant Liability***

The change in fair value of Assumed Common Stock Warrant liabilities was due to the change in the estimated non-cash fair value of the Public and Private Placement Warrants at the end of each reporting period or through the exercise of the warrants.

All Assumed Common Stock Warrants were exercised or redeemed as of December 31, 2021, and there was no remaining liability for Assumed Common Stock Warrants as of December 31, 2021.

### ***Liquidity and Capital Resources***

As of September 30, 2022 and December 31, 2021, our principal sources of liquidity were our cash and cash equivalents and marketable securities in the amount of approximately \$1.2 billion and \$1.4 billion, respectively. Our cash equivalents are invested in U.S. money market funds, U.S. Treasury bonds and commercial paper. Our marketable securities are invested in U.S. Treasury notes and bonds, commercial paper, and corporate notes and bonds.

We have yet to generate any revenue from our business operations. To date, we have funded our capital expenditure and working capital requirements through equity as further discussed below. Our ability to successfully develop our products, commence commercial operations and expand our business will depend on many factors, including our working capital needs, the availability of equity or debt financing and, over time, our ability to generate cash flows from operations.

Prior to the Business Combination, we financed our operations primarily from the sales of redeemable convertible preferred stock. In connection with the Business Combination, we received net cash proceeds of approximately \$676.9 million. Additionally, after the Business Combination, during the year ended December 31, 2020, we received proceeds of approximately \$99.8 million from the Series F Preferred Stock Purchase Agreements.

During the year ended December 31, 2021, we completed the March 2021 Public Offering for aggregate net cash proceeds of \$462.9 million. In April 2021, we received \$100 million from VGA pursuant to our achievement of the technical milestone specified in the Series F Preferred Stock Purchase Agreements. Also, during the year ended December 31, 2021, all Assumed Common Stock Warrants were exercised or redeemed and we received net proceeds of \$151.4 million.

We believe that our cash on hand will be sufficient to meet our working capital and capital expenditure requirements for a period of at least twelve months from the date of this Report. Assuming we experience no significant delays in the research and development of our solid-state battery cells, we believe that our cash resources will last through 2024. However, any delays could materially impact us. We may, however, need additional cash resources due to changed business conditions or other developments, including unanticipated delays in negotiations with automotive OEMs and tier-one automotive suppliers or other suppliers, supply chain challenges, disruptions due to the COVID-19 pandemic, competitive pressures, inflation, and regulatory developments, among others. To the extent that our current resources are insufficient to satisfy our cash requirements, we may need to seek additional equity or debt financing. If such financing is not available, or if the financing terms are less desirable than we expect, we may be forced to decrease our level of investment in product development or scale back our operations, which could have an adverse impact on our business and financial prospects.



On July 29, 2022, we filed a shelf registration statement on Form S-3 with the SEC (File No. 333-266419), which the SEC declared effective on August 10, 2022, for the offer and sale of Class A Common Stock, preferred stock, depositary shares, debt securities, warrants, subscription rights, purchase contracts and units in one or more offerings and in any combination for an aggregate offering price up to \$1,000,000,000. Such securities may be offered pursuant to the base prospectus contained in the shelf registration statement and a prospectus supplement that would be prepared and filed at the time of any offering.

## Cash Flows

The following table provides a summary of our cash flow data for the periods indicated (amounts in thousands):

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	\$ (155,108)	\$ (83,302)
Net cash (used in) provided by investing activities	126,244	(405,265)
Net cash provided by financing activities	6,125	729,813

### *Cash Flows from Operating Activities*

Our cash flows used in operating activities to date have been primarily driven by the growth in our underlying business to support the research and development of next-generation of battery technology. As we continue to ramp up hiring for technical headcount to accelerate our engineering efforts ahead of starting the pre-pilot and pilot line operations, we expect our cash used in operating activities to increase significantly before we start to generate any material cash flows from our business. To support our research and development activities and our plan to expand our pre-pilot manufacturing capability, we are expecting cash payments of \$7.3 million during the next twelve months and \$84.6 million thereafter for the operating lease commitments as of September 30, 2022. From time to time we also enter into non-cancellable service and purchase commitments. We are expecting cash used in operating activities to include payments of approximately \$2.5 million in the next twelve months and approximately \$9.6 million thereafter through 2027 for our non-cancellable commitments as of September 30, 2022. As we complete the development of our solid-state, lithium-metal batteries and required process engineering to meet automotive cost targets, we anticipate that research and development operating expenses will increase significantly for the foreseeable future.

Cash used in operating activities for the nine months ended September 30, 2022 was primarily driven by a net loss of \$302.8 million offset by non-cash of \$93.0 million related to stock-based compensation, non-cash expense of \$19.0 million related to depreciation and amortization, non-cash expense of \$7.8 million related to the impairment of a fixed asset, non-cash lease expense and amortization of right-of-use assets of \$5.7 million, and non-cash expense of \$4.5 million related to amortization of premiums and accretion of discounts on marketable securities. This was partially offset by a \$5.4 million decrease in prepaid and other assets, an increase of \$2.1 million in other long-term liabilities, and an increase of \$9.5 million in accounts payable and accrued liabilities mainly driven by higher period-over-period spending in payroll, materials and supplies, professional services and general and administrative to support the growth of the business, specifically in the research and development of our battery technology.

Cash used in operating activities for the nine months ended September 30, 2021 was primarily driven by a net income of \$21.3 million offset by the non-cash income of \$168.7 million related to the change in fair value of Assumed Common Stock Warrant liabilities, non-cash expense of \$36.0 million related to stock-based compensation, non-cash expense of \$9.1 million related to amortization of premiums and accretion of discounts on marketable securities, and non-cash expense of \$7.6 million related to depreciation and amortization.

### *Cash Flows from Investing Activities*

Our cash flows from investing activities to date have been comprised of purchases of property and equipment and purchases, maturities and sales of our marketable securities. We expect the level of capital investment to increase substantially in the near future as we fully build out our engineering lines as well as acquire the property and equipment for QS-0.

Cash provided by investing activities for the nine months ended September 30, 2022 primarily consists of the maturity and sale of marketable securities of \$634.4 million and \$15.1 million, respectively, offset by \$402.2 million used for the purchase of marketable securities. Cash provided by investing activities also reflects \$121.0 million of cash used for various property and equipment, primarily to support our research and development activities.

Cash provided by investing activities for the nine months ended September 30, 2021 primarily consists of proceeds from the maturities of marketable securities of \$611.0 million. Proceeds from the sales of marketable securities was \$172.3 million. These proceeds were offset by \$1.1 billion of cash used for the purchase of marketable securities, and \$82.4 million of cash used for various property and equipment expenditures.

### *Cash Flows from Financing Activities*

Our cash flows from financing activities primarily consist of proceeds from the exercise of stock options. Finance lease commitment for QS-0 will result in net cash payments of \$2.9 million in the next twelve months and payments of \$50.7 million thereafter.

Cash provided by financing activities during the nine months ended September 30, 2022 is primarily due to \$6.9 million received from the exercise of stock options and our employee stock purchase plan.

Cash provided by financing activities during the nine months ended September 30, 2021 is primarily related to \$462.9 million in net proceeds received from the March 2021 Public Offering, \$151.4 million received from the exercise of Public Warrants, \$99.9 million in net proceeds received from the Series F Preferred Stock Agreements and approximately \$11.3 million received from the exercise of stock options.

#### **Off-Balance Sheet Arrangements**

We are not a party to any off-balance sheet arrangements, as defined under SEC rules.

#### **Critical Accounting Policies and Estimates**

Our financial statements have been prepared in accordance with U.S. GAAP. In the preparation of these condensed consolidated financial statements, we are required to use judgment in making estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported expenses incurred during the reporting periods.

We consider an accounting judgment, estimate or assumption to be critical when (1) the estimate or assumption is complex in nature or requires a high degree of judgment and (2) the use of different judgments, estimates and assumptions could have a material impact on the consolidated financial statements. Our significant accounting policies are described in Note 2 to our condensed consolidated financial statements elsewhere in this Report. Our critical accounting policies and estimates were described in Part II, Item 7, "Critical Accounting Policies and Estimates" in our Annual Report. There have been no material changes to our critical accounting policies and estimates since our Annual Report.

#### **Recent Accounting Pronouncements**

See [Note 3](#) to the condensed consolidated financial statements elsewhere in this Report for more information about recent accounting pronouncements, the timing of their adoption, and, to the extent it has made one, of their potential impact on our financial condition and its results of operations and cash flows.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes to the Company's market risk during the three months ended September 30, 2022. For a discussion of the Company's exposure to market risk, refer to the Company's market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report.

**Item 4. Controls and Procedures.****Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2022, our disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

Information regarding legal proceedings is available in [Note 7](#) to the condensed consolidated financial statements elsewhere in this Report.

### Item 1A. Risk Factors.

The following summary risk factors and other information included in this Report should be carefully considered. The summary risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem less significant may also affect our business operations or financial results. If any of the following risks actually materializes, our stock price, business, operating results and financial condition could be materially adversely affected. For more information, see below for more detailed descriptions of each risk factor.

- We face significant challenges in our attempt to develop a solid-state battery cell and produce it at high volumes with acceptable quality, consistency, throughput and cost. The pace of development in materials science is often not predictable, and we may encounter delays and cost overruns related to planning, permitting, construction, supply chain disruptions, equipment installation, utilities infrastructure installation and operations start-up of our manufacturing facilities. Delays or failures in accomplishing these and other development objectives, including delays in delivering battery cell samples to our customers, may delay or prevent successful commercialization of our products.
- We may not be able to establish supply relationships for necessary materials, components or equipment or may be required to pay more than anticipated for components or equipment, or external factors may negatively affect the reliability of such suppliers, all of which could delay the introduction of our product and negatively impact our business.
- If our batteries fail to perform as expected, our ability to develop, market and sell our batteries could be harmed.
- Our relationship with Volkswagen is subject to various risks which could adversely affect our business and future prospects. There are no assurances that we will be able to meet Volkswagen's time, cost, performance and volume requirements, or commercialize solid-state batteries from our joint development relationship with Volkswagen.
- We may not succeed in attracting customers during the development stage or for high volume commercial production, and our future growth and success depend on our ability to attract and retain customers.
- We may be unable to adequately control the costs associated with our operations and the components necessary to build our solid-state battery cells, and, if we are unable to control these costs and achieve cost advantages in our production of our solid-state battery cells at scale, our business will be adversely affected.
- We rely heavily on our intellectual property portfolio. If we are unable to protect our intellectual property rights, our business and competitive position would be harmed.
- We may need to defend ourselves against intellectual property infringement claims or other litigation, which may be time-consuming and could cause us to incur substantial costs.
- We may not be able to accurately estimate the future supply and demand for our batteries, which could result in a variety of inefficiencies in our business and hinder our ability to generate revenue. If we fail to accurately predict our manufacturing requirements, we could incur additional costs or experience delays.
- The battery market continues to evolve, is highly competitive, and we may not be successful in competing in this industry or establishing and maintaining confidence in our long-term business prospects among current and future partners and customers.
- Our batteries and our website, systems, and data we maintain may be subject to intentional disruption, other security incidents, or alleged violations of laws, regulations, or other obligations relating to data handling that could result in liability and adversely impact our reputation and future sales.
- The trading price of our Class A Common Stock has been and may in the future continue to be subject to extreme volatility.
- We have had to restate our previously issued financial statements and in connection with such process, identified a material weakness in our internal control over financial reporting. Although this material weakness has been remediated, we cannot provide assurances that additional material weaknesses, or significant deficiencies, will not occur in the future.

The following risk factors apply to our business and operations. These risk factors are not exhaustive, and investors are encouraged to perform their own investigation with respect to our business, financial condition, and prospects. We may face additional risks and uncertainties that are not presently known to us, or that we currently deem immaterial, which may also impair our business. The following discussion should be read in conjunction with the financial statements and notes to the financial statements included elsewhere in this Report.

### **Risks Related to Our Technology Development and Scale-Up**

*We face significant challenges in our attempt to develop a solid-state battery cell and produce it at high volumes with acceptable quality, consistency, throughput, and costs. The pace of development in materials science is often not predictable and we may encounter delays and cost overruns related to planning, permitting, construction, equipment installation, utilities infrastructure installation and operations start-up of our manufacturing facilities. Delays or failures in accomplishing these and other development objectives may delay or prevent successful commercialization of our products.*

Developing lithium-metal solid-state batteries that meet the requirements for wide adoption by automotive OEMs is a difficult undertaking and, as far as we are aware, has never been done before. We are still in the development stage and face significant challenges in completing the development of our multi-layer battery cells and in producing battery cells in commercial volumes. Some of the development challenges that could prevent the introduction of our solid-state battery cell include difficulties with increasing the quality, consistency and throughput of our separators and cells, increasing the size and layer count of our multi-layer cells, increasing manufacturing to produce the volume of cells needed for our technology development and customer applications, installing, bringing up and optimizing higher volume manufacturing equipment, packaging design and engineering to ensure adequate cycle life, pressure management, cost reduction, completion of the rigorous and challenging specifications required by our automotive partners, including but not limited to, calendar life, mechanical testing, and abuse testing and development of the final manufacturing processes.

Our solid-state separators are in the development stage. These separators have never been used before for battery applications (or to our knowledge, for any other applications) and there are significant quality, consistency and throughput, cost and manufacturing process challenges to be solved in order for the separators to be produced and used commercially. We are likely to encounter engineering challenges as we increase the lateral dimensions, reduce the thickness and increase the production volume of our solid-state separators. If we are not able to overcome these barriers in developing and producing solid-state separators at commercial volumes, our business could fail.

To achieve target energy density, we need to assemble multiple cell layers and enclose them within a single battery package. Depending upon our customer's requirements, our battery cell may require dozens of layers within each battery package. We have tested single-layer, four-layer, 10-layer and 16-layer cells in commercially relevant areas that measure approximately 60x75mm to 70x85mm, but we must make multi-layer cells with a higher layer count. We are targeting two dozen layers for our first A-sample battery cells and additional layers for our B-sample battery cells – depending upon customer preference, cell design considerations, and other factors – and to produce these cells at improved yields without compromising performance, and while solving related packaging challenges in a way that is scalable and low-cost. There are significant engineering and mechanical challenges that we must overcome to build our multi-layer battery cells. In addition, we will need to acquire certain tools that we currently do not possess and develop the manufacturing process necessary to make these multi-layer battery cells in high volume. If we are not able to overcome these developmental hurdles in building our multi-layer cells, our business is likely to fail.

We are evaluating multiple cathode material compositions for inclusion in our solid-state battery cells and have not yet finalized the cathode composition or formulation, or the design of related cell assembly components. We also have not validated that the current cell design meets all automotive requirements. We have not yet validated a manufacturing process or acquired the tools necessary to produce high volumes of our cathode electrode or related cell assembly components that meet all commercial requirements. If we are not able to overcome these developmental and manufacturing hurdles our business likely will fail.

Even if we complete development and achieve volume production of our solid-state battery, if the cost, performance characteristics or other specifications of the battery fall short of our targets, our sales, product pricing and margins would likely be adversely affected.

In addition, we must advance our manufacturing processes to include more automation, such as automated film handling and stacking, and to use higher volume tools and processes, such as moving to larger continuous flow equipment. We must also continue process development and innovation efforts towards substantially shortening cycle time, improving process control, and reducing consumables (including energy usage), towards the target end goal of increasing the quality, consistency, and throughput of our solid-state separators and battery cells. We may encounter delays or unexpected challenges in the delivery, installation and operation of the new equipment. Examples include global supply chain issues that impact our equipment suppliers, supplier non-performance, equipment damage in transit, and COVID-19-related delays. These challenges may be exacerbated in situations where we source certain of our materials and equipment exclusively from one or a few suppliers. Further, we must build QS-0 to expand our capacity to produce engineering samples or prototype cells needed for our development work and to supply additional cells to prospective customers for testing. We could encounter significant delays and cost overruns related to planning, permitting, construction, equipment installation and qualification, utilities infrastructure installation, and operations start-up of our manufacturing facilities, including QS-0. For example, we have experienced short-term power outages at our San Jose engineering line and proposed QS-0 facility that have been resolved but similar disruptions may occur in the future; delays associated with material shortage and backups at key shipping ports could impact the capacity at which we can run the facility; and certain of our construction contractors have previously reported delays due to labor strikes of their employees that have been resolved for now but may reoccur in the future. We must substantially improve our manufacturing processes to increase yield and throughput to achieve the cost, performance and volume levels required for commercial shipments. In addition, our multi-layer battery cells must simultaneously satisfy all of the commercial and safety requirements of our customers.

Any delay in the development or manufacturing scale-up of our solid-state battery cells would negatively impact our business as it will delay time to revenue and negatively impact our customer relationships. Additionally, we may encounter delays in obtaining the necessary regulatory approvals or launching our solid-state battery on the market, including delays in entering into agreements for the supply of component parts and manufacturing tools and supplies. Delays in the launching of our product would materially damage our business, prospects, financial condition, operating results and brand.

***We may not be able to establish supply relationships for necessary materials, components or equipment or may be required to pay more than anticipated for components or equipment, which could delay the introduction of our product and negatively impact our business.***

We rely on third-party suppliers for components and equipment necessary to develop and manufacture our solid-state batteries, including key supplies, such as our cathode material and manufacturing tools for both our separator and solid-state battery cells. We are collaborating with key suppliers but have not yet entered into agreements for the supply of production quantities of these materials. To the extent that we are unable to enter into commercial agreements with these suppliers on beneficial terms, or these suppliers experience difficulties ramping up their supply of materials to meet our requirements, the introduction of our battery will be delayed. To the extent our suppliers experience any delays in providing or developing the necessary materials, we could experience delays in delivering on our timelines. For example, we have previously experienced minor disruptions to the supply of process gas due to the shortage of truck drivers related to the COVID-19 pandemic and have also experienced disruption to the supply of petroleum-derived products as a result of certain weather and geopolitical events. The war in Ukraine and resulting sanctions against Russia by certain countries has also led to an increase in the price of petroleum and petroleum-derived products, which in turn could adversely affect the cost of manufacturing, input material pricing and logistics costs.

We expect to incur significant costs related to procuring materials required to manufacture and assemble our batteries. We expect to use various materials in our batteries that will require us to negotiate purchase agreements and delivery lead-times on advantageous terms. We may not be able to control fluctuation in the prices for these materials or negotiate agreements with suppliers on terms that are beneficial to us. Our business depends on the continued supply of certain proprietary materials for our products. We are exposed to multiple risks relating to the availability and pricing of such materials and components, including reliance upon our vendors to construct and produce tools to increase volumes, which may lead to delays or the requirement that we make additional upfront payments. Substantial increases in the prices for our raw materials or components, which may be expected, particularly if inflation rates continue at the high levels seen in 2022, would increase our operating costs and negatively impact our prospects. For example, our shipping costs have increased as suppliers have applied fuel surcharges. Costs for certain key raw materials and components have also increased due to fluctuations in global commodity prices. Our suppliers' increasing labor costs have also contributed to rising prices. Given that we have yet to generate any revenue from our business operations, we are also limited in our ability to pass on the cost of any such increases to our customers.

In addition, the cost of mass producing battery cells, depends in part upon the prices and availability of raw materials such as lithium, nickel, cobalt and/or other metals. The prices for these materials fluctuate and their available supply may be unstable, depending on market conditions and global demand for these materials. Demand for lithium has increased dramatically in recent years, and is expected to continue to increase, due to the ongoing rapid increase in lithium batteries in portable electronics and the growing EV and energy storage markets. Furthermore, significant deposits of certain of our raw materials, such as lithium, are available in countries that may be subject to political, economic and social instability or where there is an ongoing risk of tariffs or other prohibitions being imposed by the United States or the European Union on the import of such materials from such countries. There can be no assurance that suppliers of these raw materials may be able to meet our volume needs at reasonable prices, particularly as we ramp up our commercial operations.

Any disruption in the supply of components, equipment or materials could temporarily disrupt research and development activities or production of our batteries until an alternative supplier is able to supply the required material. Changes in business conditions, unforeseen circumstances, governmental changes, disruptions caused by power outages, weather events and other natural disasters, and other factors beyond our control or which we do not presently anticipate, could also affect our suppliers' ability to deliver components or equipment to us on a timely basis. Any of the foregoing could materially and adversely affect our results of operations, financial condition and prospects.

Currency fluctuations, trade barriers, tariffs or shortages and other general economic or political conditions may limit our ability to obtain key components or equipment for our solid-state batteries or significantly increase freight charges, raw material costs and other expenses associated with our business, which could further materially and adversely affect our results of operations, financial condition and prospects.

In addition, as the war in Ukraine continues or possibly escalates, this may lead to further disruption, instability and volatility in global markets and industries that could negatively impact our operations and our supply chain. The U.S. government and other governments have already imposed severe sanctions and export controls against Russia and Russian interests and may yet impose additional sanctions and controls. The impact of these measures, as well as potential responses to them by Russia, is currently unknown and they could adversely affect the global economy, our business, supply chain, partners or customers. The surge in the number of coronavirus cases in China during the second quarter of 2022 and the resultant lockdown in some cities, including Shenzhen and Shanghai, has also adversely affected supply chains and may impact our ability to access materials timely in the event such supply chain disruptions continue or are not fully resolved. In addition, should there be economic disruption resulting from the dynamics of geopolitical relations between the U.S. and China, there may be volatility of prices and lead times of equipment and materials sourced from or with a supply chain passing through China.

***We may be unable to adequately control the costs associated with our operations and the components necessary to build our solid-state battery cells, and, if we are unable to control these costs and achieve cost advantages in our production of our solid-state battery cells at scale, our business will be adversely affected.***

We require significant capital to develop and grow our business and expect to incur significant expenses, including those relating to research and development, raw material procurement, leases, sales and distribution as we build our brand and market our batteries, and general and administrative costs as we scale our operations. For example, there has been volatility in prices and availability for raw material such as cobalt, nickel, and lithium and such material may face industry-wide shortages. Our ability to become profitable in the future will not only depend on our ability to successfully market our solid-state batteries and services, but also to control our costs and achieve our target cost projections, including our projected cost advantage when compared to the costs of building traditional lithium-ion batteries at scale. If we are unable to cost efficiently design, manufacture, market, sell and distribute our solid-state batteries and services, our margins, profitability and prospects would be materially and adversely affected. We have not yet produced any solid-state battery cells at the commercial capacity or in volume and our forecasted cost advantage for the production of these cells at scale, compared to conventional lithium-ion cells, will require us to achieve rates of throughput, use of electricity and consumables, yield, and level of automation that we have not yet achieved. If we are unable to achieve these targeted rates, our business will be adversely impacted.

In particular, while we have estimated that eliminating the anode host material and the associated manufacturing costs will provide a savings in production at scale compared to the costs of building traditional lithium-ion batteries at leading manufacturers, that estimate is subject to numerous assumptions and uncertainties. To achieve those savings, we will need to achieve significant cost savings in battery design and manufacturing, in addition to the cost savings associated with the elimination of an anode from our solid-state battery cells, while controlling costs associated with the manufacturing of our solid-state separator, including achieving substantial improvements in throughput and yield required to hit commercial targets. Further, we will need to capture industry-wide cost savings in the materials, components, equipment, and processes that we share, notably in the cathode, cell design, and factory. We cannot be certain that we will achieve these cost savings or that future efficiency improvements in lithium-ion battery manufacturing will not reduce or eliminate these estimated cost savings.

***We rely on complex machinery for our operations, and production involves a significant degree of risk and uncertainty in terms of operational performance and costs.***

We rely heavily on complex machinery for our operations and the production of our solid-state battery cells, and this equipment has not yet been qualified to operate at large-scale manufacturing. The work required to integrate this equipment into the production of our solid-state battery cells is time intensive and requires us to work closely with the equipment provider to ensure that it works properly for our unique battery technology. This integration work will involve a significant degree of uncertainty and risk and may result in a delay in the scaling up of production or result in additional cost to our battery cells.

Both our pilot manufacturing facilities and our large-scale manufacturing facility will require large-scale machinery. Such machinery is likely to suffer unexpected malfunctions from time to time and may require repairs and spare parts to resume operations, which may not be available when needed, particularly if global supply chain disruptions continue or are not fully resolved. Unexpected malfunctions of our production equipment may significantly affect the intended operational efficiency. In addition, because this equipment has not been used to build our solid-state battery cells before, the operational performance and costs associated with this equipment can be difficult to predict and may be influenced by factors outside of our control, such as, but not limited to, failures by suppliers to deliver necessary components of our products in a timely manner and at prices and volumes acceptable to us, environmental hazards and remediation, difficulty or delays in obtaining governmental permits, damages or defects in systems, industrial accidents, fires, seismic activity and other natural disasters.

Operational problems with our manufacturing equipment could result in the personal injury to or death of workers, the loss of production equipment, damage to manufacturing facilities, monetary losses, delays and unanticipated fluctuations in production. In addition, operational problems may result in environmental damage, administrative fines, increased insurance costs and potential legal liabilities. These operational problems could have a material adverse effect on our business, results of operations, cash flows, financial condition or prospects.

#### **Customer Risks and Risks Related to Our Partnership with Volkswagen**

***Our relationship with Volkswagen is subject to various risks which could adversely affect our business and future prospects. There are no assurances that we will be able to commercialize solid-state batteries from our joint development relationship with Volkswagen.***

We and Volkswagen have formed a joint venture to collaborate on the manufacturing ramp up of our solid-state battery cell.

There is no assurance that we will be able to complete the development of the solid-state battery cells in the time frame required by the joint venture arrangements or to satisfy Volkswagen's business needs. If we do not complete this development in a timely manner, Volkswagen may terminate its participation in the joint venture. Our joint venture arrangements with Volkswagen provide a framework for our cooperation and requires that we and Volkswagen enter into certain additional arrangements regarding the purchase by the joint venture of solid-state separators from us, the purchase and pricing of the solid-state battery cells that will be produced by the joint venture and sold to Volkswagen, and the terms for licensing our technology to the joint venture. There can be no assurance that we will be able to agree with Volkswagen on these key elements on terms that are financially beneficial for us or that we will be able to enter into the additional arrangements, including any purchase orders, with Volkswagen for commercialization under the joint venture arrangements.

The commercial terms of the purchase by Volkswagen of the output of the joint venture will depend on the performance of our solid-state battery and the demand for the vehicles that Volkswagen develops to utilize the solid-state battery cells that will be produced by the joint venture. If we cannot complete the development of our solid-state battery cells, if Volkswagen does not select our solid-state battery cell for commercialization or if there is a delay in the introduction of the Volkswagen vehicles that intend to use our solid-state battery cells, our business will be harmed.

The strong relationship that we have developed with Volkswagen and rights under the joint venture agreement may deter other automotive OEMs from working closely with us. If we are not able to expand our other customer relationships, or if we become too dependent on Volkswagen for our revenue, our business could be harmed.

Volkswagen may have economic, business or legal interests or goals that are inconsistent with our goals. Any significant disagreements with Volkswagen may impede our ability to maximize the benefits of our partnerships and slow the commercialization of our solid-state battery. Our joint venture arrangements may require us, among other things, to pay certain costs or to make certain capital investments or to seek Volkswagen's consent to take certain actions. In addition, if Volkswagen is unable or unwilling to meet its economic or other obligations under the joint venture arrangements, we may be required to either fulfill those obligations alone to ensure the ongoing success of the joint venture or to dissolve and liquidate the joint venture. These factors could result in a material adverse effect on our business and financial results.

***If our batteries fail to perform as expected, our ability to develop, market, and sell our batteries could be harmed.***

Once commercial production of our solid-state battery cells commences, our batteries may contain defects in design and manufacture that may cause them to not perform as expected or that may require repairs, recalls, and design changes. Our batteries are inherently complex and incorporate technology and components that have not been used for other applications and that may contain defects and errors, particularly when first introduced. We have a limited frame of reference from which to evaluate the long-term performance of our solid-state batteries. There can be no assurance that we will be able to detect and fix any defects in our solid-state batteries prior to the sale to potential consumers. If our batteries fail to perform as expected, we could lose design wins and customers may delay deliveries, terminate further orders or initiate product recalls, each of which could adversely affect our sales and brand and could adversely affect our business, prospects, and results of operations.



***We may not succeed in attracting customers during the development stage or for high volume commercial production, and our future growth and success depend on our ability to attract and retain customers.***

We may not succeed in attracting customers during the development stage or for high volume commercial production. For example, we may be unsuccessful at attracting additional customers for QS-0, in which case we may have excess capacity. In addition, if we are unable to attract new customers in need of high-volume commercial production of our products, our business may suffer.

Many of our potential customers tend to be large enterprises. Therefore, our future success will depend on our ability to effectively sell our products to such large customers. Sales to these end-customers involve risks that may not be present (or that are present to a lesser extent) with sales to smaller customers. These risks include, but are not limited to, (i) increased purchasing power and leverage held by large customers in negotiating contractual arrangements with us, including a greater ability to push back on attempts to pass on increased operating and procurement costs, and (ii) longer sales cycles and the associated risk that substantial time and resources may be spent on a potential end-customer that elects not to purchase our solutions.

Our potential customers that are large organizations often undertake a significant evaluation process that results in a lengthy sales cycle. In addition, product purchases by large organizations are frequently subject to budget constraints, multiple approvals and unanticipated administrative, processing and other delays. Finally, large organizations typically have longer implementation cycles, require greater product functionality and scalability, require a broader range of services, demand that vendors take on a larger share of risks, require acceptance provisions that can lead to a delay in revenue recognition and expect greater payment flexibility. All of these factors can add further risk to business conducted with these potential customers.

***If the Put or Call Rights under our joint venture agreements with Volkswagen are exercised, it may have an adverse effect on our liquidity or our stockholders' ownership could be diluted.***

The joint venture structure we agreed to with Volkswagen is intended, in part, to protect our intellectual property. Certain key battery technology will continue to be owned by us and will be provided to the joint venture through a limited license for purposes of QS-1. We and Volkswagen still need to agree on the license terms for this battery technology license for QS-1 Expansion. The joint venture terminates upon the earliest to occur of (i) Volkswagen exercising specified put rights in the event of, amongst others, (a) a change of control of our company, or (b) the failure by us to meet specified development milestones within certain timeframes, (ii) us exercising specified call rights or Volkswagen exercising specified put rights if, among other things, the parties cannot agree to commercial terms for QS-1 or QS-1 Expansion within certain timeframes, (iii) a certain date after commencement of production of a Volkswagen series production vehicle using our battery cells (or an alternative end date if no such production was commenced after certain technical milestones with respect to our battery cell technology were reached) and (iv) December 31, 2028.

We may not have sufficient funds, borrowing capacity, or other capital resources available to pay for the interests of Volkswagen in cash if it exercises its put rights or to exercise our call rights. Such lack of available funds upon the exercising by Volkswagen of its put rights or by us of our call rights could force us to issue stock at a time we might not otherwise desire to do so in order to purchase the interests of Volkswagen. If we are required or choose to purchase those interests from Volkswagen, we could experience significant cash outflow, our other stockholders could see their holdings diluted through the issuance of shares to finance such payment obligations, and our financial condition and the price of our Class A Common Stock may be adversely affected.

As of September 30, 2022, the value of Volkswagen's interest in the joint venture is approximately \$1.7 million, which is recorded as redeemable non-controlling interest in our Condensed Consolidated Balance Sheets.

***We may not be able to accurately estimate the future supply and demand for our batteries, which could result in a variety of inefficiencies in our business and hinder our ability to generate revenue. If we fail to accurately predict and forecast our manufacturing requirements, we could incur additional costs or experience delays.***

It is difficult to predict our future revenues and appropriately budget for our expenses, and we may have limited insight into trends that may emerge and affect our business. We anticipate being required to provide forecasts of our demand to our current and future suppliers prior to the scheduled delivery of products to potential customers. Currently, there is no historical basis for making judgments on the demand for our batteries or our ability to develop, manufacture, and deliver batteries, or our profitability in the future. If we overestimate our requirements, our suppliers may have excess inventory, which indirectly would increase our costs. If we underestimate our requirements, our suppliers may have inadequate inventory, which could interrupt manufacturing of our products and result in delays in shipments and revenues. In addition, lead times for materials and components that our suppliers order may vary significantly and depend on factors such as the specific supplier, contract terms and demand for each component at a given time. If we fail to order sufficient quantities of product components in a timely manner, the delivery of batteries to our potential customers could be delayed, which would harm our business, financial condition and operating results.

***Our future growth and success are dependent upon consumers' willingness to adopt EVs.***

Our growth and future demand for our products is highly dependent upon the adoption by consumers of alternative fuel vehicles in general and EVs in particular. In response to the Russian invasion of Ukraine, many countries, companies and consumers have accelerated targets with respect to decreasing dependency on fossil fuels, which in turn is expected to increase demand for EVs; however, the market for new EVs continues to evolve rapidly and is also characterized by rapidly changing technologies, competitive pricing and other competitive factors, evolving government regulation and industry standards, and changing consumer demands and behaviors. If the market for EVs in general does not develop as expected, or develops more slowly than expected, our business, prospects, financial condition and operating results could be harmed.

***Concentration of ownership among a few stockholders and our executive officers, directors and their affiliates may prevent other stockholders from influencing significant corporate decisions.***

As of September 30, 2022, our executive officers, directors and their affiliates as a group and each of our stockholders who own 5% or more of our outstanding Class A Common Stock or our Class B Common Stock, in the aggregate, beneficially own approximately 29.0% of our Class A Common Stock and 95.7% of our Class B Common Stock outstanding, representing approximately 74.8% of the vote. As a result, these stockholders will be able to exercise a significant level of control over all matters requiring stockholder approval, including the election of directors, any amendment of our Amended and Restated Certificate of Incorporation (the “Certificate of Incorporation”) and approval of significant corporate transactions. In addition, Volkswagen holds the right to designate two directors to our Board. This control could have the effect of delaying or preventing a change of control or changes in our management and will make the approval of certain transactions difficult or impossible without the support of these stockholders and of their votes.

### **Our Intellectual Property Risks**

***We rely heavily on our intellectual property portfolio. If we are unable to protect our intellectual property rights, our business and competitive position would be harmed.***

We may not be able to prevent unauthorized use of our intellectual property, which could harm our business and competitive position. We rely upon a combination of the intellectual property protections afforded by patent, trademark and trade secret laws in the United States and other jurisdictions, as well as license agreements and other contractual protections, to establish, maintain and enforce rights in our proprietary technologies. In addition, we seek to protect our intellectual property rights through nondisclosure and invention assignment agreements with our employees and consultants, and through non-disclosure agreements with business partners and other third parties. Despite our efforts to protect our proprietary rights, third parties, including our business partners, may attempt to copy or otherwise obtain and use our intellectual property without our consent. Monitoring unauthorized use of our intellectual property is difficult and costly, and the steps we have taken or will take to prevent misappropriation may not be sufficient. Any enforcement efforts we undertake, including litigation, could be time-consuming and expensive and could divert management’s attention, which could harm our business, results of operations and financial condition. In addition, existing intellectual property laws and contractual remedies may afford less protection than needed to safeguard our intellectual property portfolio.

Patent, trademark and trade secret laws vary significantly throughout the world. A number of foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States. Government actions may also undermine our intellectual property rights. For example, a decree was adopted by the Russian government in March 2022, allowing Russian companies and individuals to exploit inventions owned by patentees from the United States without consent or compensation. Therefore, our intellectual property rights may not be as strong or as easily enforced outside of the United States and efforts to protect against the unauthorized use of our intellectual property rights, technology and other proprietary rights may be more expensive and difficult outside of the United States. Failure to adequately protect our intellectual property rights could result in our competitors using our intellectual property to offer products, potentially resulting in the loss of some of our competitive advantage and a decrease in our revenue which would adversely affect our business, prospects, financial condition and operating results.

***We may need to defend ourselves against intellectual property infringement claims, which may be time-consuming and could cause us to incur substantial costs.***

Companies, organizations or individuals, including our current and future competitors, may hold or obtain patents, trademarks or other proprietary rights that would prevent, limit or interfere with our ability to make, use, develop or sell our products, which could make it more difficult for us to operate our business. From time to time, we may receive inquiries from third parties inquiring whether we are infringing their intellectual property rights and/or seek court declarations that they do not infringe upon our intellectual property rights. Companies holding patents or other intellectual property rights relating to batteries, electric motors or electronic power management systems may bring suits alleging infringement of such rights or otherwise asserting their rights and seeking licenses. In addition, if we are determined to have infringed upon a third party’s intellectual property rights, we may be required to do one or more of the following:

- cease selling, incorporating or using products that incorporate the challenged intellectual property;
- pay substantial damages;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or
- redesign our batteries.

In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology on reasonable terms, our business, prospects, operating results and financial condition could be materially adversely affected. In addition, any litigation or claims, whether or not well-founded, could result in substantial costs and diversion of resources and management's attention.

We also license patents and other intellectual property from third parties, and we may face claims that our use of this intellectual property infringes the rights of others. In such cases, we may seek indemnification from our licensors under our license contracts with them. However, our rights to indemnification may be unavailable or insufficient to cover our costs and losses, depending on our use of the technology, whether we choose to retain control over conduct of the litigation, and other factors.

***Our patent applications may not result in issued patents or our patent rights may be contested, circumvented, invalidated or limited in scope, any of which could have a material adverse effect on our ability to prevent others from interfering with our commercialization of our products.***

Our patent applications may not result in issued patents, which may have a material adverse effect on our ability to prevent others from commercially exploiting products similar to ours. The status of patents involves complex legal and factual questions and the breadth of claims allowed is uncertain. As a result, we cannot be certain that the patent applications that we file will result in patents being issued, or that our patents and any patents that may be issued to us will afford protection against competitors with similar technology. Numerous patents and pending patent applications owned by others exist in the fields in which we have developed and are developing our technology. Any of our existing or pending patents may be challenged by others on the basis that they are invalid or unenforceable. Furthermore, patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States, and thus we cannot be certain that foreign patent applications related to issued U.S. patents will be issued.

Even if our patent applications succeed and we are issued patents in accordance with them, these patents may still be contested, circumvented, invalidated or limited in scope in the future. The rights granted under any issued patents may not provide us with meaningful protection or competitive advantages, and some foreign countries provide significantly less effective patent enforcement than in the United States. In addition, the claims under any patents that issue from our patent applications may not be broad enough to prevent others from developing technologies that are similar or that achieve results similar to ours. The intellectual property rights of others could also bar us from licensing and exploiting any patents that issue from our pending applications. In addition, patents issued to us may be infringed upon or designed around by others and others may obtain patents that we need to license or design around, either of which would increase costs and may adversely affect our business, prospects, financial condition and operating results.

#### **Our Business Risks**

***The battery market continues to evolve, is highly competitive, and we may not be successful in competing in this industry or establishing and maintaining confidence in our long-term business prospects among current and future partners and customers.***

The battery market in which we compete continues to evolve and is highly competitive. To date, we have focused our efforts on our lithium-metal solid-state battery technology, which is being designed to outperform conventional lithium-ion battery technology. However, lithium-ion battery technology has been widely adopted and our current competitors have, and future competitors may have, greater resources than we do and may also be able to devote greater resources to the development of their current and future technologies. These competitors also may have greater access to customers and may be able to establish cooperative or strategic relationships amongst themselves or with third parties that may further enhance their resources and competitive positioning. In addition, lithium-ion battery manufacturers may continue to reduce cost and expand supply of conventional batteries and therefore reduce the prospects for our business or negatively impact the ability for us to sell our products at a market-competitive price and yet at sufficient margins.

Many automotive OEMs and a number of battery technology companies are researching and investing in solid-state battery efforts and, in some cases, in battery development and production. There are a number of companies seeking to develop alternative approaches to solid-state battery technology, including lithium-metal batteries. We expect competition in battery technology and EVs to intensify due to increased demand for these vehicles and a regulatory push for EVs, continuing globalization, and consolidation in the worldwide automotive industry. Developments in alternative technologies or improvements in battery technologies made by competitors may materially adversely affect the sales, pricing and gross margins of our batteries. If a competing technology is developed that has superior operational or price performance, our business will be harmed. Similarly, if we fail to accurately predict and ensure that our battery technology can address customers' changing needs or emerging technological trends, or if our customers fail to achieve the benefits expected from our solid-state batteries, our business will be harmed.

We must continue to commit significant resources to develop our battery technology to establish a competitive position, and these commitments will be made without knowing whether such investments will result in products potential customers will accept. There is no assurance we will successfully identify new customer requirements, develop and bring our batteries to market on a timely basis, or that products and technologies developed by others will not render our batteries obsolete or noncompetitive, any of which would adversely affect our business and operating results.

Customers will be less likely to purchase our batteries if they are not convinced that our business will succeed in the long term. Similarly, suppliers and other third parties will be less likely to invest time and resources in developing business relationships with us if they are not convinced that our business will succeed in the long term. Accordingly, to build and maintain our business, we must maintain confidence among current and future partners, customers, suppliers, analysts, ratings agencies and other parties in our long-term financial viability and business prospects. Maintaining such confidence may be particularly complicated by certain factors including those that are largely outside of our control, such as our limited operating history, market unfamiliarity with our products, any delays in scaling manufacturing, delivery and service operations to meet demand, competition and uncertainty regarding the future of EVs and our eventual production and sales performance compared with market expectations.

***We are an early-stage company with a history of financial losses and expect to incur significant expenses and continuing losses from operations for the foreseeable future.***

We incurred a loss from operations of approximately \$120.7 million and \$307.2 million, a net loss of approximately \$117.7 million and \$302.8 million for the three and nine months ended September 30, 2022, respectively, and an accumulated deficit of approximately \$2.3 billion from our inception in 2010 through September 30, 2022. We believe that we will continue to incur operating losses each quarter until at least the time we begin significant production of our lithium-metal solid-state batteries, and such production is not expected to occur in the near future.

We expect the rate at which we will incur losses to be significantly higher in future periods as we, among other things, continue to incur significant expenses in connection with the design, development and manufacturing of our batteries; expand our research and development activities; invest in manufacturing capabilities; build up inventories of components for our batteries; increase our sales and marketing activities; develop our distribution infrastructure; and increase our general and administrative functions to support our growing operations. We may find that these efforts are more expensive than we currently anticipate or that these efforts may not result in revenues, which would further increase our losses.

***We may be negatively impacted by epidemics, pandemics, and other outbreaks, such as the COVID-19 pandemic.***

We face various risks related to epidemics, pandemics, and other outbreaks. For example, the COVID-19 pandemic resulted in changes in consumer and business behavior, a severe market downturn, and restrictions on business and individual activities, as well as in significant volatility in the global economy and reduced economic activity. The spread of COVID-19 also impacted our potential customers and our suppliers by disrupting the manufacturing, delivery and overall supply chain of battery, EV and equipment manufacturers and suppliers and led to a global decrease in battery and EV sales in markets around the world. In response to the pandemic, government authorities implemented numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, stay-at-home or shelter-in-place orders, and business shutdowns. Employees at our headquarters located in San Jose, California were subject to a stay-at-home order from the state and local governments. These measures limited operations in our San Jose headquarters and have and may continue to adversely impact our employees, research and development activities and operations (especially since various aspects of our business cannot be conducted remotely, including many aspects of the development and manufacturing of our solid-state material and our battery cells) and the operations of our suppliers, vendors and business partners, and may negatively impact our sales and marketing activities.

Government authorities have vacillated between the easing of restrictive measures and reinstating such measures or threatening to do so based on the current severity of the pandemic and the reinstatement of any such measures may adversely affect our future manufacturing plans, supply chain sales and marketing activities, business and results of operations. For example, we have previously experienced minor disruptions to the supply of process gas due to the shortage of truck drivers related to the COVID-19 pandemic. We may be required to take further actions as may be required by government authorities or that we determine are in the best interests of our employees, suppliers, vendors and business partners.

The extent to which the COVID-19 pandemic continues to impact our business, prospects and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the duration and spread of the pandemic, the actions to contain the virus or treat its impact, including the distribution and administration of effective vaccines, a waning immunity among persons already vaccinated, an increase in fatigue or skepticism with respect to initial or booster vaccinations, the severity of breakthrough cases and COVID-19 variants, including potentially vaccine-resistant variants, and how quickly and to what extent normal economic and operating activities can resume. Even after the COVID-19 pandemic has subsided, we may continue to experience an adverse impact to our business as a result of the global economic impact, including any recession that has occurred or may occur in the future, or due to changes in consumer behavior, for example an increase in remote work leading to a decrease in demand for automobiles.

An outbreak of monkeypox was confirmed in May 2022 and new epidemics, pandemics or outbreaks of novel diseases may arise at any time. If such epidemics, pandemics or other outbreaks or a worsening of the COVID-19 pandemic were to occur, this may adversely affect our business, prospects, financial condition and operating results.

***Our expectations and targets regarding the times when we will achieve various technical, pre-production and production objectives depend in large part upon assumptions and analyses developed by us. If these assumptions or analyses prove to be incorrect, we may not achieve these milestones when expected or at all.***

Our expectations and targets regarding the times when we will achieve various technical, pre-production and production objectives reflect our current expectations and estimates. Whether we will achieve these objectives when we expect depends on a number of factors, many of which are outside our control, including, but not limited to:

- success and timing of development activity;
- unanticipated technical or manufacturing challenges or delays;
- technological developments relating to lithium-ion, lithium-metal solid-state or other batteries that could adversely affect the commercial potential of our technologies;
- whether we can obtain sufficient capital to build our manufacturing facilities and sustain and grow our business;
- adverse developments in our joint venture relationship with Volkswagen, including termination of the joint venture or delays in negotiating commercial terms for QS-1 or QS-1 Expansion;
- our ability to manage our growth;
- whether we can manage relationships with key suppliers;
- our ability to retain existing key management, integrate recent hires and attract, retain and motivate qualified personnel; and
- the overall strength and stability of domestic and international economies.

Unfavorable changes in any of these or other factors, most of which are beyond our control, could materially and adversely affect our ability to achieve our objectives when planned and our business, results of operations and financial results.

***From time to time, we may be involved in litigation, regulatory actions or government investigations and inquiries, which could have an adverse impact on our profitability and consolidated financial position.***

We may be involved in a variety of litigation, other claims, suits, regulatory actions or government investigations and inquiries and commercial or contractual disputes that, from time to time, are significant. See Note 7 to the condensed consolidated financial statements elsewhere in this Report for a description of pending litigation matters that we are involved in.

In addition, from time to time, we may also be involved in legal proceedings and investigations arising in the normal course of business including, without limitation, commercial or contractual disputes, including warranty claims and other disputes with potential customers and suppliers; intellectual property matters; personal injury claims; environmental issues; tax matters; and employment matters.

It is difficult to predict the outcome or ultimate financial exposure, if any, represented by these matters, and there can be no assurance that any such exposure will not be material. Such claims may also negatively affect our reputation.

***We may become subject to product liability claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims.***

We may become subject to product liability claims, even those without merit, which could harm our business, prospects, operating results, and financial condition. We face inherent risk of exposure to claims in the event our batteries do not perform as expected, fail to meet relevant safety standards or requirements, or malfunction resulting in personal injury or death. Our risks in this area are particularly pronounced given our batteries have not yet been commercially tested or mass produced. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product liability claim could generate substantial negative publicity about our batteries and business and inhibit or prevent commercialization of other future battery candidates, which would have a material adverse effect on our brand, business, prospects and operating results. Any insurance coverage might not be sufficient to cover all potential product liability claims. Any lawsuit seeking significant monetary damages either in excess of our coverage, or outside of our coverage, may have a material adverse effect on our reputation, business and financial condition. We may not be able to secure additional product liability insurance coverage on commercially acceptable terms or at reasonable costs when needed, particularly if we do face liability for our products and are forced to make a claim under our policy.

***Our batteries and our website, systems, and data we maintain may be subject to intentional disruption, other security incidents, or alleged violations of laws, regulations, or other obligations relating to data handling that could result in liability and adversely impact our reputation and future sales.***

The research, development, and manufacturing of our batteries, supporting information systems (including internal systems such as research and development systems or external systems such as our website), and data that we maintain may be subject to intentional or inadvertent disruption, security incidents, or violations of laws, regulations, or other obligations relating to data handling, or perceptions that any of the foregoing have occurred, that could result in private claims, demands and litigation, regulatory investigations and other proceedings, and fines and other liabilities and adversely impact our reputation and future sales. We expect to face significant challenges with respect to information security and maintaining the security and integrity of our systems and other systems used in our business, as well as with respect to the data stored on or processed by these systems. Advances in technology, an increased level of sophistication, and an increased level of expertise of hackers, new discoveries in the field of cryptography or other factors can result in a compromise or breach of, or other security incident with respect to, the systems used in our business or of security measures used in our business to protect confidential information, personal information, and other data. Additionally, remote working further increases the security threats that we and our third-party service providers and suppliers face.

The availability and effectiveness of our batteries, and our ability to conduct our business and operations, depend on the continued operation of information technology and communications systems, some of which we have yet to develop or otherwise obtain the ability to use. Systems used in our business, including data centers and other information technology systems, may be vulnerable to damage or interruption. Such systems could also be subject to break-ins, corporate sabotage or state-sponsored espionage, and intentional acts of vandalism, infection by ransomware, viruses, or other malware, as well as disruptions and security incidents as a result of non-technical issues, including intentional or inadvertent acts or omissions by employees, service providers, or others, to among other things, properly implement our software and related security patches and updates. We use service providers to help provide certain services, and any such service providers face similar security and system disruption risks as us. Some of the systems used in our business are not and will not be fully redundant, and our disaster recovery planning cannot account for all eventualities. Any data security incidents or other disruptions to any data centers or other systems used in our business could result in lengthy interruptions in our service and may adversely affect our business, prospects, financial condition and operating results.

Significant capital and other resources may be required in efforts to protect against information security breaches, security incidents, and system disruptions, or to alleviate problems caused by actual or suspected information security breaches and other data security incidents and system disruptions. The resources required may increase over time as the methods used by hackers and others engaged in online criminal activities and otherwise seeking to obtain unauthorized access to systems or data, and to disrupt systems, are increasingly sophisticated and constantly evolving. In addition, the risk of cyber attacks is believed to have recently increased, as Russia may use cyber attacks as retaliatory measures in response to Western sanctions. Such cyber attacks could disrupt the economy more generally and could also impact our operations either directly or indirectly.

Security breaches and/or incidents can also remain undetected for an extended period as hackers mine data over time or optimize the timing and potency of their cyber attacks or disruptions. Any failure or perceived failure by us or our service providers to prevent information security breaches or other security incidents or system disruptions, or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in or is perceived or reported to result in unauthorized access to, or loss, theft, alteration, release, transfer, unavailability, or other processing of, our information, or any personal information or other customer data or confidential information, that we or our service providers maintain or otherwise process, could cause our potential customers to lose trust in us, result in loss or theft of proprietary or sensitive data and intellectual property, could harm our reputation and competitive position and could expose us to legal claims, demands, and litigation, regulatory investigations and proceedings, and fines, penalties, and other liability. Any such actual or perceived security breach, security incident or disruption could also divert the efforts of our technical and management personnel and could require us to incur significant costs and operational consequences in connection with investigating, remediating, eliminating and putting in place additional tools and devices designed to prevent actual or perceived security breaches and other incidents and system disruptions.

Additionally, our handling of data relating to individuals is subject to a variety of laws and regulations relating to privacy, data protection, and data security, and may become subject to additional obligations, including contractual obligations, relating to our maintenance and other processing of this data. Laws, regulations, and other actual and potential obligations relating to privacy, data protection, and data security are evolving rapidly, and we expect to potentially be subject to new laws and regulations, or new interpretations of laws and regulations, in the future in various jurisdictions. These laws, regulations, and other obligations, and changes in their interpretation, could require us to modify our operations and practices, restrict our activities, and increase our costs, and it is possible that these laws, regulations, and other obligations may be inconsistent with one another or be interpreted or asserted to be inconsistent with our business or practices. Any failure or perceived failure to comply with any applicable laws, regulations, or other obligations relating to privacy, data protection, or data security could also result in regulatory investigations and proceedings, and misuse of or failure to secure data relating to individuals could also result in claims and proceedings against us by governmental entities or others, penalties and other liability, and damage to our reputation and credibility, and could have a negative impact on potential future revenues and profits.

Our insurance policies may not cover all or any of the potential losses arising from any such disruption, failure, security breach, or incident impacting our systems or data or third-party systems where information important to our business operations is maintained.

***Our ability to manage our business and monitor results is highly dependent upon IT systems. A failure of these systems or our newly implemented ERP system or our planned MES implementation could have a material adverse effect on our business.***

We are highly dependent upon a variety of IT systems to operate our business. To continue to support our growth, we are making significant technological upgrades to our information systems. We implemented a new ERP system in the second quarter of 2022, and we will continue to make investment in improving and adding new functionality to the ERP system. We will also implement a new manufacturing execution system (“MES”) to perform various functions and improve on the efficiency of our business. These implementations are complicated, lengthy processes that have already required and will continue to require significant human investment, which diverts resources from other operations. Delays in the execution of these project plans, or any divergence from it, may result in cost overruns and, business interruptions. In addition, any divergence from our project plan could negatively impact the timing and/or extent of productivity and process enhancement we expect to achieve from the operation and enhancements to our ERP system and the implementation of our MES system. Failure to properly or adequately address any unaccounted for or unforeseen issues in successfully replacing our legacy systems could negatively impact our ability to support necessary business operations, including, without limitation, fulfilling federal, state and local reporting and filing requirements in a timely or accurate manner, or otherwise operate our business and production lines effectively. In addition, if any issues concerning the new systems result in, or contribute to, a delay in our timely reporting of our results of operations for any period or our not filing one or more periodic reports with the SEC on time, the price of our Class A Common Stock could decline substantially, and we could face costly lawsuits, including securities class actions, and also could impair our ability to raise necessary capital to run our operations and progress our product development efforts. Further, as we are dependent upon our ability to gather and promptly transmit accurate information to key decision makers, our business, results of operations and financial condition may be adversely affected if our information systems do not allow us to transmit accurate information, even for a short period of time. Failure to properly or adequately address these issues could negatively impact our ability to perform necessary business operations, which could adversely affect our reputation, competitive position, business, results of operations and financial condition.

***The operation of our new ERP system and the planned implementation of our MES system could negatively impact the effectiveness of business operations.***

Our ERP system is critical to our ability to accurately maintain books and records, provide important information to our management and prepare our consolidated financial statements. Use of our newly implemented ERP system requires new business and financial processes, and any such changes involve risks, including potential errors, processing inefficiencies and loss of data. If the transition to our newly implemented ERP system is not successful, and the new system and new processes do not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected and our ability to assess it adequately could be further impacted. If difficulties in operating the newly implemented ERP system or related processes result in a material weakness in our internal control over financial reporting, a failure to remediate the material weakness could also negatively impact our ability to prepare our future financial statements in conformity with U.S. GAAP. If we experience ongoing disruptions with such implementation and/or are unable to remediate any such material weakness, such events could have a material adverse effect on our reputation, competitive position, business, results of operations and financial condition.

An MES is an information system that monitors and tracks the process of producing manufactured and research and development goods on the factory floor. The overall goal of the MES is to make certain that manufacturing operations are effectively executed to ensure development and production milestones and deliveries stay on schedule. Any impacts to our MES execution implementation timeline will prevent us from tracking and gathering accurate data associated with our production processes. Delays in our MES deployment could prevent us from accurately predicting product shipments and could result in negative impacts on our factory scaling efforts. If we experience ongoing disruptions with our MES implementation and/or are unable to remediate challenges as they arise, this could affect our reputation with customers, our competitive position, and could impact our ability to scale and grow our manufacturing operation.

The continued investment in ramping up our operations, enhancements to the ERP systems and implementation of our MES will involve substantial expenditures, as well as design, development and implementation activities. Until the new systems are fully implemented and operational, we expect to incur additional expenses and capital expenditures to implement and test the systems, and there can be no assurance that issues relating to the systems will not occur or be identified. Our business and results of operations may be adversely affected if we experience operating problems, additional costs, or cost overruns during the implementation process, or if the systems or any related processes change significantly.

***We are subject to anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions and similar laws, and non-compliance with such laws can subject us to administrative, civil and criminal fines and penalties, collateral consequences, remedial measures and legal expenses, all of which could adversely affect our business, results of operations, financial condition and reputation.***

We are subject to anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions and similar laws and regulations in various jurisdictions in which we conduct or in the future may conduct activities, including the U.S. Foreign Corrupt Practices Act (“FCPA”), the U.K. Bribery Act 2010, and other anti-corruption laws and regulations. The FCPA and the U.K. Bribery Act 2010 prohibit us and our officers, directors, employees and business partners acting on our behalf, including agents, from corruptly offering, promising, authorizing or providing anything of value to a “foreign official” for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. The FCPA also requires companies to make and keep books, records and accounts that accurately reflect transactions and dispositions of assets and to maintain a system of adequate internal accounting controls. The U.K. Bribery Act also prohibits non-governmental “commercial” bribery and soliciting or accepting bribes. A violation of these laws or regulations could adversely affect our business, results of operations, financial condition and reputation. Our policies and procedures designed to ensure compliance with these regulations may not be sufficient and our directors, officers, employees, representatives, consultants, agents, and business partners could engage in improper conduct for which we may be held responsible.

Non-compliance with anti-corruption, anti-bribery, anti-money laundering or financial and economic sanctions laws could subject us to whistleblower complaints, adverse media coverage, investigations, and severe administrative, civil and criminal sanctions, collateral consequences, remedial measures and legal expenses, all of which could materially and adversely affect our business, results of operations, financial condition and reputation. In addition, changes in economic sanctions laws in the future could adversely impact our business and investments in our Class A Common Stock.

***Our management has limited experience in operating a public company.***

Some of our executive officers have limited experience in the management of a publicly traded company. As a public company, we are subject to significant regulatory oversight and reporting obligations under federal securities laws, and certain executives’ limited experience in dealing with the increasingly complex laws pertaining to public companies could be a significant disadvantage in that it is likely that an increasing amount of their time may be devoted to these activities which will result in less time being devoted to the management and growth of our Company. We may not have adequate personnel with the appropriate level of knowledge, experience, and training in the accounting policies, practices or internal controls over financial reporting required of public companies in the United States.

#### **Our Regulatory Risks**

***We are subject to substantial regulation and unfavorable changes to, or failure by us to comply with, these regulations could substantially harm our business and operating results.***

Our batteries, and the sale of EVs and motor vehicles in general, are subject to substantial regulation under international, federal, state and local laws, including export control laws. We expect to incur significant costs in complying with these regulations. Regulations related to the battery and EV industry and alternative energy are currently evolving and we face risks associated with changes to these regulations as well as potentially also to heightened regulatory scrutiny. For example, laws and regulations may be passed that make manufacturers financially responsible for the collection, treatment, recycling and disposal of certain products, including batteries for EVs. The costs of complying with such requirements, as they now exist or as may be introduced in the future, and the associated administrative burden could adversely affect our financial condition and results of operations, particularly if we are unable to pass on such costs to our customers.

As a result of the Company’s status as a special purpose acquisition company before the Business Combination, we are also subject to regulations and legal circumstances that differ from other publicly traded companies that did not complete a business combination.

Internationally, there may be laws and regulations in jurisdictions we have not yet entered or laws we are unaware of in jurisdictions we have entered that may restrict our sales or other business practices. The laws in this area can be complex, difficult to interpret and may change over time. Continued regulatory limitations and other obstacles that may interfere with our ability to commercialize our products could have a negative and material impact on our business, prospects, financial condition and results of operations.



To the extent regulations change, we may not comply with applicable international, federal, state or local regulations, which would have an adverse effect on our business. Compliance with changing regulations could be burdensome, time consuming, and expensive. To the extent compliance with new regulations is cost prohibitive, our business, prospects, financial condition and operating results would be adversely affected.

***We are subject to requirements relating to environmental and safety regulations and environmental remediation matters which could adversely affect our business, results of operation and reputation.***

We are subject to numerous federal, state and local environmental laws and regulations governing, among other things, solid and hazardous waste storage, treatment and disposal, and remediation of releases of hazardous materials. There are significant capital, operating and other costs associated with compliance with these environmental laws and regulations. Environmental laws and regulations may become more stringent in the future, which could increase costs of compliance or require us to manufacture our products using alternative technologies and materials.

Federal, state and local authorities also regulate a variety of matters, including, but not limited to, health, safety and permitting in addition to the environmental matters discussed above. New legislation and regulations may require us to make material changes to our operations, resulting in significant increases to the cost of production.

Our manufacturing process will have hazards such as but not limited to hazardous materials, machines with moving parts, and high voltage and/or high current electrical systems typical of large manufacturing equipment and related safety incidents. There may be safety incidents that damage machinery or product, slow or stop production, or harm employees. Consequences may include litigation, regulation, fines, increased insurance premiums, mandates to temporarily halt production, workers' compensation claims, or other actions that impact our company brand, finances, or ability to operate.

### **Risks Related to Ownership of Our Common Stock and Our Certificate of Incorporation and Bylaws Provisions**

***Our Class A Common Stock has been and may in the future continue to be subject to extreme volatility.***

The trading price of our Class A Common Stock has been and may in the future continue to be subject to extreme volatility. For example, from November 27, 2020, the date our Class A Common Stock began trading on the New York Stock Exchange ("NYSE"), through September 30, 2022, our Class A Common Stock has experienced an intra-day trading high of \$132.73 per share and an intra-day trading low of \$8.22 per share. At certain times during such period, the daily fluctuations in the trading price of our Class A Common Stock were substantially greater than 10%. We cannot predict the magnitude of future fluctuations in the trading price of our Class A Common Stock. The trading price of our Class A Common Stock may be affected by a number of factors, including events described in the risk factors set forth in this Report and in our other reports filed with the SEC from time to time, as well as our operating results, financial condition and other events or factors. Any of the factors listed below could have a material adverse effect on your investment in our securities. Factors affecting the trading price of our securities may include:

- announcements by us or our competitors regarding technical developments and levels of performance achieved by our or their battery technologies;
- announcements by us regarding the timing of our production objectives, including regarding QS-0, QS-1, and QS-1 Expansion;
- announcements by us or Volkswagen regarding developments in our relationship with Volkswagen;
- our ability to bring our products and technologies to market on a timely basis, or at all;
- our operating results or development efforts failing to meet the expectation of securities analysts or investors in a particular period;
- actual or anticipated fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to it;
- changes in the market's expectations about our operating results or the EV industry;
- success of competitors actual or perceived development efforts;
- changes in financial estimates and recommendations by securities analysts concerning the Company or the battery industry in general;
- operating and share price performance of other companies that investors deem comparable to the Company;
- disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain intellectual property protection for our technologies;
- changes in laws and regulations affecting our business;

- our ability to meet compliance requirements;
- commencement of, or involvement in, litigation involving the Company;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- the volume of shares of Class A Common Stock available for public sale;
- the level of demand for our stock, including the amount of short interest in our Class A Common Stock;
- any major change in our Board or management;
- sales of substantial amounts of the shares of Class A Common Stock by our directors, executive officers or significant stockholders or the perception that such sales could occur;
- changes in the estimates and assumptions that we make in the preparation of our financial statements may result in the fluctuation of our results of operations; and
- general economic and political conditions such as recessions, interest rates, fuel prices, international currency fluctuations, acts of terrorism, hostilities or the perception that hostilities may be imminent, and military conflict and acts of war.

Broad market and industry factors may materially harm the market price of our securities irrespective of our operating performance. The stock market has experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. The trading prices and valuations of securities may not be predictable. A loss of investor confidence in the market or the securities of other companies which investors perceive to be similar to the Company could depress the market price of our securities regardless of our business, prospects, financial conditions or results of operations. A decline in the market price of our securities also could adversely affect our ability to issue additional securities and our ability to obtain additional financing in the future.

Following certain periods of volatility in the market price of our securities, we may become the subject of securities litigation. We have experienced and may in the future experience additional litigation following periods of volatility. This type of litigation may result in substantial costs and a diversion of management's attention and resources.

***Sales of substantial amounts of our Class A Common Stock in the public markets, or the perception that such sales could occur, could reduce the price that our Class A Common Stock might otherwise attain.***

Sales of a substantial number of shares of our Class A Common Stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our Class A Common Stock and may make it more difficult for you to sell your Class A Common Stock at a time and price that you deem appropriate.

In connection with the Business Combination Agreement and the transactions contemplated by the Business Combination Agreement, certain holders of our securities entered into certain lock-up agreements, pursuant to which they agreed to certain restrictions on the transfer of our securities.

In addition, we have filed registration statements with the SEC to register shares for certain stockholders to sell such shares. We have also filed a registration statement with the SEC to register shares reserved for future issuance under our equity compensation plans. Subject to there being effective registration statements covering the sales of such shares, the satisfaction of applicable exercise periods and expiration of the lock-up agreements referred to above, the shares issued upon exercise of outstanding stock options and settlement of outstanding restricted stock units ("RSUs") will be available for immediate resale in the open market.

***Our business model of manufacturing solid-state batteries is capital-intensive, and we may not be able to raise additional capital on attractive terms, if at all, which could be dilutive to stockholders. If we cannot raise additional capital when needed, our operations and prospects could be materially and adversely affected.***

The development, design, manufacture and sale of batteries is a capital-intensive business, which we have financed through joint venture arrangements, other third-party financings and issuance of additional equity. As a result of the capital-intensive nature of our business, we can be expected to continue to sustain substantial operating expenses without generating sufficient revenues to cover expenditures. Over time, we expect that we will need to raise additional funds, including through entry into new or extending existing joint venture arrangements, through the issuance of equity, equity-related or debt securities or through obtaining credit from financial institutions to fund, together with our principal sources of liquidity, ongoing costs such as research and development relating to our batteries, the construction of large factories, any significant unplanned or accelerated expenses, and new strategic investments. We cannot be certain that additional capital will be available on attractive terms, if at all, when needed, which could be dilutive to stockholders, and our financial condition, results of operations, business and prospects could be materially and adversely affected.

***Short sellers may engage in manipulative activity that could drive down the market price of our Class A Common Stock.***

Short selling is the practice of selling securities that the seller does not own but rather has borrowed or intends to borrow from a third party with the intention of later buying lower priced identical securities to return to the lender. Accordingly, it is in the interest of a short seller of our Class A Common Stock for the price to decline. Some short sellers publish, or arrange for the publication of, opinions about or characterizations of our business which may create negative market momentum. Issuers, like us, whose securities have historically had limited trading history or volumes and/or have been susceptible to relatively high volatility levels can be particularly vulnerable to such short seller attacks. No assurances can be made that similar declines in the market price of our Class A Common Stock will not occur in the future, in connection with the activities of short sellers.

***We are required to use judgments in making estimates and assumptions in the preparation of our consolidated financial statements, and our results of operations may fluctuate significantly as a result of changes to our estimates and assumptions.***

Certain of our accounting policies require the application of subjective or complex judgments, often requiring us to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period would have had a material impact on our financial condition and results of operations.

All stock-based awards are required to be recognized based on their estimated grant date fair values. The amount recognized could vary depending on a number of assumptions or changes that may occur. We have granted stock-based awards to our Chief Executive Officer and other members of our management team pursuant to the Extraordinary Performance Award Program (the "EPA Program"). EPA Program awards have a vesting schedule based on the attainment of both performance (e.g. business milestones) and market conditions (e.g. stock price target).

For awards containing service, performance and market conditions, where all conditions must be satisfied prior to vesting, such as the EPA Program awards, compensation expense is recognized over the requisite service period, which is based on management's estimate of the probability and timing of the performance condition being satisfied, assessed at each reporting period. These estimates require management's judgments and changes in the probability-based assumptions can materially affect the timing of recognition of stock-based compensation expense and consequently, the related amount recognized in our statements of operations and comprehensive income.

***The dual class structure of our Common Stock has the effect of concentrating voting control with the current holders of Class B Common Stock. This will limit or preclude the ability of other stockholders to influence corporate matters, including the outcome of important transactions, including a change in control.***

Shares of Class B Common Stock have 10 votes per share, while shares of Class A Common Stock have one vote per share. As of September 30, 2022, the holders of the Class B Common Stock (excluding the voting power of any shares of Class A Common Stock beneficially owned by such holders) control approximately 68.6% of the voting power of our capital stock and therefore collectively control matters submitted to our stockholders for approval, including the election of directors, amendments of our organizational documents and any merger, consolidation, sale of all or substantially all of our assets or other major corporate transactions. Even though these holders are not party to any agreement that requires them to vote together, they may have interests that differ from yours and may vote in a way with which you disagree, and which may be adverse to your interests. This concentrated control may have the effect of delaying, preventing or deterring a change in control of us, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of us, and might ultimately affect the market price of shares of our Class A Common Stock.

***Our dual class structure may depress the trading price of the Class A Common Stock.***

We cannot predict whether our dual class structure will result in a lower or more volatile market price of the Class A Common Stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indexes. S&P Dow Jones and FTSE Russell have announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, pursuant to which companies with multiple classes of shares of common stock are excluded. In addition, several stockholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our Common Stock may cause stockholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices or any actions or publications by stockholder advisory firms critical of our corporate governance practices or capital structure could adversely affect the value and trading market of the Class A Common Stock.

***Anti-takeover provisions in our Certificate of Incorporation or Bylaws and Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our management and limit the market price of our Class A Common Stock.***

Our Certificate of Incorporation, our amended and restated Bylaws (the “Bylaws”) and Delaware law contain provisions which could have the effect of rendering more difficult, delaying or preventing an acquisition deemed undesirable by our Board. These provisions include:

- authorizing “blank check” preferred stock, which could be issued by our Board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to the Common Stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- prohibiting cumulative voting in the election of directors;
- providing that vacancies on our Board may be filled only by majority of directors then in office of our Board, even though less than a quorum;
- prohibiting the ability of our stockholders to call special meetings;
- establishing advance notice procedures for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our Board;
- requiring that, once there are no longer any outstanding shares of the Class B Common Stock, any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specifying that special meetings of our stockholders can be called only by a majority of our Board, the chair of our Board, or our Chief Executive Officer;
- requiring the approval of holders of at least two-thirds of the outstanding voting securities to amend the Bylaws and certain provisions of the Certificate of Incorporation once there are no longer any outstanding shares of Class B Common Stock; and
- reflecting two classes of Common Stock.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law (“DGCL”), which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder.

***Our Bylaws provide, subject to limited exceptions, that the Court of Chancery of the State of Delaware and the federal district courts of the United States will be the sole and exclusive forum for certain stockholder litigation matters, which could limit our stockholders’ ability to obtain a chosen judicial forum for disputes with us or our directors, officers, employees or stockholders.***

Our Bylaws provide that, unless otherwise consented to by us in writing, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another State court in Delaware or the federal district court for the District of Delaware) shall, to the fullest extent permitted by law, be the sole and exclusive forum for the following types of actions or proceedings: (i) any derivative action or proceeding brought on behalf of the Company; (ii) any action asserting a claim of breach of a fiduciary duty owed by, or otherwise wrongdoing by, any of our directors, officers, or other employees to us or our stockholders; (iii) any action arising pursuant to any provision of the DGCL or the Certificate of Incorporation or the Bylaws; (iv) any action to interpret, apply, enforce or determine the validity of the Certificate of Incorporation or the Bylaws; or (v) any other action asserting a claim that is governed by the internal affairs doctrine, in all cases subject to the court having jurisdiction over indispensable parties named as defendants. The Bylaws further provide that, unless otherwise consented to by the Company in writing, the federal district courts of the United States will be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act against any person in connection with any offering of the Company’s securities, including any auditor, underwriter, expert, control person or other defendant. These provisions would not apply to suits brought to enforce a duty or liability created by the Exchange Act.

Any person or entity purchasing, holding or otherwise acquiring any interest in our securities shall be deemed to have notice of and consented to these provisions. These choice of forum provisions may limit a stockholder’s ability to bring a claim in a judicial forum of its choosing for disputes with the Company or any of our directors, officers, other employees or stockholders, which may discourage lawsuits with respect to such claims. There is uncertainty as to whether a court would enforce such provisions, and the enforceability of similar choice of forum provisions in other companies’ charter documents has been challenged in legal proceedings. It is possible that a court could find these types of provisions to be inapplicable or unenforceable, and if a court were to find the choice of forum provisions contained in the Bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results and financial condition.

***We do not expect to declare any dividends in the foreseeable future.***

We do not anticipate declaring any cash dividends to holders of our Common Stock in the foreseeable future. Consequently, investors may need to rely on sales of their shares after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

## **General Risk Factors**

### ***If we are unable to attract and retain key employees and qualified personnel, our ability to compete could be harmed.***

Our success depends on our ability to attract and retain our executive officers, key employees and other qualified personnel, and our operations may be severely disrupted if we lose their services. As we build our brand and become more well known, there is increased risk that competitors or other companies will seek to hire our personnel. None of our employees are bound by a non-competition agreement. The failure to attract, integrate, train, motivate and retain these personnel could seriously harm our business and prospects.

In addition, we are highly dependent on the services of Jagdeep Singh, our Chief Executive Officer, and other senior technical and management personnel, including our executive officers, who would be difficult to replace. If Mr. Singh or other key personnel were to depart, this could negatively impact our prospects, triggering further departures and limiting the Company's ability to operate and grow our business.

### ***Our facilities or operations could be damaged or adversely affected as a result of natural disasters and other catastrophic events.***

Our facilities or operations could be adversely affected by events outside of our control, such as natural disasters, wars, health epidemics such as the ongoing COVID-19 pandemic, and other calamities. We cannot assure you that any backup systems will be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services.

### ***Any financial or economic crisis, or perceived threat of such a crisis, including a significant decrease in consumer confidence, may materially and adversely affect our business, financial condition, and results of operations.***

In recent years, the United States and global economies suffered dramatic downturns as the result of the COVID-19 pandemic, a deterioration in the credit markets and related financial crisis as well as a variety of other factors including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, ratings downgrades of certain investments and declining valuations of others. The United States and certain foreign governments have taken unprecedented actions in an attempt to address and rectify these extreme market and economic conditions by providing liquidity and stability to the financial markets. If in future crises governments refuse to take such actions or if the actions taken by these governments are not successful, the resulting adverse economic conditions may negatively impact the demand for our solid-state battery cells and may negatively impact our ability to raise capital, if needed, on a timely basis and on acceptable terms or at all.

### ***Our results of operations and financial condition could be materially affected by the enactment of legislation implementing changes in the U.S. or foreign taxation of business activities or the adoption of other tax reform policies.***

As we expand the scale of our business activities, any changes in the U.S. or foreign taxation of such activities may increase our worldwide effective tax rate and harm our business, results of operations, and financial condition. For example, the current administration has proposed to increase the U.S. corporate income tax rate, increase U.S. taxation of international business operations, and impose a global minimum tax which has agreement from many countries and the Organisation for Economic Co-operation and Development. In addition, the Inflation Reduction Act of 2022 signed into law on August 16, 2022 (the "IRA") includes numerous incentives and tax credits aimed at reducing the effects of climate change, such as the extension of electric vehicle charging infrastructure tax credits under Section 30C and tax credits for electric vehicles under Section 30D of the Internal Revenue Code of 1986 (the "Code"), the expansion of advanced manufacturing tax credits under Section 48C and enactment of advanced manufacturing production credits for eligible component production in the United States under Section 48X of the Code. Such tax credits may potentially benefit incumbents more than new entrants, and consequently have adverse competitive effects for new entrants. However, the full impact of the IRA cannot be known, and many of the IRA's provisions are not self-executing and require further guidance from the IRS and Treasury Department, which we expect to be issued in the coming months and years. These incentives may also expire on a particular date, end when the allocated funding is exhausted, or be reduced or terminated as a matter of regulatory or legislative policy. Any other reduction in rebates, tax credits or other financial incentives could materially reduce the demand for EVs, which adversely impact the battery demand for EVs, or materially reduce the amount of incentives available for the manufacture of our products and have an adverse impact on our business. The impact of future changes to U.S. and foreign tax law on our business is uncertain and could be adverse, and we will continue to monitor and assess the impact of any such changes.

***Our ability to utilize our net operating loss and tax credit carryforwards to offset future taxable income may be subject to certain limitations.***

In general, under Section 382 of the Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to use its pre-change net operating loss carryforwards (“NOLs”), to offset future taxable income. The limitations apply if a corporation undergoes an “ownership change,” which is generally defined as a greater than 50 percentage point change (by value) in its equity ownership by certain stockholders over a three-year period. If we have experienced an ownership change at any time since our incorporation, we may already be subject to limitations on our ability to utilize our existing NOLs and other tax attributes to offset taxable income or tax liability. In addition, future changes in our stock ownership, which may be outside of our control, may trigger an ownership change. Similar provisions of state tax law may also apply to limit our use of accumulated state tax attributes. As a result, even if we earn net taxable income in the future, our ability to use it or our pre-change NOL carryforwards and other tax attributes to offset such taxable income or tax liability may be subject to limitations, which could potentially result in increased future income tax liability to us.

There is also a risk that changes in law or regulatory changes made in response to the need for some jurisdictions to raise additional revenue to help counter the fiscal impact from the COVID-19 pandemic or for other unforeseen reasons, including suspensions on the use of net operating losses or tax credits, possibly with retroactive effect, may result in our existing net operating losses or tax credits expiring or otherwise being unavailable to offset future income tax liabilities.

***Our insurance coverage may not be adequate to protect us from all business risks.***

We may be subject, in the ordinary course of business, to losses resulting from products liability, accidents, acts of God, and other claims against us, for which we may have no insurance coverage. As a general matter, the policies that we do have may include significant deductibles or self-insured retentions, and we cannot be certain that our insurance coverage will be sufficient to cover all future losses or claims against us. A loss that is uninsured or which exceeds policy limits may require us to pay substantial amounts, which could adversely affect our financial condition and operating results.

***We have incurred and will continue to incur significant expenses and administrative burdens as a public company, which could have an adverse effect on our business, financial condition and results of operations.***

Our Class A Common Stock is listed on the NYSE under the symbol “QS”. As a public company, we incur significant legal, accounting, administrative and other costs and expenses associated with corporate governance requirements and listing standards that are applicable to public companies. If we were to fail to meet such requirements and standards and if the NYSE were to consequently delist our Class A Common Stock from trading on its exchange and we are not able to list such securities on another national securities exchange, we expect such securities could be quoted on an over-the-counter market. If this were to occur, we and our stockholders could face significant material adverse consequences including:

- a limited availability of market quotations for our securities;
- reduced liquidity for our securities;
- a limited amount of news and analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

In addition, the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), including the requirements of Section 404, as well as rules and regulations subsequently implemented by the SEC, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and any rules and regulations promulgated and to be promulgated thereunder, the PCAOB and the securities exchanges, impose additional reporting and other obligations on public companies. Meeting the standards and controls required of a public company in the United States requires significant ongoing costs. It is possible that we will be required to further expand our employee base and hire additional employees to support our operations, particularly as such standards and controls continue to change over time, which will increase our operating costs in future periods.

Compliance with evolving public company requirements may continue to increase costs and make certain activities more time-consuming. For example, we have created new Board committees and adopted new internal controls and disclosure controls and procedures. In addition, expenses associated with SEC reporting requirements already have been and will continue to be incurred. Furthermore, if any issues in complying with those requirements are identified, such as material weakness in our internal controls that require a restatement of previously issued consolidated financial statements, we could incur additional costs rectifying those or new issues, and the existence of these issues could adversely affect our reputation or investor perceptions of it. It has also become more expensive to obtain director and officer liability insurance. Risks associated with our status as a public company may make it more difficult to attract and retain qualified persons to serve on our Board or as executive officers. The reporting and other obligations imposed by these rules and regulations have resulted in and may continue to result in significant accounting, administrative, financial compliance and legal costs. These costs have required and may continue to require us to divert a significant amount of money that could otherwise be used to expand the business and achieve strategic objectives. Advocacy efforts by stockholders and third parties may also prompt additional changes in governance and reporting requirements, which could further increase costs.

***If we experience material weaknesses in the future or otherwise fail to maintain an effective system of internal controls in the future, our business could be adversely affected, and we may not be able to accurately report our financial condition or results of operations which may adversely affect investor confidence in us and, as a result, the value of our Class A Common Stock.***

As a public company, we are required, under Section 404 of the Sarbanes-Oxley Act, to furnish annual reports by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment needs to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual and interim financial statements will not be detected or prevented on a timely basis. If we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. The effectiveness of our controls and procedures may be limited by a variety of factors, including:

- faulty human judgment and simple errors, omissions or mistakes;
- fraudulent action of an individual or collusion of two or more people;
- inappropriate management override of procedures; and
- the possibility that any enhancements to controls and procedures may still not be adequate to assure timely and accurate financial control.

Pursuant to the Sarbanes-Oxley Act and the rules and regulations promulgated by the SEC, we are required to furnish in this Report a report by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. As of September 30, 2021, we remediated the material weakness that was identified in connection with the restatement of previously issued consolidated financial statements as of and for the period ended December 31, 2020. While we believe our internal control over financial reporting is currently effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate because of changes in conditions. Establishing, testing and maintaining an effective system of internal control over financial reporting requires significant resources and time commitments on the part of our management and our finance staff, may require additional staffing and infrastructure investments and would increase our costs of doing business.

In addition, under the federal securities laws, our auditors are required to express an opinion on the effectiveness of our internal controls. If we are unable to confirm that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our Class A Common Stock to decline.

***Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.***

We are subject to the periodic reporting requirements of the Exchange Act. We designed our disclosure controls and procedures to provide reasonable assurance that information we must disclose in reports we file or submit under the Exchange Act is accumulated, communicated to management, recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

***If securities or industry analysts do not publish or cease publishing research or reports about us, our business, or the market in which we operate, or if they change their recommendations regarding our securities adversely, the price and trading volume of our securities could decline.***

The trading market for our securities will be influenced by the research and reports that industry or securities analysts may publish about us, our business, market or competitors. If any of the analysts who cover us change their recommendation regarding our shares of Class A Common Stock adversely, or provide more favorable relative recommendations about our competitors, the price of our shares of Class A Common Stock would likely decline. If any analyst who cover us were to cease our coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline.

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

None.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.



**Item 6. Exhibits.**

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1	<a href="#"><u>Business Combination Agreement, dated as of September 2, 2020, by and among Kensington Capital Acquisition Corp., Kensington Capital Merger Sub Corp. and Legacy QuantumScape.</u></a>	S-4/A	333-248930	2.1	November 12, 2020
2.2	<a href="#"><u>Amendment No. 1 to Business Combination Agreement, dated as of September 21, 2020, by and among Kensington Capital Acquisition Corp., Kensington Capital Merger Sub Corp. and Legacy QuantumScape.</u></a>	S-4/A	333-248930	2.2	November 12, 2020
3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation of the Company.</u></a>	8-K	001-39345	3.1	December 2, 2020
3.2	<a href="#"><u>Amended and Restated Bylaws of the Company.</u></a>	8-K	001-39345	3.1	October 25, 2022
10.1	<a href="#"><u>Letter Agreement dated September 27, 2022, by and among QuantumScape Battery, Inc., Volkswagen Group of America, Inc., Volkswagen Group of America Investments, LLC and QSV Operations LLC</u></a>	8-K	001-39345	10.1	September 28, 2022
31.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>				
31.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>				
32.1†	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>				
32.2†	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>				
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				

\* Filed herewith.

† These exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of QuantumScape Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filings.

## SIGNATURES

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

QuantumScape Corporation

Date: October 28, 2022

By: /s/ Jagdeep Singh  
Jagdeep Singh  
Chief Executive Officer  
(Principal Executive Officer)

Date: October 28, 2022

By: /s/ Kevin Hettrich  
Kevin Hettrich  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jagdeep Singh, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of QuantumScape Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2022

By: /s/ Jagdeep Singh  
**Jagdeep Singh**  
 Chief Executive Officer  
 (Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin Hettrich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of QuantumScape Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2022

By: /s/ Kevin Hettrich  
**Kevin Hettrich**  
**Chief Financial Officer**  
 (Principal Financial Officer)

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Jagdeep Singh  
**Jagdeep Singh**  
**Chief Executive Officer**  
 (Principal Executive Officer)

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Kevin Hettrich  
**Kevin Hettrich**  
**Chief Financial Officer**  
 (Principal Financial Officer)