

1 ROBBINS GELLER RUDMAN  
& DOWD LLP  
2 SHAWN A. WILLIAMS (213113)  
CHRISTOPHER P. SEEFER (201197)  
3 DANIEL J. PFEFFERBAUM (248631)  
Post Montgomery Center  
4 One Montgomery Street, Suite 1800  
San Francisco, CA 94104  
5 Telephone: 415/288-4545  
415/288-4534 (fax)  
6 shawnw@rgrdlaw.com  
chriss@rgrdlaw.com  
7 dpfefferbaum@rgrdlaw.com

- and -

8 JUAN CARLOS SANCHEZ (301834)  
PATTON L. JOHNSON (320631)  
9 655 West Broadway, Suite 1900  
San Diego, CA 92101  
10 Telephone: 619/231-1058  
619/231-7423 (fax)  
11 jsanchez@rgrdlaw.com  
pjohnson@rgrdlaw.com

12 Lead Counsel for Lead Plaintiff

13 [Additional Counsel Appear on Signature Page]

14 UNITED STATES DISTRICT COURT  
15 NORTHERN DISTRICT OF CALIFORNIA  
16 SAN FRANCISCO DIVISION

17 HARIRAM SHANKAR, Individually and on ) Case No. 3:21-cv-06028-JD  
18 Behalf of All Others Similarly Situated, )  
) AMENDED CLASS ACTION COMPLAINT  
19 Plaintiff, ) FOR VIOLATIONS OF THE FEDERAL  
) SECURITIES LAWS  
20 vs. )  
) DEMAND FOR JURY TRIAL  
21 ZYMERGEN INC., JOSH HOFFMAN, )  
22 ENAKSHI SINGH, STEVEN CHU, JAY T. )  
23 FLATLEY, CHRISTINE M. GORJANC, )  
24 TRAVIS MURDOCH, MATTHEW A. )  
25 OCKO, SANDRA E. PETERSON, ZACH )  
26 SERBER, ROHIT SHARMA, SVF )  
27 EXCALIBUR (CAYMAN) LIMITED, SVF )  
28 ENDURANCE (CAYMAN) LIMITED, )  
SOFTBANK VISION FUND (AIV M1) L.P., )  
DATA COLLECTIVE II, L.P., DCVC )  
OPPORTUNITY FUND, L.P., TRUE )  
VENTURES IV, L.P., TRUE VENTURES )  
SELECT I, L.P., TRUE VENTURES SELECT )  
II, L.P., TRUE VENTURES SELECT III, L.P., )  
TRUE VENTURES SELECT IV, L.P., J.P. )

1 MORGAN SECURITIES LLC, GOLDMAN )  
SACHS & CO. LLC, COWEN AND )  
2 COMPANY, LLC, BOFA SECURITIES, )  
INC., UBS SECURITIES LLC, and LAZARD )  
3 FRÈRES & CO. LLC., )  
4 )  
Defendants. )  
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1           Lead Plaintiff Biao Wang (“Wang”) and Plaintiff West Palm Beach Firefighters’ Pension  
2 Fund (“WPBFPP”) (collectively, “Plaintiffs”), individually, and on behalf of all others similarly  
3 situated, by and through their attorneys, allege the following upon information and belief, except  
4 as to those allegations concerning Plaintiffs, which are alleged upon personal knowledge.  
5 Plaintiffs’ information and belief are based upon, among other things, their counsel’s investigation,  
6 which includes, without limitation: (a) review and analysis of regulatory filings made by  
7 Zymergen Inc. (“Zymergen” or the “Company”) with the United States Securities and Exchange  
8 Commission (“SEC”); (b) review and analysis of press releases, earnings call transcripts and media  
9 reports issued and disseminated by Zymergen; and (c) review of other publicly available  
10 information concerning Zymergen, including transcripts of Zymergen presentations at investor  
11 conferences, reports issued by analysts and articles in the financial press.

## 12 **I. NATURE OF THE ACTION AND OVERVIEW**

13           1. This is a Class action on behalf of persons and entities that purchased or otherwise  
14 acquired Zymergen common stock pursuant and/or traceable to the registration statement and  
15 prospectus (collectively, the “Registration Statement”) issued in connection with the Company’s  
16 April 2021 initial public offering (“IPO” or “Offering”). Plaintiffs pursue claims against  
17 Defendants under the Securities Act of 1933 (“Securities Act”).

18           2. Zymergen integrates computational and manufacturing technologies to design,  
19 engineer and optimize microbes for industrial applications. The Company developed a platform  
20 that treats the genome as a search space, using proprietary machine learning algorithms and  
21 advanced automation to identify genetic changes that improve the economics for its customers’  
22 bio-based products for a range of industries, including electronics, consumer care, chemicals,  
23 materials, agriculture and pharmaceuticals. In addition, Zymergen’s platform is used to discover  
24 novel molecules used to enable unique material properties. The Company was incorporated in  
25 Delaware on April 24, 2013.

26           3. The Company reported that it partnered with Nature to design, develop, and  
27 commercialize bio-based breakthrough products that deliver extraordinary value to customers in a  
28 broad range of industries, including electronics, consumer care and agriculture. Zymergen

1 reported that its goal was to create new products with a proprietary platform that unlocked the  
2 design and manufacturing efficiency of biological processes with technology's ability to rapidly  
3 iterate and control diverse functions. Zymergen called this process biofacturing and claimed it  
4 allowed the Company to create better products faster, cheaper and more sustainably than  
5 traditional chemistry by engineering microbes to make novel biomolecules that are the key  
6 ingredients in those products.

7 4. Zymergen completed its IPO on April 22, 2021. On April 23, 2021, the Company  
8 filed its prospectus on Form 424B4 with the SEC, which forms part of the Registration Statement.  
9 In the IPO, the Company sold approximately 18,549,500 shares of common stock at a price of  
10 \$31.00 per share, raising proceeds of approximately \$575 million. The Company received  
11 proceeds of approximately \$529.9 million from the Offering, net of approximately \$40.3 million  
12 of underwriting discounts and commissions and \$4.9 million of Offering costs. The proceeds from  
13 the IPO were purportedly to be used for working capital and other general corporate purposes,  
14 including the continued investment in commercializing Zymergen's existing products, launching  
15 products in its pipeline and furthering the development of its biofacturing platform and technology.

16 5. Following the completion of the IPO, on April 22, 2021, Zymergen's stock began  
17 trading on the NASDAQ under the stock symbol "ZY." The Company had approximately  
18 100.4 million shares of common stock outstanding and a market capitalization of approximately  
19 \$3 billion upon completion of the IPO. On April 29, 2021, the Company's stock price traded as  
20 high as \$52 per share, increasing market capitalization to approximately \$5.2 billion.

21 6. As detailed herein, the Registration Statement was inaccurate and misleading,  
22 contained untrue statements of material facts, omitted to state facts necessary to make the  
23 statements made not misleading and omitted to state material facts required to be stated therein.  
24 The untrue statements of material facts and omissions concerned the Company's biofacturing  
25 platform; the Company's ability to create better products faster, cheaper and more sustainably  
26 using the biofacturing platform; the product development process; the development status of 11  
27 products in the Company's product pipeline; the market opportunity for those products; and when  
28 those products would generate revenue.

1           7.       The representations in the Registration Statement detailed below were materially  
2 misleading because, as the Company disclosed on August 3, 2021 and November 3, 2021,  
3 Zymergen was unable to produce products that could be sold at a profit when it created,  
4 manufactured and distributed the products on its own. In addition, the representations were  
5 materially misleading because Defendants failed to disclose that several key target customers had  
6 technical issues implementing Hyaline, the Company’s first and only product to be launched at the  
7 time of the IPO, into their manufacturing processes or that there was only a “hypothetical” near-  
8 term market for Hyaline due to there being “no hit product yet in the foldable display market.”  
9 Indeed, the Company abandoned Hyaline and another optical film product because there was a  
10 smaller near-term market opportunity than represented in the Registration Statement and  
11 abandoned all of the consumer care products because those products could not be sold at a profit  
12 when Zymergen created, manufactured and distributed them on its own. As a result, Zymergen  
13 did not generate product revenue in 2021 and 2022, as it represented in the Registration Statement.

14           8.       Defendants represented that Zymergen’s biofacturing platform could create better  
15 products faster, cheaper and more sustainably than chemical and materials companies; that the  
16 demand for innovative materials had never been greater; and that synthetic biology companies like  
17 Zymergen were a better alternative to chemical and materials companies that struggled to innovate  
18 because they used a limited molecular palette, had substantial capital expenditures and were among  
19 the planet’s worst industrial polluters.

20           9.       Eleven Zymergen products were highlighted in the Registration Statement: three  
21 optical film products and one bio-based epoxy product for the electronics industry; four consumer  
22 care products, including a naturally derived insect repellent; and three agricultural products.  
23 Defendants represented that these products were in various stages of development and described  
24 the development process, representing that: (a) Zymergen’s business development personnel  
25 worked with customers to define a set of properties for a material that the customers would find  
26 valuable; then (b) designed and developed engineered microbes that manufactured the novel  
27 biomolecule that would be a key ingredient in a breakthrough product; then (c) had Contract  
28 Manufacturing Organizations (“CMOs”) manufacture the product; and finally (d) used

1 Zymergen’s sales force and marketing capabilities to contract with customers and sell the product  
2 to them.

3 10. In describing the product development process, Defendants highlighted Hyaline,  
4 the first and only product launched by Zymergen at the time of the IPO. They represented Hyaline  
5 was launched in December 2020, to customers in the electronic industry, which began the expected  
6 6- to 18-month product qualification process with multiple customers. Defendants emphasized the  
7 importance of the qualification process in Zymergen’s target markets and represented that Hyaline  
8 (and other products) would generate revenue after customers completed all aspects of the  
9 qualification process and decided to place an order for the product.

10 11. Defendants represented that Hyaline was an optical film designed for electronics  
11 companies to use for display touch sensors in personal devices and other applications and would  
12 allow customers to make robust foldable touchscreens and high density flexible printed circuits.  
13 Defendants represented that Hyaline was expected to generate revenue in the second half of 2021,  
14 just a few months after the completion of the IPO, and that Zymergen’s global direct sales force  
15 and a team of application sales engineers were working with customers on the sales qualification  
16 process for Hyaline wherein customers would be able to validate the product and qualify it as a  
17 standard component in their final electronic devices.

18 12. Defendants also represented that other optical film products would generate  
19 revenue following the 6- to 18-month qualification process and that the four consumer care  
20 products and three agricultural products would generate revenue upon launch because a product  
21 qualification process was unnecessary.

22 13. Defendants represented that Zymergen would grow its business in several ways and  
23 that it generally targeted products that could support annual sales of greater than \$150 million.  
24 Defendants assured investors that the market opportunity addressable by Zymergen’s biofacturing  
25 platform was enormous and diverse – at least \$1.2 trillion across 20 separate industries. They  
26 represented that the market opportunity for the three industries being pursued with its 11 pipeline  
27 products – electronics, consumer care and agriculture – was approximately \$150 billion, including  
28

1 the foldable display market for Hyaline being over \$1 billion in 2020, and the market for insect  
2 repellent being over \$1.5 billion.

3 14. The representations about Zymergen's biofacturing platform; the Company's  
4 ability to create better products faster, cheaper and more sustainably; the product development  
5 process; the development status of the 11 products in the product pipeline; the market opportunity  
6 for those products; and when those products would generate revenue were particularly important  
7 to investors given the Company's precarious financial condition. Zymergen reported just  
8 \$15.4 million of revenue in 2019, and a net loss of \$236.8 million. In 2020, Zymergen reported  
9 just \$13.3 million of revenue and a net loss of \$262.2 million. The increasing net losses caused  
10 the Company to be insolvent as of December 31, 2020, with an accumulated deficit of  
11 \$773.7 million. The recurring losses and accumulated deficit meant Zymergen needed to raise  
12 equity or debt to fund its operations until the Company could generate sufficient revenues to fund  
13 its operations. That, in turn, caused the Company's auditors to note that there was substantial  
14 doubt about the Company's ability to continue operating as a going concern.

15 15. The Risk Factors contained in the Registration Statement were also materially  
16 inaccurate and misleading. Defendants represented that various risks "could," "would" or "might"  
17 negatively impact Zymergen "if" they occurred. These representations were materially inaccurate  
18 and misleading because the warned-of risks had already occurred and were negatively impacting  
19 Zymergen at the time of the IPO.

20 16. Beginning on August 3, 2021, *less than four months after the completion of the*  
21 *IPO*, the Company revealed numerous material adverse facts that informed investors the  
22 Registration Statement contained untrue statements of material facts and omitted material facts.  
23 On that date, Zymergen issued a press release and held a conference call to provide a business  
24 update regarding its commercial product pipeline and financial forecast. The Company reported  
25 that: (i) there were issues with its commercial products pipeline that would impact the Company's  
26 delivery timeline and revenue projections; (ii) it was clear the commercial opportunity for the  
27 Company's first product, Hyaline, was less than expected; (iii) Zymergen's Board of Directors  
28 (the "Board") had initiated a series of deep dives into the Company's product pipeline and



1 development process; (iv) the Board anticipated that the roadmap and timelines for Zymergen’s  
2 follow-on products could also be impacted; (v) as a result of the foregoing, the Company no longer  
3 expected product revenue in 2021, and only expected immaterial product revenue in 2022; and  
4 (vi) without a firm pipeline of customers and visibility on commitments, the Company’s  
5 projections beyond 2022, were highly uncertain.

6 17. The Company provided details stating that, through its receipt of periodic updates  
7 regarding the Company’s progress toward its goals, the Board had learned of “significant  
8 execution challenges within the organization.” The Board had identified several contributing  
9 factors to the revisions of its plan for product delivery timelines and revenues. First, *during the*  
10 *quarter that the IPO was completed*, several key target customers encountered technical issues in  
11 implementing Hyaline into their manufacturing processes, resulting in a delay in the commercial  
12 ramp of Hyaline. Second, the total addressable market for foldable display applications, the market  
13 for Hyaline, was in an earlier stage than previously expected, with emerging data indicating a  
14 smaller near-term market opportunity, with scaled demand pushed out in time and growing more  
15 slowly than anticipated. Indeed, the Company admitted that there was no near-term market for  
16 Hyaline and that the market was just “theoretical” because there was “no hit product yet in the  
17 foldable display market.” Third, the Company’s commercial teams did not have significant insight  
18 into the customer qualification process and into their customers and users, which resulted in  
19 Zymergen’s forecasts overestimating near-term demand. As a result, the Company reported it was  
20 already making substantial changes in the commercial team.

21 18. Defendant Jay Flatley (“Flatley”), the Company’s acting Chief Executive Officer  
22 (“CEO”), who replaced Defendant Josh Hoffman (“Hoffman”) after Hoffman was abruptly  
23 terminated on August 2, 2021, acknowledged the obvious seriousness of the numerous unexpected  
24 adverse disclosures, stating: “*I want to perhaps state the obvious that we’re taking this situation*  
25 *extremely seriously.*” Flatley said that as soon as the Board learned of the problems, the Board  
26 and management immediately started to work to fully understand the issues and began developing  
27 a plan to address them, including the formation of dedicated committees, including a Strategic  
28 Oversight Committee, which was working with expert advisors to conduct an in-depth review of

1 the Company's operational, financial, product and commercialization efforts to facilitate the  
2 development of an updated strategic plan. That work was focused on: (i) a deep dive into the  
3 Company's sales forecasting process to examine how the initial forecast was developed, where the  
4 issues arose and how to improve the process going forward; (ii) the retention of a number of  
5 outside experts to examine the robustness of the products coming out of the pipeline and their  
6 readiness for full commercialization; and (iii) digging into the Company's long-term market  
7 opportunities to ensure the product pipeline was aligned with industry trends and customer  
8 demand. The Company was also developing a plan to reduce and align expenses with the change  
9 in the Company's revenue expectations.

10 19. In short, Flatley told investors that just about everything in the Registration  
11 Statement concerning the development, commercial opportunity and sale of the 11 products in the  
12 Company's pipeline was not true and that Zymergen was now in the process of determining which  
13 products and markets the Company would target in the future. In addition, Flatley acknowledged  
14 Zymergen had not previously operated with transparency and openness, stating that the Company  
15 would conduct a cultural assessment to ensure that there would be broad-based accountability  
16 across the organization and would operate with transparency and openness. He said that the Board  
17 and management were focused on reestablishing the credibility of the leadership team and the  
18 Company and that Hoffman had been terminated, effective immediately, as part of the effort to  
19 reestablish the credibility of the leadership team and the Company.

20 20. The Company never claimed this material adverse information did not exist, or was  
21 not known or knowable, at the time of the IPO. Indeed, the Company admitted the technical issues  
22 several key customers encountered implementing Hyaline into their manufacturing processes  
23 (which delayed the commercial ramp of the product and caused Zymergen to no longer expect any  
24 product revenue in 2021, and only immaterial product revenue in 2022) were occurring during the  
25 quarter the Company completed the IPO.

26 21. Nor did the Company claim that the emerging data on the total addressable market  
27 for foldable display applications (which indicated a smaller near-term market opportunity that was  
28 growing less rapidly than anticipated) did not exist, or was not known or knowable, at the time of

1 the IPO. Other adverse disclosures show that the data did exist at the time of the IPO. Flatley's  
2 admission on August 3, 2021, that there was no market for Hyaline and that it was just "theoretical"  
3 because there was "no hit product yet in the foldable display market" establishes that there was no  
4 market for Hyaline at the time of the IPO.

5 22. In addition, the Company admitted it did not have significant insight into the  
6 customer qualification process or their customers and users at the time of the IPO, which resulted  
7 in the Company's forecasts overestimating near-term demand. As a result, Zymergen was: (i)  
8 making substantial changes in its commercial teams; (ii) conducting a deep dive into the  
9 Company's sales forecasting process to examine how the initial forecasts were developed, where  
10 the issues arose and how to improve that process going forward; and (iii) examining the robustness  
11 of the products coming out of the Company's pipeline and their readiness for full  
12 commercialization.

13 23. The Company also revealed that there were issues with the long-term opportunities  
14 for its products, reporting that Zymergen was digging into the Company's long-term market  
15 opportunities to ensure the product pipeline was aligned with industry standards and customer  
16 demand and that, with the assistance of a top-tier consulting firm, the Company was doing a full  
17 assessment of Zymergen's target markets and the fit of its products into the pipeline of those  
18 markets, including an exploration of adjacent opportunities that could possibly provide new  
19 revenue sources.

20 24. Other disclosures on August 3, 2021, also demonstrate that the adverse information  
21 about Hyaline, the total addressable market for foldable display applications, the commercial  
22 teams' lack of significant insight into the customer qualification process and their customers and  
23 users and the resulting overestimated forecast of near-term demand for Zymergen products existed  
24 at the time of the IPO, including that: (i) Zymergen would conduct a cultural assessment to ensure  
25 there would be broad-based accountability across the organization; (ii) Zymergen was focused on  
26 reestablishing the credibility of the leadership team and the Company; (iii) Hoffman had been  
27 terminated as part of the effort to reestablish the credibility of the leadership team and the  
28 Company; and (iv) the Company would operate with transparency and openness in the future.

1           25.     The reaction of analysts to the unexpected material adverse disclosures indicates  
2 that they believed the adverse information existed at the time of the IPO. Analysts were stunned  
3 by the numerous adverse disclosures, questioned the Company’s credibility during the August 3,  
4 2021 earnings call and issued reports after the earnings call, in which they downgraded the  
5 Company’s stock and questioned when the adverse information was known.

6           26.     During the earnings call, one analyst stated the disclosures were “[o]bviously[] a  
7 disappointment for everybody” and “very surprising.” Another analyst asked: “[H]ow can we  
8 have any confidence whatsoever in anything that’s been put out there in terms of numbers or . . .  
9 the market opportunity?” Flatley acknowledged the lack of credibility was more than justified,  
10 responding: “[T]otally fair that you question the credibility of any forecast we give you today.”

11           27.     After the earnings call, analysts issued reports in which they downgraded Zymergen  
12 and also questioned the Company’s credibility. William Blair & Company analyst Matt Larew  
13 (“Larew”) issued a report in which he downgraded Zymergen stock and wrote: “[*G*iven the abrupt  
14 and significant about-face just months after the IPO, we believe the company has destroyed its  
15 credibility with investors.” In addition, he questioned how the adverse information about the  
16 smaller near-term market opportunity for the foldable display market was not known at the time  
17 of the IPO, writing:

18                   ***In our view, what is more confusing and concerning is commentary on***  
19                   ***the total addressable market for foldable display applications, which suggests a***  
20                   ***smaller near-term market opportunity that is growing more slowly than***  
21                   ***anticipated. Frankly, we are not quite sure how the data could have changed so***  
22                   ***much over such a short time (again, the company’s IPO filings were published***  
23                   ***less than four months ago), and at this point the company does not have enough***  
24                   ***data to quell our concerns or give us any sense of what the company’s actual***  
25                   ***pipeline might look like following the in-depth review of the company’s***  
26                   ***operational, financial, product, and commercialization efforts.***

27           28.     Multiple government agencies, including the SEC, requested information from the  
28 Company related to the unexpected adverse disclosures on August 3, 2021. Defendants failed to  
disclose this material adverse information in Zymergen’s earnings releases or during the  
Company’s earnings calls. Instead, this material adverse information was buried in the Company’s  
3Q21 Report on Form 10-Q, filed with the SEC on November 15, 2021.

1           29. Other facts strongly infer that the adverse information revealed on August 3, 2021,  
2 existed at the time of the IPO. The August 3, 2021 adverse disclosures were made just a little more  
3 than three months after the completion of the IPO on April 22, 2021. Many of the adverse  
4 disclosures related to the Company's most important product, Hyaline, the first and only product  
5 in the launch phase of the product pipeline and the primary product featured in the Registration  
6 Statement. The impacts of the adverse disclosures on Zymergen's business were devastating in  
7 magnitude, scope and duration. No product revenues would be generated in 2021, only immaterial  
8 product revenues would be generated in 2022, and projections beyond 2022 were "highly  
9 uncertain." As investors would learn on November 3, 2021, six of the 11 products featured in the  
10 Registration Statement, including Hyaline, would be discontinued and never generate any revenue  
11 for the Company. Flatley admitted that dramatic steps were taken to operationally restructure and  
12 transform the Company. The Company's lenders required Zymergen to pay down its loan, shorten  
13 the maturity date and deposit the remaining balance of the loan into a blocked account. Zymergen  
14 laid off hundreds of employees; recorded millions of dollars of restructuring, severance and  
15 impairment expenses; and was forced to develop a plan to conserve cash.

16           30. Following these material adverse disclosures, the Company's stock price  
17 plummeted \$26.58, or 75%, from \$34.83 on August 3, 2021, to \$8.25 on August 4, 2021, on  
18 unusually large trading volume of more than 21.7 million shares. The decline wiped out more than  
19 \$2.7 billion of Zymergen's market capitalization.

20           31. Investors learned more adverse news in the following months. On September 23,  
21 2021, Zymergen announced it was terminating approximately 120 employees as part of a  
22 preliminary phase of the Company's plan to reduce costs to align with the delayed revenue ramp  
23 up previously disclosed on August 3, 2021. The Company also disclosed that it would incur an  
24 estimated \$4.5 million of severance and employee-related restructuring costs related to the  
25 reduction in force.

26           32. On September 30, 2021 and October 13, 2021, articles appeared in the financial  
27 press likening Zymergen's implosion to that of Theranos and reporting that Hoffman used  
28 exaggerated financial figures and made overly optimistic projections about the Company's

1 capabilities, both internally and externally. On October 13, 2021, *Barron's* published an article  
2 titled "The Inside Story of How SoftBank-Backed Zymergen Imploded Four Months After Its  
3 \$3 Billion IPO" and reported, in part:

4 According to a former senior-level employee at Zymergen, Hoffman used  
5 exaggerated financial figures and made overly optimistic projections about the  
6 company's capabilities, both internally and externally. The former employee – who  
7 retains a vested interest in the company – recalls Hoffman's response when he was  
8 confronted about this behavior: "*Never underestimate the power of the greater  
9 fool.*"

10 33. On October 21, 2021, Zymergen announced a second reduction in force of  
11 approximately 100 employees, which would result in approximately \$4.2 million of severance and  
12 employee-related restructuring costs. In addition, the Company reported that it expected to incur  
13 impairment charges of \$15 million for certain manufacturing equipment as a result of its  
14 restructuring activities and that it might incur additional restructuring and impairment charges in  
15 4Q21, including lease expenses.

16 34. On October 21, 2021, Zymergen also reported that it had amended its Credit  
17 Agreement after its lender notified the Company on August 16, 2021, that it was in default of the  
18 material adverse change section of the Amended and Restated Credit Agreement and Guaranty.  
19 The amended Credit Agreement required Zymergen to: (i) shorten the term of the Credit  
20 Agreement by moving the maturity date from December 19, 2024 to June 30, 2022; (ii) increase  
21 the amount of the liquidity covenant; (iii) make a \$41 million payment, including a \$35 million  
22 principal prepayment; and (iv) deposit the remaining outstanding balance of the loan plus accrued  
23 interest through the maturity date in a blocked account controlled by the Administrative Agent,  
24 which was subject to release from the blocked account upon the Administrative Agent's  
25 completion of due diligence to its reasonable satisfaction regarding the Company's anticipated  
26 operating costs and budget through the maturity date.

27 35. Investors also learned that Jed Dean, a co-founder of Zymergen and the Company's  
28 Vice President of Operations and Engineering, was stepping down effective October 31, 2021.

36. On November 3, 2021, Zymergen revealed that it was discontinuing Hyaline, the  
main product featured in the Registration Statement, and all but one of the electronics film program

1 products. It also revealed that all of the consumer care program products, including the insect  
2 repellent product featured in the Registration Statement, were being discontinued. Thus, the  
3 Company revealed that *six of the 11 products highlighted in the Registration Statement,*  
4 *including its main product, had been discontinued* and would not generate any revenue for the  
5 Company.

6 37. The Company also revealed that its strategy of creating, manufacturing and  
7 distributing products on its own was untenable. Flatley acknowledged that was the reason  
8 Zymergen discontinued all of the consumer care products, and he admitted there was “no chance”  
9 the consumer care insect repellent product featured in the Registration Statement could be  
10 profitable given the costs of manufacturing and distribution.

11 38. The Company also revealed it would have run out of cash in 3Q21 had it not raised  
12 \$529.9 million from the IPO. Zymergen reported that its cash had declined from \$588 million as  
13 of June 30, 2021, to \$496.2 million as of September 30, 2021, and that the Company reported a  
14 net loss of \$283.6 million for the nine months ending September 30, 2021.

15 39. On November 3, 2021, Zymergen also failed to disclose that government agencies,  
16 including the SEC, had requested information from the Company related to the unexpected adverse  
17 disclosures on August 3, 2021. That material adverse information was buried in the Company’s  
18 3Q21 Report on Form 10-Q filed with the SEC on November 15, 2021.

19 40. On December 9, 2021, *Seeking Alpha* published an article titled “Zymergen: Total  
20 Chaos.” The opening paragraph succinctly explained the dramatic change at Zymergen since the  
21 IPO, which caused Class members to suffer millions of dollars in damages. It was reported that  
22 Zymergen went from launching Hyaline and preparing to rapidly scale up production and revenue,  
23 to a Company that had abandoned Hyaline and other products and was dramatically cutting  
24 headcount and cash burn in an effort to avoid bankruptcy.

25 41. During a presentation at a January 10, 2022 JPMorgan Healthcare Conference,  
26 Flatley acknowledged that over the last five months Zymergen had taken dramatic steps to  
27 operationally restructure and transform the business, including the discontinuation of a significant  
28 number of programs and a reduction in the Company’s headcount from approximately 900 to 500.

1 He also acknowledged that the negative financial impact on Zymergen would continue for at least  
2 another year and possibly longer, stating that the Company thought it would begin to have product  
3 revenue in the 2023 timeframe.

4 42. Zymergen's stock price has not recovered since the material adverse disclosures on  
5 August 3, 2021, closing at \$3.84 on February 24, 2022.

6 43. As a result of Defendants' wrongful acts and omissions and the precipitous decline  
7 in the market value of the Company's securities, Plaintiffs and other Class members have suffered  
8 significant losses and damages.

9 **II. JURISDICTION AND VENUE**

10 44. The claims asserted herein arise under and pursuant to §§11 and 15 of the Securities  
11 Act (15 U.S.C. §§77k and 77o).

12 45. This Court has jurisdiction over the subject matter of this action pursuant to 28  
13 U.S.C. §1331, and §22 of the Securities Act (15 U.S.C. §77v).

14 46. Venue is proper in this Judicial District pursuant to 28 U.S.C. §1391(b). A  
15 substantial part of the events or omissions giving rise to the claims herein occurred in this District  
16 as Zymergen's principal place of business is in Emeryville, California. Many of the other  
17 Defendants reside in Northern California.

18 47. In connection with the acts, transactions and conduct alleged herein, Defendants  
19 directly and indirectly used the means and instrumentalities of interstate commerce, including the  
20 United States mail, interstate telephone communications and the facilities of a national securities  
21 exchange.

22 **III. PARTIES**

23 48. Biao Wang ("Wang") is the Court-appointed Lead Plaintiff (ECF No. 69) and, as  
24 set forth in the certification previously filed with the Court (ECF No. 35-3), purchased Zymergen  
25 common stock pursuant or traceable to the Registration Statement issued in connection with the  
26 Company's IPO. Wang suffered damages as a result of the federal securities laws violations, the  
27 untrue statements of material facts contained in the Registration Statement and the omissions of  
28 material facts from the Registration Statement.



1           49. Plaintiff West Palm Beach Firefighters' Pension Fund ("WPBFPP"), as set forth in  
2 the certification previously filed with the Court (ECF No. 43-2), purchased Zymergen common  
3 stock pursuant or traceable to the Registration Statement issued in connection with the Company's  
4 IPO. WPBFPP is a pension fund based in West Palm Beach, Florida that provides retirement  
5 benefits for firefighters. As of September 30, 2021, WPBFPP managed total assets in excess of  
6 \$306 million on behalf of over 466 current employees, retirees and beneficiaries. WPBFPP  
7 suffered damages as a result of the federal securities laws violations, the untrue statements of  
8 material facts contained in the Registration Statement and the omissions of material facts from the  
9 Registration Statement.

10           50. Defendant Zymergen Inc. ("Zymergen" or the "Company") is incorporated under  
11 the laws of Delaware with its principal executive offices located in Emeryville, California.  
12 Zymergen's shares trade on the NASDAQ under the stock symbol "ZY."

13           51. Defendant Josh Hoffman ("Hoffman") was, at all relevant times, the CEO, director  
14 and co-founder of the Company and signed or authorized the signing of the Company's  
15 Registration Statement filed with the SEC. Hoffman was terminated on August 2, 2021.

16           52. Defendant Enakshi Singh ("Singh") was, at all relevant times, the Chief Financial  
17 Officer ("CFO") of the Company and signed or authorized the signing of the Company's  
18 Registration Statement filed with the SEC.

19           53. Defendant Steven Chu ("Chu") was a director of the Company and signed or  
20 authorized the signing of the Company's Registration Statement filed with the SEC.

21           54. Defendant Jay T. Flatley ("Flatley") was a director of the Company and signed or  
22 authorized the signing of the Company's Registration Statement filed with the SEC. Flatley is  
23 currently the acting CEO of the Company.

24           55. Defendant Christine M. Gorjanc ("Gorjanc") was a director of the Company and  
25 signed or authorized the signing of the Company's Registration Statement filed with the SEC.

26           56. Defendant Travis Murdoch ("Murdoch") was a director of the Company and signed  
27 or authorized the signing of the Company's Registration Statement filed with the SEC.

1 57. Defendant Matthew A. Ocko (“Ocko”) was a director of the Company and signed  
2 or authorized the signing of the Company’s Registration Statement filed with the SEC.

3 58. Defendant Sandra E. Peterson (“S. Peterson”) was a director of the Company and  
4 signed or authorized the signing of the Company’s Registration Statement filed with the SEC.

5 59. Defendant Zach Serber (“Serber”) was the Chief Science Officer, a director and co-  
6 founder of the Company and signed or authorized the signing of the Company’s Registration  
7 Statement filed with the SEC.

8 60. Defendant Rohit Sharma (“Sharma”) was a director of the Company and signed or  
9 authorized the signing of the Company’s Registration Statement filed with the SEC.

10 61. Defendants Hoffman, Singh, Chu, Flatley, Gorjanc, Murdoch, Ocko, S. Peterson,  
11 Serber and Sharma are hereinafter collectively referred to as the “Individual Defendants.”

12 62. Defendants SVF Excalibur (Cayman) Limited and SVF Endurance (Cayman)  
13 Limited, both incorporated in the Cayman Islands, and Defendant SoftBank Vision Fund (AIV  
14 M1) L.P., a Delaware limited partnership (collectively, the “SoftBank Defendants”), are venture  
15 capital funds managed by SB Investment Advisers (UK) Limited, a subsidiary of SoftBank Group  
16 Corp. On April 23, 2021, the Company filed its April 21, 2021 prospectus on Form 424B4 with  
17 the SEC and reported that the SoftBank Defendants beneficially owned 32.4% of the Company (or  
18 beneficially owned over 26.6 million shares) before the IPO and would continue to own 27.1% of  
19 the Company after the IPO was completed.

20 63. Defendants Data Collective II, L.P. and DCVC Opportunity Fund, L.P.  
21 (collectively, the “DCVC Defendants”), both Delaware limited partnerships with their principal  
22 place of business in Palo Alto, California, are venture capital funds managed by Ocko and Zachary  
23 Bogue. On April 23, 2021, the Company filed its April 21, 2021 prospectus on Form 424B4 with  
24 the SEC and reported that the DCVC Defendants beneficially owned 9% of the Company (or  
25 beneficially owned over 7.3 million shares) before the IPO and would continue to own 7.5% of  
26 the Company after the IPO was completed.

27 64. Defendants True Ventures IV, L.P., True Ventures Select I, L.P., True Ventures  
28 Select II, L.P., True Ventures Select III, L.P. and True Ventures Select IV, L.P. (collectively, the

1 “True Ventures Defendants”), all Delaware limited partnerships with their principal place of  
2 business in Palo Alto, California, are venture capital funds managed by Philip D. Black and Jon  
3 Callaghan. On April 23, 2021, the Company filed its April 21, 2021 prospectus on Form 424B4  
4 with the SEC and reported that the True Ventures Defendants beneficially owned 8.5% of the  
5 Company (or beneficially owned over 6.9 million shares) before the IPO and would continue to  
6 own 7.1% of the Company after the IPO was completed.

7 65. By virtue of their ownership of the majority of Zymergen’s preferred stock, the  
8 SoftBank Defendants, DCVC Defendants and True Ventures Defendants (collectively, the  
9 “Controlling Stockholders”) had virtually complete control over the Company. On April 23, 2021,  
10 the Company filed its April 21, 2021 prospectus on Form 424B4 with the SEC and reported that  
11 there were less than 13 thousand shares of common stock issued prior to the IPO, compared to  
12 more than 900 thousand shares of preferred stock. The Controlling Stockholder’s respective SEC  
13 Forms 3, 4 and Schedule 13G filed with the SEC show that the majority of the preferred stock  
14 were owned by the Controlling Stockholders. Pursuant to the Company’s governing documents,  
15 such as its certificate of incorporation, bylaws and investor rights agreement, the series of preferred  
16 stock held by the Controlling Stockholders gave them preferential rights and protective provisions  
17 to, *inter alia*, amend any provision of the Company’s certificate of incorporation or bylaws; issue  
18 or redeem any Company shares; change the authorized number of directors; select directors of the  
19 Board and pay dividends. The preferred stock also had antidilutive protections and rights to force  
20 the Company to carry out an IPO and effect the sale of their shares to the public.

21 66. By virtue of their control over Zymergen’s Board of Directors, the Controlling  
22 Stockholders exercised their control over the Company and its officers and managers. Of the nine  
23 Directors of the Board, the Controlling Stockholders were entitled to select three at any election.  
24 The SoftBank Defendants selected Murdoch, the DCVC Defendants selected Ocko and the True  
25 Ventures Defendants selected Sharma. Pursuant to the governing documents, these Directors were  
26 given special rights, including that without the approval of the Directors appointed by the  
27 Controlling Stockholders, the Company could not, *inter alia*, hire, terminate, or change the  
28 compensation of any executive officer. The Controlling Stockholders also exercised their control

1 over the Company's Audit Committee through the selection of Ocko and Sharma. The Controlling  
2 Stockholders' Directors also held the authority to manage the Company by their required approval  
3 of the Company's three-year business plan. Four other Directors of the Board were chosen by  
4 plurality vote, which, through their majority ownership, cemented the Controlling Stockholders'  
5 control of Zymergen's Board of Directors.

6 67. The Controlling Stockholders also had a voting agreement amongst, *inter alios*,  
7 themselves and the Company, whereby they agreed on how to vote their shares of the Company  
8 together on certain matters, including with respect to the election of Directors. Indeed, Ocko, Co-  
9 Managing Partner of the DCVC Defendants, publically referred to the True Venture Defendants'  
10 managers as "essential allies every step of the way" and attributed the IPO to the SoftBank  
11 Defendants' "capital muscle & advice when it was essential."

12 68. At the time of the IPO, all Zymergen's outstanding preferred stock was converted  
13 into common stock. The Controlling Stockholders' preferred stock was converted into over 40  
14 million shares of common stock, more than double the number of shares issued in the IPO. The  
15 amount of common stock they owned, as well as other favorable provisions in the Company's  
16 governance documents, allowed the Controlling Stockholders to maintain virtually complete  
17 control over Zymergen until the Controlling Stockholders fully harvested their investments.

18 69. By virtue of their ownership, control over Zymergen's Board of Directors and  
19 control over the Company's officers, the Controlling Stockholders exercised virtually complete  
20 control over the Company.

21 70. The Individual Defendants and the Controlling Stockholders had a duty to promptly  
22 disseminate accurate and truthful information in the Registration Statement and to correct any  
23 previously issued statements that were materially misleading or untrue. The Controlling  
24 Stockholders had access to the adverse undisclosed information about the Company's business,  
25 products, pipeline and market opportunity and other adverse facts that rendered the positive  
26 representations made or adopted by the Company materially false and misleading, as detailed  
27 herein. The Individual Defendants and the Controlling Stockholders, were able to and did control  
28 the content of the Registration Statement and other public statements pertaining to the Company.

1 Each of the Individual Defendants and Controlling Stockholders was provided with copies of the  
2 documents alleged herein to be misleading prior to or shortly after their issuance and/or had the  
3 ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly,  
4 each of the Individual Defendants and Controlling Stockholders was responsible for the accuracy  
5 of the Registration Statement and is therefore liable as controlling persons for the representations  
6 contained therein.

7 71. Defendant J.P. Morgan Securities LLC (“J.P. Morgan”) served as an underwriter  
8 for the Company’s IPO. In the IPO, J.P. Morgan agreed to purchase 5,750,345 shares of the  
9 Company’s common stock, including the over-allotment option. J.P. Morgan received an  
10 underwriting fee of \$2.17 per share, or \$12,478,249.

11 72. Defendant Goldman Sachs & Co. LLC (“Goldman Sachs”) served as an  
12 underwriter for the Company’s IPO. In the IPO, Goldman Sachs agreed to purchase  
13 5,750,345 shares of the Company’s common stock, including the over-allotment option. Goldman  
14 Sachs received an underwriting fee of \$2.17 per share, or \$12,478,249.

15 73. Defendant Cowen and Company, LLC (“Cowen”) served as an underwriter for the  
16 Company’s IPO. In the IPO, Cowen agreed to purchase 2,411,435 shares of the Company’s  
17 common stock, including the over-allotment option. Cowen received an underwriting fee of \$2.17  
18 per share, or \$5,232,814.

19 74. Defendant BofA Securities, Inc. (“BofA”) served as an underwriter for the  
20 Company’s IPO. In the IPO, BofA agreed to purchase 2,040,445 shares of the Company’s  
21 common stock, including the over-allotment option. BofA received an underwriting fee of \$2.17  
22 per share, or \$4,427,766.

23 75. Defendant UBS Securities LLC (“UBS”) served as an underwriter for the  
24 Company’s IPO. In the IPO, UBS agreed to purchase 2,040,445 shares of the Company’s common  
25 stock, including the over-allotment option. UBS received an underwriting fee of \$2.17 per share,  
26 or \$4,427,766.

27 76. Defendant Lazard Frères & Co. LLC (“Lazard”) served as an underwriter for the  
28 Company’s IPO. In the IPO, Lazard agreed to purchase 556,485 shares of the Company’s common

1 stock, including the over-allotment option. Lazard received an underwriting fee of \$2.17 per share,  
2 or \$1,207,572.

3 77. Defendants J.P. Morgan, Goldman Sachs, Cowen, BofA, UBS and Lazard are  
4 hereinafter collectively referred to as the “Underwriter Defendants.” As detailed herein, the  
5 material adverse disclosures by Zymergen on August 3, 2021; September 23, 2021; October 21,  
6 2021; November 3, 2021; November 15, 2021; and January 10, 2022, along with the other facts  
7 alleged, show that the Underwriter Defendants failed in their “gatekeeping” role to ensure the  
8 correctness of the Registration Statement. They failed to conduct a reasonable due diligence  
9 investigation, including the verification of information provided by Zymergen, which resulted in  
10 the Registration Statement being inaccurate and misleading, containing untrue statements of  
11 material facts and omitting material facts.

#### 12 **IV. SUBSTANTIVE ALLEGATIONS**

##### 13 **A. Description of Zymergen and Completion of the IPO**

14 78. Zymergen integrates computational and manufacturing technologies to design,  
15 engineer and optimize microbes for industrial applications. The Company developed a platform  
16 – the biofacturing platform – that treats the genome as a search space, using proprietary machine  
17 learning algorithms and advanced automation to identify genetic changes that improve the  
18 economics for its customers’ bio-based products for a range of industries, including chemicals,  
19 materials, agriculture and pharmaceuticals. In addition, Zymergen’s platform is used to discover  
20 novel molecules used to enable unique material properties. The Company was incorporated in  
21 Delaware on April 24, 2013.

22 79. Zymergen uses a process it calls “biofacturing” to create products that purportedly  
23 combine the design and manufacturing efficiency of biological processes with technology’s ability  
24 to rapidly iterate and control diverse functions. Its first product is called Hyaline, an optical film  
25 designed for electronics companies to use for display touch sensors, which would purportedly  
26 enable customers to make foldable touchscreens and high density flexible printed circuits. Hyaline  
27 was launched in December 2020, but has not generated revenue because it is still in its qualification  
28 process with customers.

1           80.    On January 25, 2021, Zymergen confidentially submitted a draft Registration  
2 Statement on Form S-1 to the SEC that did not specify the number of securities to be issued or  
3 proceeds to be raised.

4           81.    On February 22, 2021, the SEC sent a letter to Hoffman that included comments on  
5 the January 25, 2021 confidentially submitted draft Registration Statement, and requests for  
6 information. The SEC asked Hoffman to identify the third party that prepared the market data  
7 referenced in the draft Registration Statement in support of representations that the market  
8 opportunity addressable by Zymergen’s biofacturing platform was enormous and diverse – at least  
9 \$1.2 trillion in 20 separate industries, including \$150 billion in the electronics, consumer care and  
10 agricultural industries. The SEC also asked for information about Hyaline, including a description  
11 of the process in place to convert from a non-bio-produced molecule sourced from a third party to  
12 a bio-produced molecule in 2022. The SEC asked for support for the representations that  
13 Zymergen planned to develop and commercialize product breakthroughs in about half the time and  
14 at one-tenth the cost of traditional processes.

15           82.    On March 8, 2021, Freshfields Bruskhaus Deringer US LLP (“Freshfields”)   
16 responded to the SEC’s February 22, 2021 letter on behalf of Zymergen, and Zymergen filed an  
17 amendment to the Registration Statement on Form S-1 with the SEC. In the letter, Freshfields  
18 stated that the amended Registration Statement included revisions to address some of the  
19 comments in the February 22, 2021 letter and also provided information in response to the  
20 February 22, 2021 letter. Freshfields informed the SEC that the data regarding the Company’s  
21 market opportunity were management’s estimates based on a bottom-up, industry-by-industry,  
22 application-by-application analysis of IHS Markit and similar data. Freshfields described how  
23 Zymergen purportedly estimated the market opportunity and also wrote that the Company  
24 consulted industry experts to corroborate market analyses, especially where less granular market  
25 data were available.

26           83.    On March 22, 2021, the SEC sent Hoffman another letter providing comments and  
27 requesting information about the draft Registration Statement submitted on March 9, 2021. The  
28 SEC asked Hoffman to amend the disclosures about Hyaline to describe approximately how long

1 Zymergen anticipated the Hyaline qualification process to take and when the Company expected  
2 to begin generating revenue from Hyaline. The SEC also asked Zymergen to disclose when the  
3 Company estimated it would begin generating revenue from the other ten products included in the  
4 pipeline.

5 84. On March 23, 2021, Zymergen filed its Registration Statement on Form S-1 with  
6 the SEC, which forms part of the Registration Statement. In this Registration Statement, the  
7 Company proposed a maximum offering of \$100 million.

8 85. On March 26, 2021, Freshfields sent a letter to the SEC responding to the SEC's  
9 March 22, 2021 letter; and Zymergen filed Amendment No. 1 to the Registration Statement, which  
10 forms part of the Registration Statement. The amended Registration Statement included revisions  
11 made in response to the letter received from the SEC on March 22, 2021.

12 86. On April 14, 2021, Zymergen filed Amendment No. 2 to the Registration  
13 Statement, which forms part of the Registration Statement, and increased the proposed maximum  
14 offering to \$484.8 million, proposing to register 15.64 million shares to be sold for \$31.00 per  
15 share.

16 87. On April 21, 2021, the Company filed its final amendment to the Registration  
17 Statement with the SEC on Form S-1MEF, which forms part of the Registration Statement. The  
18 sole purpose of the amendment was to increase the number of shares to be registered by 2,909,500.  
19 The Registration Statement was declared effective the same day.

20 88. On April 22, 2021, the Company's stock began publicly trading on the NASDAQ  
21 under the stock symbol "ZY."

22 89. On April 23, 2021, the Company filed its April 21, 2021 prospectus on  
23 Form 424B4 with the SEC, which forms part of the Registration Statement. In the IPO, the  
24 Company sold approximately 18,549,500 shares of common stock at a price of \$31.00 per share.  
25 The Company received proceeds of approximately \$529.9 million from the Offering, net of  
26 underwriting discounts and commissions of \$40.3 million, and approximately \$4.9 million of  
27 offering costs. The proceeds from the IPO were purportedly to be used for working capital and  
28 other general corporate purposes, including the continued investment in commercializing its



1 existing products, launching products in its pipeline and furthering the development of its  
2 biofacturing platform and technology.

3 **B. The Materially Misleading Representations Contained in the**  
4 **Registration Statement**

5 90. The Registration Statement was negligently prepared and, as a result, contained  
6 untrue statements of material facts or omitted to state other facts necessary to make the statements  
7 made not misleading and was not prepared in accordance with the rules and regulations governing  
8 its preparation.

9 91. Under applicable SEC rules and regulations, the Registration Statement was  
10 required to disclose known trends, events or uncertainties that were having, or were reasonably  
11 likely to have, an impact on the Company's continuing operations.

12 92. As detailed herein, the untrue statements of material facts and omissions concerned  
13 the Company's biofacturing platform; the Company's ability to create better products faster,  
14 cheaper and more sustainably using the biofacturing platform; the product development process;  
15 the development status of 11 products in the Company's product pipeline; the market opportunity  
16 for those products; and when those products would generate revenue. The following  
17 misrepresentations were included throughout the Registration Statement, including in the  
18 Prospectus Summary, Management's Discussion and Analysis of Financial Condition and Results  
19 of Operations and the Business sections.

20 93. All of the representations in the Registration Statement detailed below were  
21 materially misleading because, as the Company disclosed on August 3, 2021 and November 3,  
22 2021, Zymergen was unable to produce products that could be sold at a profit when it created,  
23 manufactured and distributed the products on its own. In addition, the representations were  
24 materially misleading because Defendants failed to disclose that several key target customers had  
25 technical issues implementing Hyaline into their manufacturing processes or that there was only a  
26 "hypothetical" near-term market for Hyaline due to there being "no hit product yet in the foldable  
27 display market." Indeed, the Company abandoned Hyaline and another optical film product  
28 because there was a smaller near-term market opportunity than represented in the Registration

1 Statement and abandoned all of the consumer care products because those products could not be  
2 sold at a profit when Zymergen created, manufactured and distributed them on its own. As a result,  
3 Zymergen did not generate product revenue in 2021 and 2022, as it represented in the Registration  
4 Statement.

5 94. In the Registration Statement, Defendants represented that Zymergen partnered  
6 with Nature to design, develop and commercialize bio-based breakthrough products that delivered  
7 extraordinary value to customers in a broad range of industries, including films designed for  
8 electronics companies to use in new categories of smart devices. Defendants represented that  
9 Zymergen created these products with a proprietary platform that unlocked the design and  
10 manufacturing efficiency of biological processes with technology's ability to rapidly iterate and  
11 control diverse functions. Defendants called this process "biofacturing" and represented that it  
12 would create better products faster, cheaper and more sustainably than traditional chemistry.  
13 Indeed, Defendants represented that Zymergen's goal was to launch products in about half the time  
14 and at one-tenth of the cost of what traditional chemical and materials companies could deliver.

15 We partner with Nature to design, develop, and commercialize bio-based  
16 breakthrough products that deliver extraordinary value to customers in a broad  
17 range of industries. Our first innovations include films designed for electronics  
18 companies to use in new categories of smart devices, including rollable tablets and  
19 naturally derived UV protection. Our goal is to create new products with a  
20 proprietary platform that unlocks the design and manufacturing efficiency of  
21 biological processes with technology's ability to rapidly iterate and control diverse  
22 functions. ***We call our process biofacturing and we expect it will create better  
23 products faster, cheaper and more sustainably than traditional chemistry by  
24 engineering microbes to make novel biomolecules that are the key ingredients in  
25 those products. Our goal is to launch our products in about half the time and  
26 1/10th of the cost of what traditional chemicals and materials companies can  
27 deliver, which would allow us to address a wide array of commercial applications.  
28 Based on our experience and expectations with our first four products which are  
electronic films and insect repellent products, and subject to any regulatory  
requirements, which could lead to longer timelines and increased cost, we  
estimate the timelines and costs of launching our products to be roughly five  
years and \$50 million.*** We founded Zymergen in the belief that biofacturing will  
lead to better products with better economics and a better world.

25 95. Defendants represented that the demand for innovative materials had never been  
26 greater and that synthetic biology companies like Zymergen were a better alternative to chemical  
27 and materials companies that struggled to innovate because those companies used a limited  
28

1 molecular palette, had substantial capital expenditures and were among the planet's worst  
2 industrial polluters.

3 ***The demand for innovative materials has never been greater.***

4 Human civilization is material. The materials in the things we use, the  
5 clothes we wear, the rooms where we live, the vehicles that take us from place to  
6 place, as well as the inputs that grow the food we eat, are the products of a half  
dozen chemical building blocks invented over the last several decades, mostly  
derived from cracking hydrocarbons.

7 We believe the chemicals and materials companies that make these  
8 materials have struggled to innovate because they employ a limited molecular  
palette and have substantial capital expenditures. In addition, they are among the  
9 planet's worst industrial polluters. Recently, synthetic biology companies  
suggested a better alternative, where microorganisms are coaxed to produce  
10 chemicals, but most synthetic biology companies have struggled to manufacture  
novel molecules at industrial scales. ***Yet while the traditional chemical industry  
11 is stagnant and synthetic biology companies have disappointed, the demand for  
materials that solve important problems and are environmentally sustainable has  
12 never been greater.***

13 96. Defendants represented that Zymergen's biofacturing process, by contrast, created  
14 better products faster, cheaper and more sustainably.

15 ***Biofacturing creates better products faster, cheaper and more sustainably.***

16 Biofacturing is the design, development and commercialization of bio-  
based breakthrough products, economically, at industrial scale, where  
17 microorganisms create the biomolecules that are the key ingredients in those  
products. A traditional chemical factory's tons of steel and concrete are  
18 functionally replaced by a tiny, flexible, easily reproduced, but incredibly valuable  
engineered cell. Our goal is to make our biomolecules by fermentation, where all  
19 biofacturing reactions occur inside the engineered cell in standard fermentation  
vats, rather than the expensive, purpose-built chemical plants used in synthetic  
20 chemistry. However, in some cases, so that we may achieve commercial launch  
faster, we may initially launch products using molecules that are first produced with  
21 non-fermentation based methods, which is a strategy we refer to as "Launch  
Acceleration." Additionally, since cells naturally make tens of thousands of  
22 different molecules, their genetic pathways can be reprogrammed to carry out any  
number of biofacturing reactions, and they can produce a vast array of biomolecules  
with unique properties that petrochemicals do not possess. ***Our pioneering  
23 biofacturing process is designed to flexibly and cost effectively create products  
with unique characteristics that possess the diversity and power of Nature's own  
24 inventions, such as adhesives stronger than leading products on the market, or  
an optical film as clear and thin as a dragonfly's wing.***

25 97. In the Registration Statement, Defendants described the product development  
26 process, representing that Zymergen business development personnel: (i) worked with customers  
27 to define a set of properties for a material that the customers would find valuable; then (ii) designed  
28

1 and developed engineered microbes that manufacture the novel biomolecule that would be a key  
 2 ingredient in a breakthrough product; then (iii) had CMOs manufacture the product; and finally  
 3 (iv) used Zymergen’s sales force and marketing capabilities to contract with customers and sell  
 4 the product to them.

5 Our product development journey starts with our business development  
 6 personnel working with a customer to define a set of properties for a material that  
 7 our customer would find highly valuable. We then design and develop engineered  
 8 microbes that manufacture the novel biomolecule that will be the key ingredient in  
 9 a breakthrough product. Next, we leverage Contract Manufacturing Organizations  
 (“CMOs”) to manufacture the product for us. Finally, once we have launched our  
 product, we use our own sales force and marketing capabilities to contract with  
 customers and sell our products to them.

10 98. Defendants included a chart titled “First product launched, with a rich pipeline of  
 11 future launches,” depicting the stage of development for the 11 products under development,  
 12 including four products in the electronics market, four products in the consumer care market and  
 13 three products in the agricultural market.

14 **First product launched, with a rich pipeline of  
 15 future launches**



24 99. In describing the product development process, Defendants highlighted Hyaline,  
 25 the first and only product launched by Zymergen, and represented that it was launched in  
 26 December 2020, to customers in the electronic industry, which began the expected 6- to 18-month  
 27 product qualification process with multiple customers. Defendants emphasized the importance of  
 28 the qualification process in Zymergen’s target markets and represented that Hyaline (and other

1 products) would generate revenues only after customers completed all aspects of the qualification  
2 process and decided to place an order for the product.

3 ***[T]hrough our global direct sales force and a team of application sales engineers,***  
4 ***we launched our first product Hyaline in December 2020 to customers in the***  
5 ***electronics industry, beginning the expected 6-18 month product qualification***  
6 ***process with customers. We have not yet generated revenue from product sales***  
7 ***(except for nominal revenue related to the sale of samples of Hyaline). We are***  
8 ***currently in the qualification process on Hyaline with multiple customers,***  
9 ***including sampling and discussions on commercial terms with some of them.***  
10 ***Given the importance of this qualification process in our current target markets,***  
11 ***we anticipate that, even after we have launched a product, we will only generate***  
12 ***revenue after customers have completed all aspects of the qualification process***  
13 ***for that product and decided to place an order for our product.***

9 100. Defendants represented that Hyaline was an optical film designed for electronics  
10 companies to use for display touch sensors in personal devices and other applications and would  
11 allow customers to make robust foldable touchscreens and high density flexible printed circuits.  
12 Defendants also represented that Zymergen was converting to a fermentation-produced molecule  
13 for Hyaline and developing commercial scale processes so the Company could produce the  
14 molecule through fermentation at sufficient volumes and costs to support commercial  
15 manufacturing. Defendants represented that Zymergen expected this process to be complete in  
16 2022.

17 ***Hyaline is the first in a franchise of optical films, designed for electronics***  
18 ***companies to use for display touch sensors in personal devices and other***  
19 ***applications. Hyaline will allow our customers to make robust foldable***  
20 ***touchscreens and high density flexible printed circuits. Hyaline uses a***  
21 ***biomolecule that was identified through our biofacturing platform. In order to***  
22 ***accelerate product launch and meet customer demand, we launched Hyaline with***  
23 ***a non-fermentation produced biomolecule sourced from a third party. We are in***  
24 ***the process of converting to a fermentation-produced molecule for Hyaline by using***  
25 ***a microbe that has a demonstrated ability to produce the molecule through***  
26 ***fermentation. We are currently developing commercial scale processes so we can***  
27 ***produce the molecule through fermentation at sufficient volumes and costs to***  
28 ***support commercial manufacturing. We expect this process to be complete in***  
29 ***2022.***

24 101. In addition to Hyaline, Defendants represented that Zymergen had ten other  
25 products in development, including additional optical film products planned to be launched in 2022  
26 and 2023; four consumer care products, including insect repellent; and three agricultural products.

27 ***We have 10 other products in development, consisting of three in***  
28 ***electronics, four with consumer care applications and three in agriculture.***  
29 ***ZYM0107, which we plan to launch in 2022, is the next product in our films***

1 *franchise and is a high-performance optical film like Hyaline. ZYM0101,*  
2 *planned for launch in 2023, is a breakthrough film for flexible electronics, which*  
3 *is designed to be used to build foldable and rollable phones and personal devices,*  
4 *as insulation for antennas to deliver 5G data speeds and as a coating for*  
5 *transparent monitors. Our consumer products include ZYM0201, a naturally*  
6 *derived non-DEET insect repellent, and we plan on partnering to create a*  
7 *microbial alternative to synthetic nitrogen fertilizer. We expect our biofacturing*  
8 *platform to be an engine of innovation and revenue generation, as we seek to*  
9 *develop new products in the same or adjacent sectors. We are also pursuing new*  
10 *markets for future growth.*

11 102. Defendants represented that Hyaline was expected to generate revenue in the  
12 second half of 2021, just a few months after the completion of the IPO, and that Zymergen's global  
13 direct sales force and a team of application sales engineers were working with customers on the  
14 sales qualification process for Hyaline, wherein customers would be able to validate the product  
15 and qualify it as a standard component in their final electronic devices. Defendants also  
16 represented that other optical film products would generate revenue following the 6- to 18-month  
17 qualification process and that consumer care and agricultural products would generate revenue  
18 upon launch because a product qualification process was not necessary.

19 *Following the launch of Hyaline, our global direct sales force and a team*  
20 *of application sales engineers are now working with customers on the sale*  
21 *qualification process in which customers are able to validate the product and*  
22 *qualify it as a standard component in their final electronic devices. During this*  
23 *time, we are providing customers with samples of our products to be tested for*  
24 *use in their own products so they can determine whether to purchase our product.*  
25 *Based on our experience to date since the launch of Hyaline in December 2020,*  
26 *we expect the sale qualification process of our products (including Hyaline) to*  
27 *last 6-18 months, or longer, depending on the customer and end device*  
28 *requirements. We only generate revenue after customers have completed all*  
*aspects of the qualification process for that product and decided to place an order*  
*for our product, which is typically done on a purchase order basis rather than a long-*  
*term contractual commitment. In the case of Hyaline, we expect to begin*  
*generating revenue in the second half of 2021, which will be prior to the time we*  
*expect to convert the nonfermentation produced biomolecule to the fermentation-*  
*produced molecule, which we expect to occur in 2022. We do not expect our*  
*estimated revenue from Hyaline to be meaningfully impacted by the conversion*  
*to the fermentation-produced molecule. We expect other electronics products,*  
*including ZYM0101, which we expect to launch in 2023, to follow a similar 6-18*  
*month qualification process following which we expect to generate revenue. For*  
*many of our consumer care and agriculture products, including ZYM0201 which*  
*we expect to launch in 2023, a product qualification process will not be similarly*  
*necessary because we intend to launch and sell those products directly to the end-*  
*user and expect to generate revenue upon launch. For our other products in*  
*development for which we do not currently have an anticipated launch date, we*  
*cannot predict when we expect to begin generating revenue from such products.*

1 103. Defendants represented that Zymergen would grow its business in several ways and  
2 that it generally targeted products that could support annual sales of greater than \$150 million.

3 We plan to grow our business in several ways. *First, we plan to grow as*  
4 *we increase the market penetration of our launched products. Next, we plan to*  
5 *grow by launching additional products in our chosen verticals of electronics,*  
6 *consumer care and agriculture and by continuing to add new products to our*  
7 *pipeline in these verticals. Finally, we plan to grow by entering new markets. We*  
8 *plan to partner with industry leaders to enter these markets, as we believe this*  
9 *approach de-risks and accelerates our time to product launch.* Today, we are  
10 working with various industry leaders and our strategy is to enter into partnerships  
11 with these leaders in the future.

12 *We generally target products with a market opportunity that if successful,*  
13 *at scale, could support annual sales of greater than \$150 million.* We also expect  
14 that some portion of those products could be breakthrough products, but it is very  
15 hard in the materials market to predict beforehand which products those would be.  
16 In the long term, our goal is to launch multiple breakthrough products every year.  
17 *We believe that our strategy will drive strong future revenue growth as our*  
18 *revenues from launched products increase and revenues from new product*  
19 *launches stack on top of each other.*

20 104. In addition, Defendants assured investors that the market opportunity addressable  
21 by Zymergen's biofacturing platform was enormous and diverse – at least \$1.2 trillion across 20  
22 separate industries. They represented the market opportunity for the three industries being pursued  
23 with its 11 pipeline products – electronics, consumer care and agriculture – was approximately  
24 \$150 billion, including the display market for Hyaline being over \$1 billion in 2020, and the  
25 market for insect repellent being over \$1.5 billion.

26 *The market opportunity addressable by our biofacturing platform is*  
27 *enormous and diverse. Our bottom-up, industry-by-industry, application-by-*  
28 *application, analysis suggests that our total market opportunity is at least*  
29 *\$1.2 trillion across 20 separate industries for our potential products, all ripe for*  
30 *disruption, and that the market opportunity of the first three industries we will*  
31 *pursue, electronics, consumer care and agriculture, is approximately*  
32 *\$150 billion. In particular, we estimate that the display market alone for Hyaline*  
33 *was over \$1 billion in 2020 and according to Transparency Market Research, the*  
34 *global market for insect repellents is over \$1.5 billion across sprays and other*  
35 *traditional formats.* In addition, our consumer survey, which asked 2,750 adults  
36 between 18 and 65 years of age in the United States and an additional 6,000  
37 consumers in five global markets as a follow up about their concerns about insects,  
38 their current behavior with insect protection and their interest in better insect  
39 repellent products, found that *consumer need to repel insects is global, big and*  
40 *likely to get bigger with current solutions being unsatisfactory, suggesting that*  
41 *there is a large latent demand for better products and therefore we believe that*  
42 *the true market opportunity is much larger. We anticipate deploying our*  
43 *innovation engine to create decades of disruptive breakthrough products using a*  
44 *rigorous discipline to select new opportunities where there's demand for new*

1            *materials, where bio-based products have an advantage and where industries*  
2            *rapidly adopt new products.*

3            105. The representations about Zymergen's biofacturing platform, the products created,  
4 their development status, market opportunity and when those products would generate revenue  
5 were particularly important to investors given the Company's precarious financial condition.  
6 Zymergen reported just \$15.4 million of revenue in 2019, and a net loss of \$236.8 million. In  
7 2020, Zymergen reported just \$13.3 million of revenue and a net loss of \$262.2 million. The  
8 increasing net losses caused the Company to be insolvent as of December 31, 2020, with an  
9 accumulated deficit of \$773.7 million. The recurring losses and accumulated deficit meant  
10 Zymergen needed to raise equity or debt to fund its operations until the Company could generate  
11 sufficient revenues to fund its operations. That, in turn, caused the Company's auditors to note  
12 there was substantial doubt about the Company's ability to continue operating as a going concern.

13            The Company has incurred net losses since inception and anticipates net  
14 losses and negative operating cash flows for the near future. For the year ended  
15 December 31, 2020, the Company had a net loss of \$262.2 million, and as of  
16 December 31, 2020, the Company had an accumulated deficit of \$773.7 million.  
17 At December 31, 2020, the Company had \$210.2 million of unrestricted cash and  
18 cash equivalents. While the Company has signed a number of initial customer  
19 contracts, revenues have been insufficient to fund operations. Accordingly, the  
20 Company has funded the portion of operating costs exceeding revenues through a  
21 combination of proceeds raised from equity and debt issuances. The Company's  
22 operating costs include the cost of developing and commercializing products as  
23 well as providing research services. As a consequence, the Company will need to  
24 raise additional equity and debt financing that may not be available, if at all, at  
25 terms acceptable to the Company to fund future operations.

26            Based on the Company's current business plan that was approved by the  
27 Board of Directors, its existing cash and cash equivalents, are not expected to be  
28 sufficient to meet anticipated cash requirements for the next 12 months. Instead  
the Company is evaluating plans to restrict spending in order to meet current  
contract and operating commitments.

In the event that unforeseen circumstances arise that result in additional cash  
outflows, the Company has at its disposal a number of cost-cutting measures that it  
could initiate under these circumstances.

The accompanying consolidated financial statements have been prepared  
assuming that the Company will continue as a going concern, which contemplates  
the realization of assets and the settlement of liabilities and commitments in the  
normal course of business. Due to the substantial doubt about the Company's  
ability to continue operating as a going concern and the material adverse change  
clause in the loan agreement with its lender, the amounts due as of December 31,  
2019 and December 31, 2020, have been classified as current in the consolidated  
financial statements. The lender has not invoked the material adverse change clause



1 as of the date of issuance of these financial statements. The accompanying  
2 consolidated financial statements do not reflect any other adjustments relating to  
3 the recoverability and reclassification of assets and liabilities that might be  
4 necessary if the Company is unable to continue as a going concern. The Company  
5 is subject to various covenants related to the credit and guaranty agreement entered  
6 into on December 19, 2019 (Note 9) and given the substantial doubt about the  
7 Company's ability to continue as a going concern there is a risk that it may not meet  
8 its covenants in the future.

9  
10  
11 **C. The Materially Misleading Risk Factors in the Registration Statement**

12 106. The Registration Statement also contained inaccurate and materially misleading  
13 "Risk Factors" warning investors that Zymergen's business "could be," "might be" or "would be"  
14 harmed by various risks "if" they occurred. These Risk Factors were inaccurate and materially  
15 misleading because the warned-of risks had already occurred and were adversely impacting  
16 Zymergen's business at the time of the IPO.

17 107. Each of the risk warnings was materially misleading because, at the time of the  
18 IPO, there was only a "hypothetical" near-term market for Hyaline (the Company's first and only  
19 product to be launched at the time of the IPO) due to there being "no hit product yet in the foldable  
20 display market" and because several key target customers had technical issues implementing  
21 Hyaline into their manufacturing processes. In addition, the risk warnings were misleading  
22 because the Company was unable to produce products that could be sold at a profit when it created  
23 and distributed the product on its own. Thus, the warned-of risks were already adversely and  
24 materially affecting Zymergen's current business operations. Indeed, the Company abandoned  
25 Hyaline and another optical film product because there was a smaller near-term market opportunity  
26 than represented in the Registration Statement, and abandoned all of the consumer care products  
27 because those products could not be sold at a profit when Zymergen created, manufactured and  
28 distributed them on its own.

108. Defendants represented that Zymergen's business, results of operations and  
financial condition "may be" adversely and materially affected "if" the Company was unable to  
use its biofacturing platform to successfully identify and develop pipeline products into  
commercially viable products faster and cheaper than traditional materials.

***We may not be successful in our efforts to use our proprietary  
biofacturing platform to build a pipeline of products.***

1            *A key element of our strategy is to use our experienced management,*  
 2 *engineering and scientific teams to build a pipeline of products through our*  
 3 *biofacturing platform and develop those pipeline products into commercially*  
 4 *viable products faster and cheaper than traditional materials. Although our*  
*R&D efforts to date have resulted in potential pipeline products, we may not be*  
*able to continue to identify and develop additional pipeline products through the*  
*use of our biofacturing platform.*

5            *Even if we are successful in continuing to build our product pipeline*  
 6 *through the use of our biofacturing platform, not all potential pipeline products*  
 7 *we identify will be suitable for development and use in commercial products.*  
 8 Machine learning and automation, generally, remain in the early stages of  
 9 development. Although we expect machine learning and automation to improve  
 10 over time, the operation of our biofacturing platform will continue to require  
 11 significant human interaction which introduces risks of error and requires us to  
 12 recruit highly skilled employees in a competitive market. Identifying and  
 13 developing commercially viable pipeline products may require us to make  
 14 continued advancements in our biofacturing platform to lower costs, reduce  
 development time or otherwise more quickly identify pipeline products[.] See the  
 risk factor titled “–Even if we are successful in expanding our biofacturing  
 platform, rapidly changing technology and extensive competition in the synthetic  
 biotech and petrochemical industries could make the products we are developing  
 and producing obsolete or non-competitive unless we continue to develop and  
 manufacture new and improved products and pursue new market opportunities.”.  
*If we are unable to use our biofacturing platform to successfully identify and*  
*develop pipeline products, our business, results of operations and financial*  
*condition may be adversely and materially affected.*

15            109. Similarly, Defendants represented that “if” Zymergen experienced problems or  
 16 delays in developing pipeline products, the Company “may” be subject to unanticipated costs,  
 17 including the loss of customers; Zymergen “may” not be able to solve development problems or  
 18 develop a commercially viable product at all; and “if” the Company did not successfully manage  
 19 new product development processes, revenue growth from new pipeline products “may” be  
 20 prevented or delayed and business and operating results “may” be harmed.

21            *It is difficult to predict the time and cost of development of our pipeline*  
 22 *products, which are produced by or based on a relatively novel and complex*  
 23 *technology and are subject to many risks, any of which could prevent or delay*  
*revenue growth and adversely impact our market acceptance, business and*  
*results of operations.*

24            *We have concentrated our R&D efforts to date on a select number of*  
 25 *pipeline products based on technical feasibility and market opportunity. We*  
 26 *launched our first product Hyaline in December 2020, beginning the expected 6-*  
 27 *18 month product qualification process with customers. We have not yet*  
 28 *generated revenue from product sales (except for nominal revenue related to the*  
*sale of samples of Hyaline). We have 10 other products in development,*  
*consisting of three in electronics, four with consumer applications and three in*  
*agriculture.*

\* \* \*

*If we experience problems or delays in developing our pipeline products, we may be subject to unanticipated costs, including the loss of customers. Additionally, even after the incurrence of significant costs to develop a product, we may not be able to solve development problems or develop a commercially viable product at all. If we do not achieve the required technical specifications or successfully manage our new product development processes, or if development work is not performed according to schedule, then our revenue growth from new pipeline products may be prevented or delayed, and our business and operating results may be harmed.*

110. Defendants also represented that the success of Zymergen’s business relied heavily on the performance of its products and the development of new products at lower costs and faster development timelines and that Zymergen’s business and results of operations “will be” adversely affected “if” the Company was unable to successfully transition into becoming a biofactorer of new products and create novel products at lower costs and on accelerated development timelines.

*The success of our business relies heavily on the performance of our products and developing new products at lower costs and faster development timelines.*

To date our revenue has primarily been derived from relationships with partners where we seek to test and validate the ability of our biofacturing platform to improve or optimize our clients’ products through biofacturing. However, *our future profitability will depend on our ability to successfully execute and maintain a sustainable business model and generate continuous streams of revenue through the sale of our products across industries. We launched our first product Hyaline in December 2020, beginning the expected 6-18 month product qualification process with customers.* We have not yet generated revenue from product sales (except for nominal revenue related to the sale of samples of Hyaline). *We are currently in the qualification process on Hyaline with multiple customers, including sampling and discussions on commercial terms with some of them. Given the importance of this qualification process in our current target markets, we anticipate that, even after we have launched a product, we will only generate revenue after customers have completed all aspects of the qualification process for that product and decided to place an order for our product.* Our current business model is premised on innovating and producing new products rapidly and at lower costs than traditional methods and achieving results that may only be obtained through leveraging biology. While we may launch bio-based versions of existing products or existing molecules that are too expensive to utilize in products today, biofacturing of previously unavailable, superior molecules and materials is key to our long-term success. However, *if we are unable to successfully transition into becoming a biofactorer of new products and create novel products at lower costs and on accelerated development timelines, our business and results of operations will be adversely affected.*

1 111. Defendants represented that Zymergen’s business, financial condition and results  
2 of operations “may be” adversely affected “if” the Company’s products contained defects or were  
3 delayed.

4 ***Our products, or the end products of which they are components, could***  
5 ***have defects or errors, which may give rise to claims against us or delays in***  
6 ***production and adversely affect our business, financial condition and results of***  
7 ***operations.***

8 Some applications of our technology or products are components of end  
9 products and therefore our success is tied to the success of such end products. ***We***  
10 ***cannot assure you that material performance problems, defects, errors or delays***  
11 ***will not arise in our products or the end products in which they are components,***  
12 ***and as we commercialize our products, these risks may increase.*** We expect to  
13 provide warranties that our products will meet performance expectations and will  
14 be free from defects. The costs incurred in correcting any defects or errors may be  
15 substantial and could adversely affect our operating margins.

16 In manufacturing our products, we depend upon third parties for the supply  
17 of our instruments and various components, many of which require a significant  
18 degree of technical expertise to produce. If our suppliers fail to produce our product  
19 components to specification or provide defective products to us and our quality  
20 control tests and procedures fail to detect such errors or defects, or if we or our  
21 suppliers use defective materials or workmanship in the manufacturing process, the  
22 reliability and performance of our products will be compromised.

23 ***If our products or the end products of which they are components, contain***  
24 ***defects or are delayed, we may experience:***

- 25 • a failure to achieve market acceptance for our products or expansion of our  
26 products sales;
- 27 • the development of new technology rendering our products, or the end  
28 products of which they are components, obsolete;
- loss of customer orders and delay in order fulfilment;
- damage to our brand reputation;
- increased warranty and customer service and support costs due to product  
repair or replacement;
- product recalls or replacements;
- inability to attract new customers and collaboration opportunities;
- diversion of resources from our manufacturing and R&D departments into  
our service department; and
- legal and regulatory claims against us, including product liability claims,  
which could be costly, time consuming to defend, result in substantial  
damages and result in reputational damage.

1           **D.     August 3, 2021: Zymergen Discloses Numerous Facts Demonstrating**  
2           **the Registration Statement Was Inaccurate and Materially**  
3           **Misleading, Causing the Company’s Stock Price to Decline 75%**

4           112. After the market closed on August 3, 2021, less than four months after the  
5 completion of the IPO, the Company revealed numerous facts informing investors the Registration  
6 Statement contained untrue statements of material facts and omitted material facts. On that date,  
7 Zymergen issued a press release and held a conference call to provide a business update regarding  
8 its commercial product pipeline and financial forecast.

9           113. The Company reported: (i) there were issues with its commercial products pipeline  
10 that would impact the Company’s delivery timeline and revenue projections; (ii) the Company no  
11 longer expected product revenue in 2021 and only expected immaterial product revenue in 2022;  
12 (iii) during the quarter, several key target customers encountered technical issues in implementing  
13 Hyaline into their manufacturing processes, resulting in a delay in the commercial ramp up of  
14 Hyaline; (iv) the Company was working to strengthen its commercial team to ensure the reliability  
15 and robustness of the sales pipeline qualification and forecast process; (v) the Company was  
16 evaluating emerging data on the total addressable market for foldable display applications,  
17 indicating a smaller near-term market opportunity that was growing less rapidly than anticipated,  
18 as well as its impact on Zymergen’s sales forecast; (vi) the Company would conduct a full  
19 reexamination of all Zymergen target markets to determine if a shift in market focus was  
20 appropriate; (vii) the Zymergen’s Board of Directors had formed dedicated committees, including  
21 a Strategic Oversight Committee, and was working with outside experts to conduct an in-depth  
22 review of the Company’s operational, financial, product and commercialization efforts to facilitate  
23 the development of an updated strategic plan; (viii) the Company would conduct a cultural  
24 assessment to ensure that there would be broad-based accountability across the organization and  
25 that the Company would operate with transparency and openness; (ix) the Company was focused  
26 on reestablishing the credibility of the leadership team and the Company; (x) Hoffman, the  
27 Company’s CEO, had been terminated, effective immediately, as part of the effort to reestablish  
28 the credibility of the leadership team and the Company; and (xi) the Company was developing a  
plan to reduce and align expenses with the change in the Company’s revenue expectations.

1 114. In the press release, Zymergen reported the following:

2 *Zymergen recently became aware of issues with its commercial product*  
 3 *pipeline that will impact the Company's delivery timeline and revenue*  
 4 *projections. Accordingly, the Company no longer expects product revenue in*  
 5 *2021, and expects product revenue to be immaterial in 2022.*

6 *During the quarter, several key target customers encountered technical*  
 7 *issues in implementing Hyaline into their manufacturing processes typical of new*  
 8 *product and process development learnings. The Company has made significant*  
 9 *progress towards addressing these challenges and believes there are no intrinsic*  
 10 *technical issues with Hyaline. However, this issue has resulted in a delay in the*  
 11 *Company's commercial ramp. Zymergen is working to strengthen its commercial*  
 12 *team to ensure the reliability and robustness of the sales pipeline qualification*  
 13 *and forecast processes.*

14 *The Company is also evaluating emerging data on the total addressable*  
 15 *market for foldable display applications, which indicate a smaller near-term*  
 16 *market opportunity that is growing less rapidly than anticipated, as well as its*  
 17 *impact on Zymergen's sales forecast. The Company will conduct a full re-*  
 18 *examination of Zymergen's target markets confirming our past views or altering*  
 19 *them if the data indicate a shift in market focus is appropriate.*

20 *"We are disappointed by these developments, and the Board and*  
 21 *management team are focused on resolving the underlying issues to ensure*  
 22 *Zymergen moves forward as a stronger company with a compelling operating*  
 23 *plan," said Jay Flatley, Acting CEO and Chairman of the Board. "The Board has*  
 24 *formed dedicated committees, including a Strategic Oversight Committee, and is*  
 25 *working with outside experts to conduct an in-depth review of the Company's*  
 26 *operational, financial, product, and commercialization efforts to facilitate the*  
 27 *development of an updated strategic plan for Zymergen. The underlying promise*  
 28 *of our business and technology is sound, and I am proud of the work our teams are*  
*doing across the organization. We are confident in Zymergen's opportunities and*  
*prospects, although it will take longer to accomplish our goals than previously*  
*expected."*

### ***CEO Transition***

In connection with the business update, Zymergen also announced that Jay Flatley has been appointed Acting Chief Executive Officer, effective immediately. Flatley's appointment follows the mutual decision by Zymergen and Josh Hoffman that *Hoffman will step down as CEO and as a member of the Board, effective immediately*. The Company's Board of Directors will commence a search process to identify a permanent CEO. Sandi Peterson will serve as Zymergen's Lead Independent Director while Flatley serves as Acting CEO.

\* \* \*

25 *"A key element to ensuring Zymergen is set-up for long-term success is*  
 26 *having the right team in place, and the Board and Josh recognize that new*  
 27 *leadership is required," said Flatley. "The Board will take whatever time is needed*  
 28 *to conduct a thorough search to identify a world-class leader for Zymergen. Until*  
 then, I am committed to working with our deep bench of talent to drive our company forward. On behalf of the Board and management team, I thank Josh for his work in advancing our mission and wish him the best in his future endeavors."

\* \* \*

*In connection with today's business update, Zymergen is developing a plan to reduce and align expenses with the change in the Company's revenue expectations.*

115. During the conference call, Flatley repeated the unexpected adverse disclosures included in the press release related to Hyaline, the total addressable market for foldable display applications and the impact on expected product revenues for Hyaline and other products.

At market close today, Zymergen released an important business update. In addition, the company announced my appointment as acting CEO, while the Board commences a search to identify a permanent successor.

Starting with the update. *We recently became aware of issues with Zymergen's commercial product pipeline that will impact the company's delivery time lines and revenue projections. The goal of our call today is to provide you with further details, including our current understanding of the issues and what we continue to review; the actions the Board has already undertaken in connection with these events; and our plan to get the company back on track, reestablish credibility and ensure Zymergen is positioned for success.*

*Specifically, it's become clear that the commercial opportunity for our first product Hyaline is less than we expected.* In response, the Board initiated a series of deep dives into the company's product pipeline and development processes. While the work remains ongoing, *the Board anticipates that the road map and time lines for Zymergen's follow-on products could also be impacted. As a result, we no longer expect product revenue in 2021 and expect product revenue to be immaterial in 2022. Without a firm pipeline of customers and visibility on commitments, our projections beyond 2022 are highly uncertain.*

Let me now turn to the details of what we know today. As is typical and important for any company, the Board receives periodic updates regarding the company's progress toward its goals. It was through these updates that *we recently learned of significant execution challenges within the organization. Based on the Board's preliminary analysis, we have identified several contributing factors to the revision of our plan.*

*First, several key target customers had technical issues implementing Hyaline into their manufacturing processes.* We've made progress toward addressing these challenges and believe there are no intrinsic technical issues with Hyaline. However, *this resulted in a delay in the commercial ramp.*

*Second, emerging data on the total addressable market for foldable display applications indicates a smaller near-term market opportunity with scaled demand pushed out in time and growing more slowly than anticipated. The market is in an earlier stage than we previously expected.*

*Third, the company's commercial teams did not have significant insight into the customer qualification process and into their customers and users, which resulted in forecasted overestimated near-term demand. As a result, we're already making substantive changes in our commercial team.*

1 116. After repeating the adverse information included in the earnings release, Flatley  
2 emphasized the seriousness of the problems and what the Zymergen's Board of Directors and  
3 management were doing to understand the issues and develop a plan to address them.

4 *I want to perhaps state the obvious that we're taking this situation*  
5 *extremely seriously. As soon as we learned of the problems, our Board and*  
6 *management immediately started to work to fully understand the issues and*  
7 *began developing a plan to address them. The Board has formed dedicated*  
8 *committees, including a strategic oversight committee, to conduct an in-depth*  
9 *review of the company's operational, financial, product and commercialization*  
10 *efforts. We have also engaged expert advisers to support us in this process.*

11 *Currently, our work is focused in several key areas. First, we're*  
12 *conducting a deep dive into the company's sales forecasting process to examine*  
13 *how the initial forecast was developed, where the issues arose and how to improve*  
14 *that process going forward. Second, we've retained a number of outside experts*  
15 *to examine the robustness of the products coming out of our pipeline and their*  
16 *readiness for full commercialization. Third, we're digging into the company's*  
17 *long-term market opportunities to ensure our product pipeline is aligned with*  
18 *industry trends and customer demand.*

19 *With the assistance of a top-tier consulting firm, we're doing a full*  
20 *assessment of Zymergen's target markets and the fit of our products into the*  
21 *pipeline of those markets. As part of this work stream, we're exploring adjacent*  
22 *opportunities that could potentially provide for new revenue sources.*

23 \* \* \*

24 *Lastly, we're developing a plan to align our burn rate to match the newly*  
25 *expected revenue ramp. One of our top priorities will be expense management.*  
26 However, we should note that the Q3 expense rate is likely to be higher than Q2,  
27 given the outside resources we've retained and the onetime expenses it will take to  
28 manage down the burn rate. In the meantime, we have ample cash on hand to  
manage the business.

117. Flatley also stated that Zymergen would conduct a cultural assessment to ensure  
there was broad-based accountability across the organization and that the Company operated with  
transparency and openness; that Zymergen was focused on reestablishing the credibility of the  
leadership team and the Company; and that the termination of Hoffman was required to ensure  
accountability, transparency, openness and credibility.

*We will conduct, additionally, a cultural assessment to ensure that there's broad-*  
*based accountability across the organization and that we operate with*  
*transparency and openness.*

\* \* \*

As a result of the work underway, we will develop an updated strategic plan  
for Zymergen with clear milestones and goals that the company can be held



1 accountable to achieving. *We are focused on reestablishing the credibility of the*  
2 *leadership team and the company. We recognize that this will not happen over*  
3 *weeks or months, but will require consistent quarter-after-quarter execution*  
4 *against a credible plan.*

5 *To that end, another key element to ensuring we're set up for long-term*  
6 *success is [to] have the best possible leadership.* As a co-founder and CEO, Josh  
7 Hoffman's vision and passion for partnering with nature to make better products  
8 has been instrumental to establishing Zymergen as an industry pioneer and  
9 innovator. We're all grateful to him for his work in advancing this mission and  
10 thank him for his many contributions.

11 *As we navigate the current situation and work to move the company*  
12 *forward as a refocused company, the Board and Josh mutually agreed that new*  
13 *leadership is required.* The Board will initiate a comprehensive search to find the  
14 right leader to guide Zymergen's strategy moving forward and deliver on its  
15 strategic and operational goals. We will take whatever time is necessary to find the  
16 world-class leader our company deserves. In the meantime, I'm committed to  
17 leading the company and overseeing all operations as well as the reviews underway,  
18 and we'll keep you updated as we have more information to announce.

19 118. Flatley concluded his opening remarks by stating that the Company was now  
20 "committed to acting with transparency" but could not provide a specific forecast for 2022 and  
21 2023, until it completed various tasks, including a full reexamination of the Company's target  
22 markets, the strengthening of the commercial team and ensuring the reliability and robustness of  
23 Zymergen's sales pipeline and forecast process. He acknowledged the unexpected adverse  
24 disclosures were "deeply disappointing" to investors and meant it would take longer for Zymergen  
25 to achieve its goals than previously expected.

26 *The Board's hope was to speak to you today about the company's 2022*  
27 *and 2023 prospects. However, we have more work to do before we can provide a*  
28 *more specific forecast. We're committed to acting with transparency and look*  
*forward to providing updates on our progress.*

Over the next several quarters, we expect to complete and deliver a full  
reexamination of the company's target markets, confirming our past views or  
altering them if the data indicate a shift in market focus is appropriate. This will  
also include exploring potential new markets. Second, a plan to strengthen the  
commercial team and ensure the reliability and robustness of both our sales  
pipeline, qualification and our forecast processes. A plan to reduce the company's  
burn rate to align more closely with our revenue prospects. Fourth, a deep dive into  
the process by which we prepare and launch products to be sure they're market-  
ready and can be easily integrated into our customers' workflows. And lastly, a  
plan for 2022 and 2023, that we have confidence we will meet.

*To close, I want to acknowledge that these developments are deeply*  
*disappointing to all of us as supporters of Zymergen and its mission, including*  
*you, our analysts and investors, our employees, our customers and our Board of*  
*Directors. This is a setback that we're committed to resolving fully and*

1 *expeditiously. Our execution challenges do mean it will take longer to achieve*  
2 *our goals than previously expected.* However, we remain focused on our strategy  
3 of pursuing continuous launches of breakthrough products and I'm proud of the  
4 work our teams are doing across the organization.

5 119. Following Flatley's prepared remarks, analysts expressed shock and  
6 disappointment with the numerous adverse disclosures made just months after the completion of  
7 the IPO and asked many questions.

8 120. Cowen analyst Doug Schenkel ("Schenkel") asked the first question, stating the  
9 disclosures were a disappointment for everybody and very surprising. He noted there was a lot of  
10 excitement about the outlook for Hyaline because the Company had attached a large market  
11 opportunity to it and because Hyaline working would be a sign that Zymergen's biofacturing  
12 platform was worth much more. He asked Flatley if there truly was a real platform value given  
13 the unexpected adverse disclosures.

14 *Obviously, a disappointment for everybody involved in listening to this call, and*  
15 *it's very surprising.*

16 *If we tick it up a level; from Hyaline, there was a lot of excitement about*  
17 *the outlook for that product. I would argue that investors were as focused on*  
18 *Hyaline for the product itself as well as essentially looking at it as a sign that*  
19 *investors and analysts could have more confidence that this platform could work.*

20 *So while the product itself had attached to it a large market value, a*  
21 *market opportunity, I think folks looked at Zymergen as not just Hyaline*  
22 *company. But if Hyaline worked and then the follow-on product worked, that it*  
23 *would be a sign that this platform was worth much, much more.*

24 *I know this has just happened, but I think it would be really helpful if you*  
25 *could share anything that would make all of us feel better, that there truly is real*  
26 *platform value here. How do we get comfortable with that, Jay?*

27 121. Flatley claimed he had confidence the platform could produce products but  
28 acknowledged the challenge was in the execution related to matching produced products with  
29 market opportunity. Flatley also claimed Hyaline still had a material opportunity in the market –  
30 a claim he would contradict in Zymergen's 3Q21 earnings call just three months later, when he  
31 unexpectedly revealed the Company had stopped all work on Hyaline and cancelled the product  
32 because the foldable display market was smaller than initially expected – but admitted that  
33 opportunity had been "pushed out" and that the "pipeline [was] thinner than we might have  
34 expected back several months ago." He also admitted what happened with Hyaline caused the

1 Company to “relook at the entire pipeline of products” to determine the Company’s ability to  
2 manufacture them in a way that they were truly market ready and that they had a match to the best  
3 market opportunities.

4 So everything I’ve seen to date, Doug, reinforces the confidence that we  
5 have in the overall ability of this platform to produce products. *What I think we’ve*  
6 *seen, as we look back over the last weeks, is a real challenge in execution related*  
7 *to the match of the products that the platform can produce with the market*  
8 *opportunity.*

9 And Hyaline, you’re right, was certainly an exemplar or intended to be an  
10 exemplar of what this platform could produce. *We think the product still has a*  
11 *material opportunity in the market. It’s certainly pushed out, and the pipeline is*  
12 *thinner than we might have expected back several months ago.* But intrinsically,  
13 we think the technical characteristics of the products are sound.

14 *Having said that, what’s happened on Hyaline has caused us to relook at*  
15 *the entire pipeline of products that we’re producing, not in terms of the actual*  
16 *specification so much of those products, but our ability to manufacture them in*  
17 *a way that they’re truly market-ready, number one. But secondarily, that they*  
18 *also have a match to the best market opportunities that the company has in front*  
19 *of it.*

20 So in summary, I think the platform is solid. *What we’re facing here are*  
21 *execution challenges in matching the products that come off that platform to the*  
22 *market.*

23 122. Schenkel mentioned the pipeline of product charts shared by Zymergen – including  
24 in the Registration Statement – and asked what had changed if the products were as represented in  
25 the pipeline charts.

26 Okay. And I guess I follow-up on what you’ve mentioned a couple of  
27 times, which is this pipeline. I just want to make sure I understand that correctly.  
28 *When you talk about pipeline, and maybe I should just understand this*  
*inherently, but are you talking about the products and the targets that the*  
*company has been talking about for a while in terms of what would come next?*  
*Are you talking about the funnel of customers that could be interested in Hyaline*  
*and other products? Or is it actually both?*

123. Flatley responded that the pipeline of products was as represented during the IPO  
but that the pipeline of customers was thinner than represented during the IPO.

Your point’s a good one. It’s actually both, and pipeline is used to describe  
both of those things. And what I would say is that the pipeline of products is as  
was represented during the IPO. So those products are continuing to be developed  
by the platform. *What is thinner than we expected is the pipeline of customers*  
*for Hyaline specifically.*

1           124. That response caused Schenkel to ask if what changed with the pipeline charts  
2 included in the Registration Statement was Zymergen’s ability to manufacture at a level that would  
3 put the Company in a position to address the markets in a way where the markets would be as  
4 previously communicated.

5                   [Schenkel:] Okay. But – and then – but in general, so that – *if we think of*  
6 *those product pipeline charts, you guys shared, nothing’s changed there. What’s*  
7 *changed is your assessment of your ability to manufacture at a level that would*  
8 *put you in a position to address the markets in a way where the TAMs would be*  
9 *what was previously communicated?*

10           125. Flatley responded that the problem was not manufacturing, but the actual fit of the  
11 product to the market opportunity. Moreover, he admitted there was no market for Hyaline and  
12 that the market was just “theoretical” because there was “no hit product yet in the foldable display  
13 market.” Flatley said that problem caused Zymergen to relook at the entire portfolio of products  
14 to make sure there were market opportunities for them.

15                   [Flatley:] *It’s not so much the scalability of manufacturing, Doug. It’s*  
16 *the actual fit of the products that we’re making to the market opportunity, right?*  
17 *Do they satisfy the market? Are they timed in a way to hit the market when the*  
18 *market is actually ready for them?*

19                   So we think, as I mentioned in the script, *that the timing for the foldable*  
20 *display market is getting pushed out. As most people are aware, there’s no hit*  
21 *product yet in the foldable display market. So they’re all remaining theoretical,*  
22 *and that’s sort of pushing out the time line for Hyaline. So that’s an example, I*  
23 *think, of where we have a product in a market that’s not quite ready for it yet and*  
24 *so the timing gets pushed out. That’s what’s caused us to go back and relook at*  
25 *the entire pipeline of products to make sure that, that fit is appropriate and that*  
26 *we’re hitting the best market opportunities that the company has.*

27           126. In response to a question from J.P. Morgan Chase analyst Tycho Peterson  
28 (“T. Peterson”) about the technical issues key target customers had implementing Hyaline into  
their manufacturing processes, Flatley revealed there was product shrinkage at one customer site  
and material compatibility issues at an undisclosed number of customers. He acknowledged the  
Company did not do a sufficient job of anticipating and modeling the processes its products went  
through at its customers or knowing in advance what risks its products could have in the hands of  
third-party customers. As a result, Zymergen did not understand the various types of applications  
for its products and what issues might come up at the customer sites and pretest for as many of  
those as possible. Moreover, he acknowledged these failures should not have occurred, stating



1 *when they plan to implement it and what product they plan to implement it in.*  
 2 *It's another point in our commercial chain where we didn't do as good a job as*  
 3 *we should have in understanding, in fact, the ultimate end-use of the product in*  
 4 *the stack and understanding what that demand curve look like. And that's why*  
 5 *I think we potentially – well, we, in fact, did overestimate the near-term demand*  
 6 *for Hyaline.*

7 128. Flatley also admitted Zymergen was looking at the fundamental model of the  
 8 Company to determine whether its at-risk development model was sound compared to the foundry  
 9 approach used by some of the Company's peers. Moreover, he admitted the deep dive into the  
 10 Company's at-risk development model and other business assessments would occur over the next  
 11 several quarters.

12 129. BofA analyst Derik De Bruin ("De Bruin") questioned the representations made  
 13 during the IPO process given the unexpected adverse disclosures and asked how the analysts could  
 14 have any confidence in anything the Company was now representing, noting the representations  
 15 about Hyaline being the Company's breakthrough product were off so much. De Bruin told Flatley  
 16 that, during the IPO process, health care analysts like him relied on the Company for information  
 17 to evaluate the electronics markets, consumer products markets and agriculture product markets  
 18 because they were a bit beyond the scope of health care analysts. He asked:

19 *[H]ow can we have any confidence whatsoever in anything that's been put out*  
 20 *there in terms of numbers or putting the market opportunity? I mean, given that*  
 21 *the one product, the one market that was set in stone to come out and be the*  
 22 *breakthrough product is off so much? So . . . the question is like, what's the basis*  
 23 *for our forecast for now on this and sort of the opportunity? And it's like – are*  
 24 *you going to reevaluate all the other pipeline products as well?*

25 130. Flatley admitted that the Company was reevaluating all the other pipeline products  
 26 and that it was *"totally fair that you question the credibility of any forecast we give you today,*  
 27 *which is, frankly, why we didn't give you any forecast today."* He claimed the Zymergen Board  
 28 was as surprised as De Bruin, the other analysts and the Company's investors and that it was part  
 of the reason Zymergen was doing the very deep dive to understand what happened in the  
 forecasting process, the product process and the overall market assessment.

131. In response to another question from De Bruin about the Company's cash burn,  
 Flatley said Zymergen was in a "great cash position at the moment" with \$580+ million of cash in  
 the bank and net cash of about \$500 million. He admitted, however, a key priority was to reduce

1 the cash burn rate sufficiently so cash would last longer and to the point it would match the revenue  
2 stream going forward, which Flatley admitted the Company did not know.

3 132. Flatley failed to mention that the great cash position was the result of the Company  
4 raising \$529.9 million less than four months earlier, based on a Registration Statement that  
5 contained untrue statements of material facts and omitted facts necessary to make the statements  
6 made not misleading.

7 133. Goldman Sachs analyst Matthew Sykes noted the technical issues customers  
8 encountered with Hyaline during the evaluation and testing phase were fairly far along in the  
9 process when discovered and asked if there were ways Zymergen could check in to avoid these  
10 types of surprises in the future. Like in his response to J.P. Morgan analyst Peterson, Flatley  
11 acknowledged the technical issues were knowable at the time of the IPO if Zymergen had done a  
12 better job of understanding and anticipating the end use of the product in the customer's hands and  
13 having a more intimate relationship with the customer so the Company understood specifically  
14 how the customer was going to use the product and what other materials they were using in their  
15 factories so that Zymergen's material would be compatible at the time it was provided to the  
16 customer. Flatley also said Zymergen needed to have more talent at the application engineer level  
17 who worked directly with the customer and make sure those engineers were on site working  
18 directly with the customers. Flatley admitted that had not happened and blamed COVID for  
19 engineers not being on site.

20 *There's 2 key things, Matt, that I think we need to do there. One is that*  
21 *we need to do a much better job of understanding and anticipating the end-use*  
22 *of the product in the customer hands; and having a more intimate relationship*  
23 *with the customer so we understand specifically how they're going to use it, what*  
*other materials they're using in their factories, so that our material winds up*  
*being fully compatible at the time we put it in their hands. There's always some*  
*of this that's going to happen as you put a brand-new product into a new application.*

24 *But the second thing we need to do to make that go much more smoothly*  
25 *is have more talent at the application engineer level that works directly with the*  
26 *customer on site. And COVID, we've never used COVID as an excuse in any of*  
27 *this, but there have been some COVID challenges in getting our teams to fly to*  
28 *customer sites and be able to meet with customers. And so as a backdrop, that's*  
*been a challenge, frankly, for the customer – company in the last 1.5 years. And so*  
*what we need to do as we come out of COVID it is to make sure we have those*  
*application engineers on-site working directly with customers in a much more*  
*timely way.*

1 134. Sykes, like other analysts, also questioned the Company's credibility and whether  
2 there were also issues with the overall platform.

3 ***And then just on the overall credibility. Obviously, there will be general***  
4 ***questions going forward.*** And how much of this is – can we attribute to specifically  
5 to the technical issues that Hyaline had and/or electronic films versus other end  
6 markets and in the conversations that you'll likely have with customers that you've  
been working with other end markets to assure them that this is a specific issue to  
a specific end market and a specific product versus the overall platform that you  
kind of addressed in an earlier question, but just wanted a little more detail on it.

7 135. Flatley responded that there was no concern about the real market opportunities for  
8 the Company but that the challenge was to make sure the specific products made would meet the  
9 market need of a particular application area, which was where the Company had fallen down. He  
10 stated Zymergen needed to track the evolution of these markets much more closely so that if the  
11 markets evolved while Zymergen was developing products, the Company would have the ability  
12 to adapt and react to those.

13 Yes. So Matt, we don't have any concerns about the real market  
14 opportunities for this company. We believe the opportunity we have to make new  
15 products that don't exist today, to make them in much more organic ways, nature  
friendly ways is as enormous as we communicated and others in this field have  
communicated. So there's no doubt about that.

16 ***The challenge we have is to make sure that the specific product that we***  
17 ***make meets the market need of a particular application area. And that's where,***  
18 ***I think, we've fallen down is in that execution side of things. And we need to***  
19 ***track the evolution of these markets much more closely so that if these markets***  
***evolve while we're developing products, that we have the ability to adapt and react***  
***to those.*** But there's no reduction of our optimism about the market opportunities  
for Zymergen products in the long run.

20 136. In response to a question from Larew, Flatley stated that Zymergen continued to  
21 work with the two customers that had problems incorporating Hyaline and the concern was how  
22 fast they were going to ramp up and how fast their end-user markets were going to ramp up based  
23 on what was known about the foldable display market.

24 137. In his closing remarks, Flatley acknowledged the setbacks revealed were "clearly  
25 disappointing for all of you and for all of us" and stated Zymergen remained confident in the  
26 significant opportunity the Company had in front of it. Subsequent disclosures by the Company  
27 would confirm many of the opportunities presented in the Registration Statement were gone,  
28 including the discontinuation of six of the 11 products highlighted in the Registration Statement.



1 138. On this news, the Company's stock price fell \$26.58 per share, or 76%, from \$34.83  
2 on August 3, 2021, to \$8.25 on August 4, 2021, on unusually heavy trading volume of 21.7 million  
3 shares.

4 139. On August 4, 2021, the date this action commenced, the Company's stock was  
5 trading as low as \$7.85 per share, a nearly 75% decline from the \$31.00 per share IPO price.

6 **E. August 4, 2021: Analysts Report the Catastrophic Disclosures on**  
7 **August 3, 2021, Destroyed Zymergen's Credibility with Investors**

8 140. Following the Company's August 3, 2021 press release and earnings call, many  
9 analysts issued reports in which they downgraded the Company's stock and were highly critical  
10 of Zymergen, questioning the Company's credibility, including how the foldable display market  
11 could have changed so much in the less than four months since the IPO.

12 141. On August 4, 2021, Larew issued a report in which he downgraded Zymergen  
13 stock, wrote that the Company had destroyed its credibility with investors and questioned how the  
14 total addressable market for foldable display applications could have changed so much since the  
15 IPO.

16 *[G]iven the abrupt and significant about-face just months after the IPO, we*  
17 *believe the company has destroyed its credibility with investors* (who have an ever-  
18 *growing list of other investible options in the flourishing synthetic biology field).*  
19 *While shares will be down meaningfully on Wednesday, with no definable*  
20 *catalyst in sight and (in our view) doubt about the credibility of the public*  
21 *information provided by the company to support the long-term investment case*  
22 *we are downgrading shares to Market Perform.*

23 \* \* \*

24 *In our view, what is more confusing and concerning is commentary on*  
25 *the total addressable market for foldable display applications, which suggests a*  
26 *smaller near-term market opportunity that is growing more slowly than*  
27 *anticipated. Frankly, we are not quite sure how the data could have changed so*  
28 *much over such a short time (again, the company's IPO filings were published*  
*less than four months ago), and at this point the company does not have enough*  
*data to quell our concerns or give us any sense of what the company's actual*  
*pipeline might look like following the in-depth review of the company's*  
*operational, financial, product, and commercialization efforts.*

29 142. On August 4, 2021, HSBC analyst Sriharsha Pappu issued a report titled:  
30 *"Downgrade to Reduce from Hold: A catastrophic business update."* He noted the disclosure of  
31 significant problems just three months after the IPO, including multiple fundamental problems

1 with Hyaline; raised fundamental questions about Zymergen’s ability to bring any products to  
2 market; and made it clear the Company lacked fundamental business insights into its customers  
3 and end markets.

4 ***Everything that could go wrong . . . has***

5 ***What happened? Three months on from its IPO, Zymergen issued an***  
6 ***update post market close on 3 August, highlighting significant problems with its***  
7 ***primary product – Hyaline.*** The company stated that several customers had  
8 technical issues incorporating Hyaline into their manufacturing plans, that it had  
9 overestimated the size and growth of the market for foldable films and that its  
10 commercial teams lacked insight into customers’ processes and end users –  
11 resulting in forecasts that overestimated near-term demand. ZY now expects no  
12 product revenue in ‘21 or ‘22 (consensus ‘22e revenue currently stands at  
13 USD135mn) and is reassessing the fit of its product pipeline, target markets and  
14 commercial processes. Co-founder and CEO Josh Hoffman has been replaced by  
15 Chairman Jay Flatley with immediate effect.

16 ***What does this mean?*** In our ZY initiation (Initiate at Hold, Platforms need  
17 to scale, 6 July 2021) we made the point that all of the chat around code base, AI,  
18 robotics, machine learning, pathways, database, etc, eventually needs to result in  
19 products that generate revenue – and ***this update raises fundamental questions***  
20 ***about ZY’s ability to bring products to market. Hyaline wasn’t just the lead***  
21 ***product in ZY’s portfolio, it was also the proof point for their whole biofacturing***  
22 ***model and the platform that would have bolstered confidence around the rest of***  
23 ***the portfolio. With the rest of the product pipeline being early-stage, the***  
24 ***disclosure of multiple fundamental problems with Hyaline – at this late stage –***  
25 ***brings the entire pipeline into question.***

26 ***Fundamental questions with the business model.*** We wrote in our  
27 initiation about the challenges of bringing products to market across multiple end  
28 markets – ***and it is clear from the update that the company lacks fundamental***  
***business insights into its customers and end markets.*** The company might have  
to pivot to a partnership model from an “at risk” product development model to  
have a viable business model.

29 ***Downgrade to Reduce, TP USD8 from USD42; a long road to re-***  
30 ***establishing credibility lies ahead. With this one update, ZY has gone from a***  
31 ***fledgling Synbio platform to a turnaround story, needing to rebuild credibility***  
32 ***around its products, technology and business model.*** The stock (down c70% after  
33 hours) is likely to now go from “presuming scale” to “show me” mode on its  
34 pipeline. Downgrade to Reduce.

35 143. On August 4, 2021, Schenkel issued a report downgrading the stock from  
36 Outperform to Market Perform and noting his surprise that such material adverse disclosures were  
37 made so soon after the IPO.  
38

1 ***How Could Things Change so Much in the 72 Days Since The Last Earnings***  
 2 ***Call?***

3 The Board of Directors is wondering the same thing – it was noted that this  
 4 situation is taken extremely seriously. Thus, the change in leadership and  
 5 organizational evaluation. (For what it is worth, we noted that ZY was early at the  
 6 time of our initiation and that there was risk – ***that said, we are very surprised that***  
 7 ***something this material could go wrong this quickly.***)

8 \* \* \*

9 ***Was There Any Intentional Wrongdoing (Why Change CEO)?***

10 At this point, there is nothing to suggest that any of this was intentional  
 11 wrongdoing. That said, ***the breakdown in process was so material and so close to***  
 12 ***the IPO and recent (first) earnings call that the BoD ostensibly had a difficult***  
 13 ***decision on leadership credibility*** – this led to naming former ILMN CEO Jay  
 14 Flatley active ZY CEO.

15 \* \* \*

16 **What Do We Think?**

17 We believe we have no choice but to downgrade to Market Perform (which  
 18 we do not like to do after the news) – pending more details on the outcome of the  
 19 BoD’s evaluation, we cannot recommend purchase of ZY shares. Our concerns are  
 20 somewhat assuaged by Jay Flatley’s willingness to step in as acting CEO and  
 21 assertions that this is not a technical issue. That said, ***there is little precedent (even***  
 22 ***for an early stage company) to have to make a change like this.***

23 144. On August 4, 2021, T. Peterson issued a report in which he downgraded the stock,  
 24 noted the adverse disclosures about Hyaline and the total addressable market for foldable display  
 25 applications causing the Company to no longer expect product revenues in 2021, and immaterial  
 26 product revenues in 2022. Moreover, he noted that the Company’s previous representations about  
 27 the total addressable market for foldable display applications were overstated and that J.P. Morgan  
 28 had never been in the position of seeing a CEO change and significant revenue reset so soon after  
 an IPO.

29 ***Hard to Synthesize . . . CEO Transition & Product Launch Pushouts Announced***  
 30 ***Amidst TAM Realignment, Downgrade to Neutral***

31 We are downgrading our rating on Zymergen (ZY) from Overweight to  
 32 Neutral after the business update and conference call. Specifically, the Board has  
 33 appointed Chairman Jay Flatley (former ILMN CEO) as acting CEO after recently  
 34 becoming aware of issues with the product pipeline that will impact delivery  
 35 timelines, which resulted in the departure of former CEO Josh Hoffman. Looking  
 36 closer, during 2Q, several target customers experienced technical issues  
 37 implementing Hyaline into their manufacturing processes (product shrinkage at one  
 38 customer site, which has largely been addressed, while material compatibility with

1 certain manufacturers' processes remains a work in progress). *Combined with an*  
 2 *initially overstated TAM for foldable electronic devices (based on bad market*  
 3 *data and slower foldable device uptake), ZY no longer expects product revenues*  
 4 *in 2021 (vs. JPMe product revenue of \$13M) and immaterial product revenues*  
 5 *in 2022 (vs. JPMe product revenue of \$117M). To address the challenges, the*  
 6 *company is evaluating data on the TAM for foldable display applications, which*  
 7 *indicates a smaller market opportunity growing less rapidly than anticipated*  
 8 *(thinner pipeline of end-users), which will impact ZY's sales forecast for biofilms.*  
 9 *As it relates to the long-term viability of the platform, interim CEO Jay Flatley*  
 10 *relayed confidence by stating that there are no intrinsic issues, but rather a*  
 11 *disconnect between the commercial team and understanding of end-markets,*  
 12 *with ZY's focus now to reliably manufacture products that "hit the market when*  
 13 *the market is ready". As part of the TAM evaluation, ZY has formed several*  
 14 *committees (including a Strategic Oversight Committee) to conduct an in depth*  
 15 *review of the sales forecasting process, pipeline commercialization plans and TAM*  
 16 *analysis. Stepping back, we are adjusting our model to reflect the newfound*  
 17 *uncertainty of the product launches and while we acknowledge the long-term*  
 18 *viability of the synbio platform, with little to no visibility on product TAMs,*  
 19 *customer pipelines or leadership, we downgrade to Neutral, while rolling our DCF*  
 20 *to establish a Dec. 2022 PT of \$12.*

- 21 • *2Q preliminary results.* ZY also reported preliminary 2Q revenues of \$5-  
 22 6M (vs. JPMe \$4M), all from R&D service and collaboration revenues,  
 23 while non-GAAP OPEX is expected to be \$80-85M. ZY is currently  
 24 developing a plan to reduce and align expenses with the changes in revenue  
 25 expectations (no guidance was given at this point).
- 26 • *Downgrading to Neutral on lack of visibility. Admittedly, we have never*  
 27 *been in this position, with a CEO change and significant revenue reset so*  
 28 *soon post-IPO (2022 revenues now expected to be "immaterial" vs. Street*  
*at \$132M), so we do not make the decision lightly, but in the absence of*  
*visibility around a turnaround plan, ability to recruit a CEO and the*  
*revenue ramp, we are hard pressed to see near-term upside,*  
*notwithstanding our high regard for interim CEO Jay Flatley.*

**F. September 23, 2021 – October 21, 2021: Zymergen and the Financial Press Report Additional Facts Demonstrating the Registration Statement Was Inaccurate and Materially Misleading, and the Financial Press Likens the Implosion of Zymergen to that of Theranos**

145. On September 23, 2021, investors learned of additional negative impacts from the numerous problems revealed on August 3, 2021. Zymergen announced it was terminating approximately 120 employees as part of preliminary phase of the Company's plan to reduce costs to align with the delayed revenue ramp up previously disclosed on August 3, 2021. The Company also disclosed it would incur an estimated \$4.5 million of severance and employee-related restructuring costs related to the reduction in force.

146. On October 21, 2021, Zymergen filed a Report on Form 8-K with the SEC in which it revealed more negative impacts from the numerous problems reported on August 3, 2021.

1 Zymergen announced a second reduction in force of approximately 100 employees, which would  
2 result in approximately \$4.2 million of severance and employee-related restructuring costs.

3 147. In addition, the Company reported it expected to incur impairment charges of  
4 \$15 million for certain manufacturing equipment as a result of its restructuring activities and might  
5 incur additional restructuring and impairment charges in 4Q21, including lease expenses.

6 148. Zymergen also reported it had amended its Credit Agreement due to its violation of  
7 revenue covenants. The amended Credit Agreement required Zymergen to: (i) shorten the term of  
8 the Credit Agreement by moving the maturity date from December 19, 2024 to June 30, 2022;  
9 (ii) increase the amount of the liquidity covenant; (iii) make a \$41 million payment, including a  
10 \$35 million principal prepayment; and (iv) deposit the remaining outstanding balance of the loan  
11 plus accrued interest through the maturity date in a blocked account controlled by the  
12 Administrative Agent, which was subject to release from the blocked account upon the  
13 Administrative Agent's completion of due diligence to its reasonable satisfaction regarding the  
14 Company's anticipated operating costs and budget through the maturity date.

15 149. Investors also learned that co-founder Jed Dean had notified the Company of his  
16 decision to step down, effective October 31, 2021.

17 150. The financial press likened the rapid rise and fall of Zymergen to that of Theranos  
18 and reported facts indicating the representations in the Registration Statement were materially  
19 misleading, including the representations about Hyaline; the total addressable market for foldable  
20 display applications; and when the Company's products, including Hyaline, would generate  
21 revenue.

22 151. On September 30, 2021, the *San Francisco Business Times* published an article  
23 titled "The rise and fall of Zymergen: Can biotech veteran Jay Flatley save the company?" likening  
24 the rapid rise and fall of Zymergen to that of Theranos:

25 In its rapid rise and equally quick fall as a huge potential turned to imminent  
26 peril, it is hard not to hear echoes of Theranos in Zymergen's emerging difficulties.

27 To be sure, there are parallels with the Palo Alto and East Bay-based blood  
28 testing company, once valued at \$9 billion but now at the center of a high profile  
fraud trial for its enigmatic founder. Theranos and Zymergen share high valuations,

1 the promise of disrupting an old-school industry, a penchant for corporate secrecy  
2 and a fondness for signing large leases to meet swelling workforces.

3 152. On October 13, 2021, *Barron's* published an article titled "***The Inside Story of How***  
4 ***SoftBank-Backed Zymergen Imploded Four Months After Its \$3 Billion IPO.***" The article  
5 reported Zymergen's market capitalization was \$3 billion following the completion of the IPO and  
6 that "[j]ust four months later" the Company made the "***stunning announcement***" on August 3,  
7 2021, that caused the stock to tank, wiping out more than \$2.5 billion in market value.

8 153. The article also included facts indicating the representations in the Registration  
9 Statement were materially misleading, including the representations about Hyaline; the total  
10 addressable market for foldable display applications; and when the Company's products, including  
11 Hyaline, would generate revenue. Indeed, it was reported that Hoffman used exaggerated financial  
12 figures and made overly optimistic projections about the Company's capabilities, both internally  
13 and externally.

14 ***According to a former senior-level employee at Zymergen, Hoffman used***  
15 ***exaggerated financial figures and made overly optimistic projections about the***  
16 ***company's capabilities, both internally and externally. The former employee –***  
17 ***who retains a vested interest in the company – recalls Hoffman's response when***  
18 ***he was confronted about this behavior: "Never underestimate the power of the***  
19 ***greater fool."***

20 154. In fact, the article reported that such disclosure problems began surfacing long  
21 before the IPO.

22 Problems began surfacing long before the IPO. At an all-hands meeting in  
23 early 2018, for instance, Hoffman walked on stage to deliver a status report to his  
24 roughly 500 employees. The company had just acquired Radiant Genomics, a  
25 genomic database company, after a year and a half courtship.

26 According to the former Zymergen employee, the two Radiant co-founders  
27 – Jeff Kim and Oliver Liu – had agreed to the acquisition after being shown  
28 Zymergen's internal pipeline, which showed projected contract sizes worth billions  
by 2021. At the time, Radiant posted revenue just under \$10 million, according to  
the employee, who became familiar with both companies' financial statements  
through the due diligence process. Prior to the deal's close, Radiant was told that  
Zymergen was on track to book three times that amount for 2017, the employee  
says. Liu didn't respond to requests for comment and Kim declined to comment.

As the gregarious Hoffman delivered his speech at the meeting, he shared  
with employees Zymergen's annual revenue number: just under \$10 million. "Wait  
a minute," the former employee remembers thinking. "That's Radiant's figure.  
That's exactly Radiant's figure which indicated to me that Zymergen had zero in  
revenue."

1 155. *Barron's* also reported that the SEC had concerns about the Company's disclosures  
2 before the IPO in connection with its review of draft registration statements submitted by  
3 Zymergen. It referenced the letter the SEC sent to Zymergen in February 2021:

4 The Securities and Exchange Commission had concerns as well . . . .  
5 Correspondence in February with the SEC showed that regulators questioned the  
6 company's plans for growing revenue and profitability, its current financial  
7 condition and its outstanding indebtedness, which included a \$100 million credit  
8 facility at the time of the IPO. It also asked the company to stop comparing its  
9 products to Kevlar, a strong and heat resistant fiber developed by chemicals giant  
10 DuPont that is used in bulletproof vests, tires and more as it does not appear to be  
11 relevant comparison, according to a letter from Katherine Bagley at the SEC's  
12 Division of Corporate Finance. The SEC declined to comment for this article or  
13 confirm or deny that it is now investigating Zymergen.

14 156. Not surprisingly, *Barron's* reported the stunning disclosures on August 3, 2021,  
15 indicated the Underwriter Defendants and Zymergen's Board of Directors failed to conduct  
16 appropriate due diligence, and that the Controlling Stockholders were also to blame.

17 When high-profile companies like WeWork or Theranos unravel, company  
18 founders often take the blame. But for these venture-backed companies, there's  
19 lots of blame to go around. Investors such as SoftBank enable founders, then pass  
20 on their investments to the public through IPOs. Underwriters, too, like Goldman  
21 Sachs and J.P. Morgan in Zymergen's case, may be failing to do the appropriate  
22 due diligence (Goldman Sachs did not respond to a request for comment and a  
23 spokesperson for J.P. Morgan declined to comment). Likewise the boards of  
24 venture-backed companies have a duty to ensure that company filings and  
25 projections are accurate and reliable, says John C. Coffee, Jr., a law professor at  
26 Columbia University.

27 "In the course of preparing the registration for the IPO, you would normally  
28 have a good deal of due diligence done by all the people at the law firms of the  
company and the underwriters. They apparently didn't detect this problem at all."  
Coffee says. "We may have another instance of highly competent people failing to  
vet a new company and just believing in the founder's endearing tale."

157. Further, *Barron's* reported that Flatley acknowledged the validity of concerns about  
the Company's credibility following the August 3, 2021 disclosures.

Zymergen hasn't commented publicly on the crisis since Hoffman departed  
in August, except in a call that month with investors at which Flatley, the interim  
CEO, *acknowledged the validity of concerns about the company's credibility*. "*I  
want to perhaps state the obvious that we are taking this situation extremely  
seriously*," Flatley said during the call, noting that the firm had formed a strategic  
oversight committee and planned to conduct an in-depth review with the support of  
outside advisors. "We're focused on reestablishing the credibility of the leadership  
team and the company. We recognize this will not happen over weeks or months,  
but will require consistent quarter-after-quarter execution against a credible plan."

1           **G.     November 3, 2021: Zymergen Reports Six of the Eleven Products**  
2           **Featured in the Registration Statement Will Be Discontinued**

3           158.   On November 3, 2021, Zymergen reported its preliminary 3Q21 results and  
4           revealed more unexpected negative news, which, like the statements on August 3, 2021,  
5           established the Registration Statement contained untrue statements of material facts and omitted  
6           facts necessary to make the statements made not misleading. However, the Company failed to  
7           disclose other unexpected negative news – that government agencies, including the SEC – had  
8           requested information from the Company related to the unexpected adverse disclosures on  
9           August 3, 2021. That material adverse information was not disclosed until November 15, 2021,  
10          when Zymergen reported the multiple government inquiries in the Company’s 3Q21 Report on  
11          Form 10-Q filed with the SEC.

12          159.   In the November 3, 2021 earnings release and conference call, Zymergen revealed  
13          it was discontinuing Hyaline, the main product featured in the Registration Statement, and all but  
14          one of the electronics film program products. It also revealed that all consumer care programs,  
15          including the insect repellent product featured in the Registration Statement, were being  
16          discontinued. Thus, the Company revealed that six of the 11 products highlighted in the  
17          Registration Statement had been discontinued and would not generate any revenue for the  
18          Company.

19          160.   Zymergen also reported it had eliminated approximately 220 positions, which, with  
20          reductions in overhead spending, would still result in a burn rate that would cause the Company to  
21          run out of cash in little more than a year. In the press release, the Company reported the following:

22                   Since the previous business update in August, the Company has reviewed  
23                   the potential market opportunities and its related portfolio, using a rigorous  
24                   evaluation process applied to current and potential market segments. As a result of  
25                   this review, the Company will focus on a smaller number of programs that it  
26                   believes capitalize on its capabilities and provide clear commercial opportunities.

27                   Accordingly, *several programs will be discontinued, including:*

- 28                   •       ***The electronics film programs, with the exception of ZYM0101, which is  
being developed in partnership with Sumitomo Chemical. Emerging data  
on the market segment being targeted with Hyaline and other electronics  
films indicates a smaller near-term opportunity than previously expected.***



- 1           •     ***The consumer care programs, including insect repellent, ZYM0201. Based on the portfolio review, the costs of customer acquisition with a direct-to-consumer model were prohibitive and, in the case of ZYM0201, it could not be produced and distributed at a price point competitive with incumbent products.***
- 2
- 3

4           As a result of these changes, the Company eliminated approximately 220  
5 positions across a variety of levels and functions. These decisions, along with a  
6 reduction in related overhead spending, are expected to slow the Company's cash  
7 burn rate sufficiently to operate to the middle of 2023 with cash on hand.

8           161. The Company also revealed it would have run out of cash in 3Q21 had it not raised  
9 \$529.9 million from the IPO. Zymergen reported that cash and cash equivalents totaled  
10 \$496.2 million as of September 30, 2021, a \$91.8 million decline from the \$588 million of cash  
11 and cash equivalents reported as of June 30, 2021. The Company reported a net loss of  
12 \$283.6 million for the nine months ending September 30, 2021.

13           162. During the earnings call, Flatley made numerous statements that also establish the  
14 Registration Statement contained untrue statements of material facts and omitted facts necessary  
15 to make the statements made not misleading.

16           163. Flatley repeated the information included in the earnings release; summarized the  
17 work Zymergen had done to date; and shared a high level overview of the Company's forward-  
18 looking (and much smaller) portfolio of products, which he claimed would provide a general sense  
19 of the Company's direction. He admitted more bad news would likely arrive in the future – but  
20 failed to mention the inquiries by the SEC and other government agencies – by also revealing that  
21 full details of the Company's future direction would not be provided until the Company completed  
22 its strategic plan around year end.

23           164. Flatley revealed Zymergen did not have adequate resources to support the 30  
24 different programs on which the Company was working and therefore eliminated two programs  
25 Flatley admitted were prominent in the Company's public plans.

26           Let me now share some additional details. ***Our portfolio review indicated that we are working – we were working on at least 30 different programs, far too many to adequately resource. It was imperative that we narrow our focus to a smaller number that we believe capitalize on our strengths and provide clear commercial opportunities. That resulted in decisions to pause or eliminate several programs while promoting others to a higher level of investment.***

27

28

1           ***A critical highlight is the cancellation of 2 programs that were prominent***  
2 ***in our public plans, Hyaline, known as ZYM102 (Phonetic) and our direct-to-***  
3 ***consumer insect repellent referred to as ZYM201 (Phonetic). In the case of***  
4 ***Hyaline films, we no longer have conviction in the market opportunity.*** To be  
clear and contrary to many published reports, the product worked as designed, the  
underlying technology and science are sound.

5           The technical issues that I discussed on our August call caused delays but  
6 were quickly resolved by our teams, and were not a factor in our decision to halt  
7 the project. In fact, at the time we canceled the program, we have made tens of  
8 thousands of square meters of Hyaline. ***The issues we uncovered were***  
***commercial. We look more closely at the foldable display market and the***  
***emerging data on the market segment that we targeted with Hyaline and other***  
***electronic films indicated a smaller near-term opportunity than we initially***  
***expected.***

9           ***As a result, we stopped work on our electronic films programs*** but are  
10 continuing work on our ZYM101 film in partnership with Sumitomo. We will also  
11 continue to explore and develop bio-based polyimides in several different form  
factors, which we expect will add value to potential future products, not just in  
electronics, but other markets as well.

12           ***In the case of our insect repellent and other consumer care programs, our***  
13 ***reviews show that the cost of customer acquisition with a direct-to-consumer***  
14 ***model would have been prohibited for Zymergen.*** While the product performance  
15 was satisfactory, ***it could not be produced and distributed at a price point***  
***competitive with the incumbent products. With this assessment, we've decided to***  
***park all our efforts in consumer care.*** We have, however, developed strong IP  
and technology around bioactives and remain open to potential future partnerships  
in clean consumer care.

16           165. Singh, the Company's CFO, revealed some of the costs related to the discontinued  
17 Hyaline and consumer care products, stating that operating expenses in 3Q21 were \$39.1 million,  
18 an 80% increase from the prior year, and that the increase was primarily related to work on Hyaline  
19 and the insect repellent product prior to the decision to discontinue those products.

20           166. Singh also acknowledged the Company's precarious financial condition, stating  
21 Zymergen did not expect any product revenue in 2021, and only immaterial product revenue in  
22 2022. As a result, Singh explained that without visibility into near-term product revenue, one of  
23 the Company's top priorities was to closely manage expenses, including the reductions in force  
24 implemented in September and October, and the narrowed focus on a smaller number of programs.

25           167. Before taking questions, Flatley acknowledged the Company needed to accelerate  
26 revenue generation while rebuilding stakeholder confidence. The questions from the analysts  
27 established that rebuilding stakeholder confidence would be difficult. Indeed, the first question  
28

1 was from DeBruin, who asked Flatley why investors should remain confident in the agriculture  
2 programs, the only programs in the Registration Statement (other than the optical film partnership  
3 with Sumitomo and the bio-based epoxy product) that were not discontinued.

4 168. Cowen analyst Thomas Stevens asked Flatley why any customer would choose to  
5 work with Zymergen and how the Company could explain its value proposition given the pipeline  
6 changes and changes in the sales force.

7 169. Investors also learned Zymergen's future was too uncertain to even try to recruit a  
8 new CEO. In response to a question from J.P. Morgan Chase analyst Rachael Olson about the  
9 status of recruiting a permanent CEO, Flatley acknowledged the problems at Zymergen were too  
10 large to recruit a new CEO until the Company developed a credible and defensible strategic plan.

11 Yes. So, we have not started the process yet and that's by choice. So, the  
12 decision that I made, along with the Board of Directors is that we as priority 1, 1  
13 and 2 make sure that we right size the Company, got our processes fixed, got our  
14 development teams really focused on the products, the new products in the pipeline  
15 that we write a strategic plan that we all believe in, that has credibility and is  
16 defensible. And at that point, we believe we could credibly go recruit a world-class  
17 CEO. Prior to that, I think it would be challenging to sit across the table to try to  
18 recruit someone without a plan that you had conviction in and so our intent is to  
19 begin working on the recruiting process early in 2022.

20 170. Responding to a question from UBS analyst John Sourbeer, Flatley also revealed  
21 there was "no chance" the discontinued consumer care programs highlighted in the Registration  
22 Statement were going to be profitable.

23 [Sourbeer:] I guess just one on the consumer care programs. You  
24 highlighted that some of the costs were prohibitive on the direct-to-consumer  
25 model. Can you just maybe elaborate a little bit there on what specific areas you  
26 saw there on the costs that you highlighted?

27 [Flatley:] Sure. So, the history of those programs were that the company a  
28 few years back was thinking that it may want to partner those programs and – with  
29 a big consumer company, and those partnerships didn't reach any conclusion. And  
30 so, the decision then was made to go direct-to-consumer. And *as we analyze this  
31 recently over the last 30 days, particularly with only a single product in the  
32 portfolio in the near term, which would have been our insect repellent. The cost  
33 of hiring a direct sales force supporting that and building the infrastructure was  
34 quite prohibitive. So, if you look at the profitability profile over the next 3 years,  
35 there was no chance that, that product was going to be profitable.* And so for that  
36 reason, we've parked it, and it doesn't mean that we're abandoning the consumer  
37 care market because we continue to believe that the technology has great  
38 applicability there. And we can create products in that space. It's a question of us  
39 being – having a financial footing where we can either take the products directly to  
40 market ourselves and afford to make that investment or in the alternative, we

1 develop a partner that we either license the technology to or jointly develop and  
2 distribute the products.

3 171. Flatley and Singh also confirmed Zymergen would not receive any revenue from  
4 the discontinued Hyaline product and the Company could not provide any revenue guidance other  
5 than stating immaterial revenues were expected in 2021 and 2022:

6 [Sourbeer:] And I guess just another one just a little bit on the cash burn and cash  
7 on hand through 2023. I think in the last update, there were – was talk is still  
8 launching Hyaline in ‘22 and maybe having some revenues in ‘23. Any additional  
9 color you can provide on that? Does that assume any meaningful revenues in 2023?  
10 Or just any way to think about follow-on product launches there?

11 [Flatley:] Yes. *I think we’ve been pretty clear on Hyaline that we’ve really*  
12 *canceled that program now. And so we should expect no revenue from Hyaline*  
13 *coming from the company at any point in time.* Now, there’s theoretically a  
14 chance that if the market changed in some dramatic way that the company could  
15 reevaluate in the future. And as I alluded to in my remarks, the underlying material  
16 that’s used in Hyaline has potential other applications. And so, we’re exploring  
17 those. So it’s – the R&D work that went into creating that novel material could  
18 have future value. But at this point, I’d say it’s unlikely it’s going to be in the films  
19 market.

20 [Sourbeer:] I guess I was more trying to get at, when you say the cash burn  
21 through 2023, does that assume product launches in revenue generation in ‘23, is  
22 there any revenue in that model?

23 [Flatley:] Yes. As I mentioned earlier, we haven’t talked about ‘23 yet.  
24 We’ve really given some clarity around what we expect in ‘22. As we complete  
25 the plan here over the next couple of months, we’ll get greater visibility on the  
26 relative ramp of the products that we now have in the pipeline and solidify our  
27 internal forecasts, probably not just ‘23, but all the way through ‘24 and we’ll  
28 decide at that point what external guidance we give.

[Singh:] *But we still expect product revenue to be immaterial, right, in*  
*2022, including in the end of 2022.*

21 172. In response to a question from Goldman Sachs analyst Dave Delahunt, Flatley  
22 admitted that the Company’s previous strategy of creating, manufacturing and distributing  
23 products on its own was not tenable.

24 [Delahunt:] And with the strategic review, has that affected how you think about  
25 potential partnerships? And maybe, are you pretty more inclined now to work with  
26 project – with partners on projects instead of taking 100% product risk?

27 [Flatley:] Yes. I think it has influenced us to some extent. And the way it  
28 has is that *previously, the company was focused not only on creating the product,*  
*but also manufacturing it and distributing it, in many cases, not in every case.*  
*And I think both because of cost constraints and of reasons of time to market, we*  
*decided to pull that part of the strategy in and really focus on creating the*  
*products and doing more partnering, both for the manufacturing and distribution*

1 *side of this*. And so that both saves money because we don't have to build a direct  
2 sales force as we would have had to do in consumer care, as an example, or to build  
3 things like GMP manufacturing, which we might have had to do in other product  
4 areas as well. And so, we can save the money there, which is a large investment  
and a time delay to market. And so, we continue to develop the products largely  
ourselves, sometimes in partnership, but much of the manufacturing and  
distribution will be through partners in the near term.

5 173. In response to a question from William Blair & Company analyst Maxwell Smock,  
6 Flatley acknowledged a primary reason one of the three electronic film products, ZYM0101, was  
7 not being discontinued was that it was being developed in partnership with Sumitomo.

8 [Smock:] And then, I just wanted to dig in a little bit more on ZYM0101 and your  
9 decision to keep that program alive. I mean, was that decision based – just based  
10 on your partnership with Sumitomo? Or is there something unique about that  
market or that product that gave you more comfort in your ability to commercialize  
it down the line?

11 [Flatley:] There were 2 factors and at least 2 factors, let me say that. Clearly,  
12 *the fact that it was partnered was a huge part of this so, that we didn't have the*  
13 *expense of distributing the product or manufacturing it. So much of the risk then*  
14 *of the program is taken on by Sumitomo in partnership. So, that was a very*  
15 *important factor*. The second factor is that if this material is successful as we hope,  
it has very broad applicability across all types of devices. And so it has a more  
general applicability than perhaps Hyaline did. And so that's the second  
distinguishing factor.

16 174. Following the November 3, 2021 earnings call, Zymergen's stock price declined  
17 \$0.93, or 8.1% from \$11.43 on November 3, 2021, to \$10.50 on November 4, 2021.

18 175. Analysts issued reports in which they noted that the discontinuation of Hyaline, one  
19 of the other optical film products and all of the consumer care products were disappointing and a  
20 "key part of the thesis during the IPO" and "prominent in [Zymergen's] initial plans."

21 176. On November 4, 2021, T. Peterson issued a report in which he wrote that  
22 J.P. Morgan was disappointed in the discontinuation of several key programs (including Hyaline,  
23 one of the other electronic film programs and all consumer care programs) and noted that all of  
24 the discontinued programs "had been a key part of the thesis during the IPO."

25 177. Similarly, Larew issued a report on November 4, 2021, in which he noted that the  
26 discontinued products "were prominent in [Zymergen's] initial plans." He also reported that  
27 William Blair & Company had not seen "any proof that the company can monetize its platform"

1 and that “there [was] still a considerable amount of uncertainty around the company’s commercial  
2 pipeline and broader strategy.”

3 **H. November 15, 2021: Zymergen Reports that Multiple Government**  
4 **Agencies, Including the SEC, Are Investigating the Company**

5 178. On November 15, 2021, Zymergen filed its 3Q21 Report on Form 10-Q with the  
6 SEC and disclosed that government agencies, including the SEC, had requested information from  
7 the Company related to the unexpected adverse disclosures on August 3, 2021.

8 **I. December 9, 2021 – January 10, 2022: Additional Disclosures Show**  
9 **the Dramatic and Material Adverse Impacts on Zymergen’s Business**  
10 **Since the IPO**

11 179. On December 9, 2021, *Seeking Alpha* published an article titled “Zymergen: Total  
12 Chaos.” The opening paragraph of the article succinctly explained the dramatic change at  
13 Zymergen since the IPO, which caused Class members to suffer millions of dollars in damages –  
14 going from a Company launching Hyaline and preparing to rapidly scale up production and  
15 revenue, to a Company that had abandoned Hyaline and other products and was dramatically  
16 cutting headcount and cash burn in an effort to avoid bankruptcy.

17 Zymergen . . . listed in April 2021 and, after recently launching their  
18 Hyaline product were supposedly preparing to rapidly scale up production and  
19 revenue. In August, they indicated that there was an issue integrating Hyaline into  
20 the manufacturing process of customers, which would temporarily delay rollout of  
21 the product. The CEO was replaced at the same time though and Zymergen  
22 appeared to freeze hiring, indicating that the problems were far larger than the  
23 company was letting on. In November, Zymergen announced that they were  
24 abandoning their two main products, rationalizing their product portfolio and  
25 dramatically cutting headcount to reduce cash burn. Zymergen no longer has a  
26 clear path to profitability and rather than focusing on growth, the company is clearly  
27 positioning to avoid bankruptcy. Zymergen does not have the narrative of Ginko  
28 Bioworks . . . or the revenue growth of Amyris . . . , and there is a real risk of high  
caliber employees abandoning the company for better opportunities. While  
Zymergen’s intellectual property is likely worth a significant amount and the  
company may be able to turn itself around, I consider the company uninvestable  
given the way management has failed to provide investors with clarity over the last  
six months.

180. During a January 10, 2022 presentation at a JPMorgan Healthcare conference  
Flatley revealed additional fallout from the unexpected adverse disclosures on August 3, 2021 and  
November 3, 2021. After acknowledging the challenges in 2021, Flatley stated that the issues with  
the commercial product pipeline caused a business reset that impacted the Company’s revenue

1 projections and product roadmap. Indeed, he acknowledged that dramatic steps had been taken to  
 2 operationally restructure and transform the Company including the elimination of almost half of  
 3 Zymergen's workforce.

4 Let me begin by acknowledging the challenges that we had in 2021. As we  
 5 discussed in our August and our subsequent earnings call, issues with our  
 6 commercial product pipeline caused a business reset that impacted the company's  
 revenue projections and product road map. After a lot of hard work by our teams,  
 we've exited 2021 with a clear focus on who we are and on what we do.

7 Zymergen is a biotech company that designs and produces molecules,  
 8 microbes and materials for diverse end markets. Having a clear mission and vision  
 is critically important, but ultimately, it's execution that matters. *In the last 5*  
 9 *months, we've taken dramatic steps to operationally restructure and transform*  
 10 *the company. First, we reorganized our teams. This reduced our head count*  
*from approximately 900 to about 500, focused on creating a much more efficient*  
 11 *organization by eliminating leadership layers and consolidated distributed*  
 12 *functions.*

13 \* \* \*

14 *[We] did a deep dive on our program investments, and we optimized the portfolio*  
 15 *across the key factors that drive market success. As a result, we stopped to work*  
 16 *on a significant number of programs, and are focusing now on a handful of*  
 17 *higher potential ones.*

18 181. However, Flatley acknowledged that the negative financial impact on Zymergen  
 19 would continue for at least another year and possibly longer, stating that the Company thought it  
 20 would begin to have product revenue in the 2023 timeframe.

21 182. In addition, Flatley admitted that the potential market opportunity for the one  
 22 optical film product that was not discontinued, the product being produced in partnership with  
 23 Sumitomo, was still uncertain, stating that there was either going to be significant revenue or  
 24 potentially zero revenue.

25 [Olson:] And then shifting gears to project ZYM101. So the film  
 26 partnership that you have with Sumitomo. Can you just talk about the decision to  
 27 retain that project but then for go the other film projects that you're tackling? And  
 28 then what should we expect in terms of commercialization timing for this project?  
 And is there any opportunity to pull that forward just given you have a more narrow  
 focus on your projects now?

[Flatley:] Yes. I mean that partnership is going well. We continue to invest  
 in it as Sumitomo does. We believe that much like the Hyaline product, the  
 technology – the underlying technology works. And *the reason we decided to*  
*continue that one is because there is a very large potential market opportunity at*  
*the end of the process. But we don't know. It's a very digital opportunity, I would*  
*say. It's kind of a 1-0 outcome, either it's going to be significant revenue for us*

1 *or potentially 0*, depending upon what customers they land. And the amount of  
2 work we need to do on the distribution side of it is *de minimis* because all of that  
3 customer interface is being handled through Sumitomo. So it made sense for us to  
4 continue to make the investments in evolving that Z101 technology and moving it  
5 forward. And so that program is the only one that truly remains in the film part of  
6 the business at the moment.

7  
8 183. Flatley's statements about Hyaline, like his previous statements, also indicated the  
9 representations in the Registration Statement about the foldable display market were materially  
10 misleading.

11 [Olson:] And then stepping back, just kind of going back to your additional  
12 business update earlier this summer. So investors were really concerned that there  
13 was a broader technical issue with Hyaline following that first business update call.  
14 It's clarified during the 3Q call that Hyaline actually worked as designed. But the  
15 decision to hold the project was just due to the smaller-than-expected TAM. So  
16 can you really walk through what happened from a technical perspective with  
17 Hyaline then?

18 [Flatley:] Yes. I guess I would reiterate what I said in the presentation. I spent a  
19 fair amount of time talking about how we think the underlying technology platform  
20 works, and works robustly. *What happened with Hyaline, and in retrospect, we  
21 probably made a mistake in how we presented it. When we talked about the  
22 challenges there, we began by talking about the fact that we had a couple of  
23 month delay because of some process tuning that had to happen with the early  
24 customers of Hyaline.*

25 We knew from the start that we would figure out those process challenges and  
26 overcome them, and we did that. And so those were never going to be barriers to  
27 long-term adoption. *There were simply delays in the potential revenue stream.  
28 The big issue with Hyaline, of course, was that the ultimate market was not large,  
not large enough to justify continuation of the program.*

## V. CLASS ACTION ALLEGATIONS

184. Plaintiffs bring this action as a Class action pursuant to Rules 23(a) and (b)(3) of  
the Federal Rules of Civil Procedure on behalf of a Class consisting of all persons and entities that  
purchased or otherwise acquired Zymergen common stock pursuant and/or traceable to the  
Registration Statement issued in connection with the Company's IPO. Excluded from the Class  
are Defendants, the officers and directors of the Company, at all relevant times, members of their  
immediate families and their legal representatives, heirs, successors or assigns and any entity in  
which Defendants have or had a controlling interest.

185. The members of the Class are so numerous that joinder of all members is  
impracticable. Throughout the relevant period, Zymergen's shares actively traded on the



1 NASDAQ. While the exact number of Class members is unknown to Plaintiffs at this time and  
2 can only be ascertained through appropriate discovery, Plaintiffs believe there are at least hundreds  
3 or thousands of members in the proposed Class. Millions of Zymergen shares were traded publicly  
4 during the relevant period on the NASDAQ. Record owners and other members of the Class may  
5 be identified from records maintained by Zymergen or its transfer agent (American Stock  
6 Transfer & Trust Company, LLC) and may be notified of the pendency of this action by United  
7 States mail, using the form of notice similar to that customarily used in securities class actions.

8 186. Plaintiffs' claims are typical of the claims of the members of the Class as all  
9 members of the Class are similarly affected by Defendants' wrongful conduct in violation of  
10 federal law that is complained of herein.

11 187. Plaintiffs will fairly and adequately protect the interests of the members of the Class  
12 and have retained counsel competent and experienced in class and securities litigation.

13 188. Common questions of law and fact exist as to all members of the Class and  
14 predominate over any questions solely affecting individual members of the Class. Among the  
15 questions of law and fact common to the Class are:

16 (a) whether the federal securities laws were violated by Defendants' acts as  
17 alleged herein;

18 (b) whether the Registration Statement was inaccurate and misleading,  
19 contained untrue statements of material facts, omitted to state other facts necessary to make the  
20 statements made not misleading and omitted to state material facts required to be stated therein;  
21 and

22 (c) to what extent the members of the Class have sustained damages and the  
23 proper measure of damages.

24 189. A class action is superior to all other available methods for the fair and efficient  
25 adjudication of this controversy since joinder of all members is impracticable. Further, as the  
26 damages suffered by individual Class members may be relatively small, the expense and burden  
27 of individual litigation makes it impossible for members of the Class to individually redress the  
28 wrongs done to them. There will be no difficulty in the management of this action as a class action.

1 **VI. CLAIMS FOR RELIEF**

2 **FIRST CLAIM FOR RELIEF**

3 **Violation of §11 of the Securities Act**  
4 **(Against Zymergen, the Individual Defendants and the Underwriter Defendants)**

5 190. Plaintiffs repeat and reallege each and every allegation contained above as if fully  
6 set forth herein.

7 191. This Count is brought pursuant to §11 of the Securities Act, 15 U.S.C. §77k, on  
8 behalf of the Class, against the Zymergen, the Individual Defendants and the Underwriter  
9 Defendants.

10 192. The Registration Statement for the IPO was inaccurate and misleading, contained  
11 untrue statements of material facts, omitted to state other facts necessary to make the statements  
12 made not misleading and omitted to state material facts required to be stated therein.

13 193. Zymergen is the registrant for the IPO. Zymergen, the Individual Defendants and  
14 the Underwriter Defendants named herein were responsible for the contents and dissemination of  
15 the Registration Statement.

16 194. As issuer of the shares, Zymergen is strictly liable to Plaintiffs and the Class for the  
17 misstatements and omissions.

18 195. Zymergen, the Individual Defendants and the Underwriter Defendants named  
19 herein did not conduct a reasonable investigation or possess reasonable grounds for the belief that  
20 the statements contained in the Registration Statement were true and without omissions of any  
21 material facts and were not misleading.

22 196. By reasons of the conduct herein alleged, Zymergen, the Individual Defendants and  
23 the Underwriter Defendants violated and/or controlled a person who violated §11 of the Securities  
24 Act.

25 197. Plaintiffs acquired Zymergen shares pursuant and/or traceable to the Registration  
26 Statement for the IPO.

1 198. Plaintiffs and the Class have sustained damages. The value of Zymergen shares  
2 has declined substantially subsequent to and due to Zymergen's, the Individual Defendants' and  
3 the Underwriter Defendants' violations.

4 **SECOND CLAIM FOR RELIEF**

5 **Violation of §15 of the Securities Act**  
6 **(Against the Individual Defendants and the Controlling Stockholders)**

7 199. Plaintiffs repeat and reallege each and every allegation contained above as if fully  
8 set forth herein except any allegation of fraud, recklessness or intentional misconduct.

9 200. This count is asserted against the Individual Defendants and the Controlling  
10 Stockholders and is based upon §15 of the Securities Act.

11 201. The Individual Defendants and the Controlling Stockholders, by virtue of their  
12 offices, directorship and specific acts, were, at the time of the wrongs alleged herein and as set  
13 forth herein, controlling persons of Zymergen within the meaning of §15 of the Securities Act, 15  
14 U.S.C. §77o. The Individual Defendants and the Controlling Stockholders had the power and  
15 influence and exercised the same to cause Zymergen to engage in the acts described herein.

16 202. The Individual Defendants' and the Controlling Stockholders' positions made them  
17 privy to and provided them with actual knowledge of the material facts concealed from Plaintiffs  
18 and the Class.

19 203. By virtue of the conduct alleged herein, the Individual Defendants and the  
20 Controlling Stockholders are liable for the aforesaid wrongful conduct and are liable to Plaintiffs  
21 and the Class for damages suffered.

22 **PRAYER FOR RELIEF**

23 WHEREFORE, Plaintiffs pray for relief and judgment as follows:

24 A. Determining that this action is a proper class action under Rule 23 of the Federal  
25 Rules of Civil Procedure;

26 B. Awarding compensatory damages in favor of Plaintiffs and the other Class  
27 members against all Defendants, jointly and severally, for all damages sustained as a result of  
28 Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

1 C. Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in  
2 this action, including attorneys' fees and expert fees; and

3 D. Such other and further relief as the Court may deem just and proper.

4 **JURY TRIAL DEMANDED**

5 Plaintiffs hereby demand a trial by jury.

6 DATED: February 24, 2022

ROBBINS GELLER RUDMAN  
& DOWD LLP  
SHAWN A. WILLIAMS  
CHRISTOPHER P. SEEFER  
DANIEL J. PFEFFERBAUM

7  
8  
9  
10 s/ Christopher P. Seefer  
CHRISTOPHER P. SEEFER

11  
12 Post Montgomery Center  
One Montgomery Street, Suite 1800  
San Francisco, CA 94104  
Telephone: 415/288-4545  
415/288-4534 (fax)  
shawnw@rgrdlaw.com  
chriss@rgrdlaw.com  
dpfefferbaum@rgrdlaw.com

13  
14  
15  
16 ROBBINS GELLER RUDMAN  
& DOWD LLP  
JUAN CARLOS SANCHEZ  
PATTON L. JOHNSON  
655 West Broadway, Suite 1900  
San Diego, CA 92101  
Telephone: 619/231-1058  
619/231-7423 (fax)  
jsanchez@rgrdlaw.com  
pjohnson@rgrdlaw.com

17  
18  
19  
20  
21 Lead Counsel for Lead Plaintiff

22  
23 BERMAN TABACCO  
NICOLE LAVALLEE (SBN 165755)  
DANIEL E. BARENBAUM (SBN 209261)  
DANIELLE SMITH (SBN 291237)  
44 Montgomery Street, Suite 650  
San Francisco, CA 94104  
Telephone: 415/433-3200  
415/433-6382 (fax)  
nlavallee@bermantabacco.com  
dbarenbaum@bermantabacco.com  
dsmith@bermantabacco.com

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BERMAN TABACCO  
LESLIE R. STERN  
One Liberty Square  
Boston, MA 02109  
Telephone: 617/542-8300  
617/542-1194 (fax)  
lstern@bermantabacco.com

Counsel for Plaintiff West Palm Beach  
Firefighters' Pension Fund

KLAUSNER, KAUFMAN, JENSEN  
& LEVINSON  
ROBERT D. KLAUSNER  
BONNI S. JENSEN  
7080 NW 4th Street  
Plantation, FL 33317  
Telephone: 954/916-1202  
954/916-1232 (fax)  
bob@robertdklausner.com  
bonni@robertdklausner.com

Board Counsel for Plaintiff West Palm Beach  
Firefighters' Pension Fund

CERTIFICATE OF SERVICE

I hereby certify under penalty of perjury that on February 24, 2022, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses on the attached Electronic Mail Notice List, and I hereby certify that I caused the mailing of the foregoing via the United States Postal Service to the non-CM/ECF participants indicated on the attached Manual Notice List.

s/ Christopher P. Seefer

CHRISTOPHER P. SEEFER  
ROBBINS GELLER RUDMAN

& DOWD LLP

Post Montgomery Center  
One Montgomery Street, Suite 1800  
San Francisco, CA 94104  
Telephone: 415/288-4545  
415/288-4534 (fax)  
E-mail: chriss@rgrdlaw.com

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**Mailing Information for a Case 3:21-cv-06028-JD Shankar v. Zymergen Inc. et al****Electronic Mail Notice List**

The following are those who are currently on the list to receive e-mail notices for this case.

- **Michael Albert**  
malbert@rgrdlaw.com, MAlbert@ecf.courtdrive.com
- **Adam Marc Apton**  
aapton@zlk.com, Files@zlk.com
- **Daniel E. Barenbaum**  
dbarenbaum@bermantabacco.com, sfservice@bermantabacco.com
- **Jennifer N. Caringal**  
JCaringal@rgrdlaw.com
- **John T. Jasnoch**  
jjasnoch@scott-scott.com, rswartz@scott-scott.com, scott-scott@ecf.courtdrive.com, edewan@scott-scott.com
- **Patton L. Johnson**  
pjohnson@rgrdlaw.com, PJohnson2019@ecf.courtdrive.com, tdevries@rgrdlaw.com
- **Nicole Catherine Lavallee**  
nlavallee@bermantabacco.com, sfservice@bermantabacco.com
- **Charles Henry Linehan**  
clinehan@glancylaw.com, charles-linehan-8383@ecf.pacerpro.com
- **Jeffrey John Miles**  
jmiles@bermantabacco.com, sfservice@bermantabacco.com
- **Kevin Peter Muck**  
Kevin.Muck@wilmerhale.com, whdocketing@wilmerhale.com, joann.ambrosini@wilmerhale.com
- **Susan Samuels Muck**  
susan.muck@wilmerhale.com, Justin.Goodyear@wilmerhale.com, Rama.Attreya@wilmerhale.com, Alison.Jordan@wilmerhale.com, whdocketing@wilmerhale.com, McMuck-3159@ecf.pacerpro.com
- **Danielle Suzanne Myers**  
dmyers@rgrdlaw.com, dmyers@ecf.courtdrive.com, e\_file\_sd@rgrdlaw.com
- **Kevin M Papay**  
kevin.papay@morganlewis.com, chris.altamirano@morganlewis.com
- **Marion Curry Passmore**  
passmore@bespc.com, ecf@bespc.com
- **Daniel Jacob Pfefferbaum**  
DPfefferbaum@rgrdlaw.com, dpfefferbaumRGRD@ecf.courtdrive.com, e\_file\_sd@rgrdlaw.com
- **Robert Vincent Prongay**  
rprongay@glancylaw.com, info@glancylaw.com, robert-prongay-0232@ecf.pacerpro.com
- **Pavithra Rajesh**  
prajesh@glancylaw.com, pavithra-rajesh-9402@ecf.pacerpro.com
- **Juan Carlos Sanchez**  
jsanchez@rgrdlaw.com, e\_file\_SD@rgrdlaw.com
- **Christopher Paul Seefer**  
chriss@rgrdlaw.com, e\_file\_sd@rgrdlaw.com
- **Charlene Sachi Shimada**  
charlene.shimada@morganlewis.com, tristan.mehlin@morganlewis.com
- **David Jay Stone**  
stone@bespc.com, ecf@bespc.com
- **Shawn A. Williams**  
shawnw@rgrdlaw.com, ShawnW@ecf.courtdrive.com, smorris@rgrdlaw.com, e\_file\_sd@rgrdlaw.com, smorris@ecf.courtdrive.com

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The following is the list of attorneys who are **not** on the list to receive e-mail notices for this case (who therefore require manual noticing). You may wish to use your mouse to select and copy this list into your word processing program in order to create notices or labels for these recipients.

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