UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from to

Commission file number 001-40735

Rockley Photonics Holdings Limited

(Exact name of registrant as specified in its charter)

Cayman Islands	**98-1644526**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**

3rd Floor 1 Ashley Road
Altrincham, Cheshire
United Kingdom, WA14 2DT
(Address of principal executive offices and Zip Code)

+44 (0) 1865 292017
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary shares, $0.000004026575398 par value per share	RKLY	New York Stock Exchange
Warrants, each whole warrant exercisable for one ordinary share at an exercise price of $11.50 per share	RKLY.WS	New York Stock Exchange

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of November 3, 2022, there were 132,747,605 shares of the Company's ordinary shares, par value $0.000004026575398, issued and outstanding.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding Rockley Photonics Holdings Limited's (the "Company") future expectations, beliefs, plans, prospects, objectives, and assumptions regarding future events or performance, as well as the Company's strategies, future operations, financial position, and estimated future financial results and anticipated costs. The words "anticipate," "believe," "can," "continue," "could," "developing," "enable," "estimate," "eventual," "expand," "expect," "focus," "future," "goal," "intend," "may," "might," "opportunity," "outlook," "plan," "possible," "position," "potential," "predict," "project," "revolutionize," "seem," "should," "trend," "will," "would," and other terms that predict or indicate future events, trends, or expectations, and similar expressions or the negative of such expressions may identify forward-looking statements, but the absence of these words or terms does not mean that a statement is not forward-looking.

The forward-looking statements contained in this Quarterly Report are based on information available as of the date of this Quarterly Report, and current expectations, forecasts, and assumptions, (whether or not identified herein), and involve a number of risks and uncertainties. Accordingly, forward-looking statements in this Quarterly Report should not be relied upon as representing the Company's views as of any subsequent date, and the Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. Forward-looking statements in this report include, but are not limited to, statements regarding the following:

- Rockley's future capital requirements, sources and uses of cash, and ability to continue as a going concern;
- Rockley's financial and business performance, anticipated financial outlook, business metrics, anticipated growth rate, product development plans and opportunities;
- Rockley's strategy, future operations, financial position, estimated revenue and losses, projected costs, prospects and plans to commercialize products and services, and anticipated timing thereof;
- Rockley's ability to obtain financing when and as needed on acceptable terms;
- Rockley's ability to comply with the financial and restrictive covenants in its debt agreements, and the potential dilutive impact of such debt agreements;
- the implementation, market acceptance, and success of Rockley's business model;
- developments and expectations relating to Rockley's competitors, target markets, and industry; the outcome of any known and unknown litigation and regulatory proceedings;
- the ability of our products to provide continuous health and wellness monitoring with the potential to accelerate advancements in early disease detection and potentially prevention;
- the ability of our technology to allow monitoring devices the size of clinical machines to be reduced to the size of a wearable device;
- our belief that our devices could reshape the wellness and healthcare industries;
- Rockley's expectations as to when it may generate sufficient revenue from the sale of its products and services to cover expansion plans, operating expenses, working capital, and capital expenditures;
- the development status and anticipated timeline for commercial production of Rockley's products;
- Rockley's plans for products under development and future products, and anticipated features and benefits thereof;
- the status and expectations regarding Rockley's current and potential customer and strategic partner relationships;
- the total addressable markets for Rockley's products and technology;
- the ability of Rockley to increase market share in new and existing markets;
- Rockley's ability to obtain any required regulatory approvals, including any required Food and Drug Administration ("FDA") approvals, in connection with its anticipated products and technology;
- Rockley's ability to maintain an effective system of internal control over financial reporting;
- Rockley's ability to maintain and protect its intellectual property;

- Rockley's success in retaining, recruiting, and managing transitions involving officers, key employees, or directors;
- Rockley's ability to manage its growth effectively;
- Rockley's ability to achieve and maintain profitability in the future;
- Rockley's ability to maintain the listing of its ordinary shares on the NYSE;
- Rockley's ability to raise sufficient capital to fund its growth and product development; and
- the impact of the COVID-19 pandemic.

Forward-looking statements are subject to several risks, assumptions, and uncertainties (many of which are beyond the Company's control) that may cause actual results or performance to differ materially from those expressed or implied by these forward-looking statements. These risks, assumptions, and uncertainties include, but are not limited to, the factors described under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 and in other documents the Company files with the Securities and Exchange Commission (the "SEC"). If any of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, actual results may differ materially from those discussed in or implied by these forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ROCKLEY PHOTONICS HOLDINGS LIMITED
Condensed Consolidated Balance Sheets
(Unaudited and in thousands, except share amounts and par value)

	September 30, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 4,881	$ 36,786
Short-term investments	—	26,965
Accounts receivable, net of allowance of $0 and $302 as of September 30, 2022 and December 31, 2021, respectively	786	1,359
Other receivables, net of allowance of $0 and $141 as of September 30, 2022 and December 31, 2021, respectively	48,385	47,462
Prepaid expenses and other current assets	9,899	6,802
Total current assets	63,951	119,374
Long-term investments	—	17,659
Property and equipment, net	9,554	10,187
Equity method investment	4,358	4,879
Intangible assets, net	3,048	3,048
Other non-current assets	9,969	7,683
Total assets	$ 90,880	$ 162,830
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities		
Trade payables	$ 12,744	$ 6,882
Accrued expenses	15,867	17,360
Debt, current portion	—	26,312
Other current liabilities	1,464	1,238
Total current liabilities	30,075	51,792
Long-term debt, net of current portion	66,492	—
Warrant liabilities	20,829	3,477
Other long-term liabilities	3,337	3,743
Total liabilities	$ 120,733	$ 59,012
Commitments and contingencies (Note 14)		
Shareholders' equity (deficit)		
Ordinary shares, $0.000004 par value; 12,443,961,038 and 12,417,500,000 authorized as of September 30, 2022 and December 31, 2021, respectively; 132,660,683 and 127,860,639 issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	—	—
Additional paid-in-capital	522,630	504,714
Accumulated deficit	(552,483)	(400,896)
Total shareholders' (deficit) equity	(29,853)	103,818
Total liabilities and shareholders' equity	$ 90,880	$ 162,830

See accompanying notes to condensed consolidated financial statements.

ROCKLEY PHOTONICS HOLDINGS LIMITED
Condensed Consolidated Statements of Operations
(Unaudited and in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Revenue	$ 556	$ 1,839	$ 3,023	$ 5,805
Cost of revenue	2,066	3,459	7,753	11,742
Gross profit	(1,510)	(1,620)	(4,730)	(5,937)
Operating expenses:				
Selling, general, and administrative expenses	13,010	13,568	45,114	27,588
Research and development expenses	25,748	26,418	76,849	59,949
Total operating expenses	38,758	39,986	121,963	87,537
Loss from operations	(40,268)	(41,606)	(126,693)	(93,474)
Other income (expense):				
Other (expense) income, net	(180)	—	(349)	2,860
Interest expense, net	(3,690)	(1,587)	(10,857)	(1,913)
(Loss) gain on equity method investment	(270)	40	(232)	(720)
Change in fair value of debt instruments	27,227	(14,255)	(20,352)	(59,916)
Change in fair value of warrant liabilities	31,359	515	13,351	515
(Loss) gain on foreign currency	(1,877)	(481)	(6,522)	150
Total other income (expense)	52,569	(15,768)	(24,961)	(59,024)
Income (loss) before income taxes	12,301	(57,374)	(151,654)	(152,498)
Provision for income tax (benefit)	270	598	(67)	808
Net income (loss)	$ 12,031	$ (57,972)	$ (151,587)	$ (153,306)
Earnings (net loss) per share:				
Basic	$ 0.09	$ (0.54)	$ (1.17)	$ (1.67)
Diluted	(0.09)	(0.54)	(1.17)	(1.67)
Weighted-average shares outstanding:				
Basic	130,752,092	107,633,037	129,520,792	92,008,435
Diluted	170,038,105	107,633,037	129,520,792	92,008,435

See accompanying notes to condensed consolidated financial statements.

ROCKLEY PHOTONICS HOLDINGS LIMITED
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited and in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net income (loss)	$ 12,031	$ (57,972)	$ (151,587)	$ (153,306)
Other comprehensive income:				
Unrealized gain on available-for-sale securities	176	—	—	—
Total other comprehensive income	176	—	—	—
Comprehensive income (loss)	$ 12,207	$ (57,972)	$ (151,587)	$ (153,306)

See accompanying notes to condensed consolidated financial statements.

ROCKLEY PHOTONICS HOLDINGS LIMITED
Condensed Consolidated Statements of Shareholders' Equity (Deficit)
(Unaudited and in thousands, except share amounts)

	Number of Ordinary Shares	Ordinary Shares and Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance, December 31, 2021	127,860,639	504,714	—	(400,896)	103,818
Net loss	—	—	—	(41,781)	(41,781)
Other comprehensive income (loss)	—	—	(291)	—	(291)
Exercise of stock options	789,809	579	—	—	579
Vesting of restricted stock units, net of withholding taxes	354,719	(359)	—	—	(359)
Stock-based compensation	—	4,029	—	—	4,029
Transaction costs	—	(595)	—	—	(595)
Balance, March 31, 2022	129,005,167	508,368	(291)	(442,677)	65,400
Net loss	—	—	—	(121,837)	(121,837)
Other comprehensive income	—	—	115	—	115
Exercise of stock options	382,222	516	—	—	516
Vesting of restricted stock units, net of withholding taxes	138,027	—	—	—	—
Stock-based compensation	—	3,948	—	—	3,948
Issuance of ordinary shares under employee stock purchase plan, net of taxes	392,509	1,045	—	—	1,045
Transaction costs	—	348	—	—	348
Balance, June 30, 2022	129,917,925	514,225	(176)	(564,514)	(50,465)
Net income	—	—	—	12,031	12,031
Other comprehensive income	—	—	176	—	176
Exercise of stock options	858,314	224	—	—	224
Vesting of restricted stock units, net of withholding taxes	342,238	—	—	—	—
Conversion of convertible notes to ordinary shares	1,542,206	5,548	—	—	5,548
Stock-based compensation	—	3,435	—	—	3,435
Transaction costs	—	(802)	—	—	(802)
Balance, September 30, 2022	132,660,683	522,630	—	(552,483)	(29,853)

	Number of Ordinary Shares	Ordinary Shares and Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance, December 31, 2020	83,539,382	201,576	—	(232,883)	(31,307)
Net loss	—	—	—	(64,777)	(64,777)
Exercise of stock options	216,670	137	—	—	137
Exercise of warrants	57,811	—	—	—	—
Issuance of warrants	—	263	—	—	263
Stock-based compensation	—	1,725	—	—	1,725
Balance, March 31, 2021	83,813,863	203,701	—	(297,660)	(93,959)
Net loss	—	—	—	(30,557)	(30,557)
Exercise of stock options	192,064	146	—	—	146
Stock-based compensation	—	1,976	—	—	1,976
Balance, June 30, 2021	84,005,927	205,823	—	(328,217)	(122,394)
Net loss	—	—	—	(57,972)	(57,972)
Exercise of stock options	57,123	86	—	—	86
Exercise of warrants	4,057,307	379	—	—	379
Conversion of convertible notes to ordinary shares	15,896,210	181,404	—	—	181,404
Equity consideration issued to SC Health	1,777,031	17,966	—	—	17,966
Equity consideration issued to PIPE	10,000,000	100,000	—	—	100,000
Equity consideration issued to SC Health Sponsor	10,562,500	50,000	—	—	50,000
Stock-based compensation	—	2,155	—	—	2,155
Transaction costs	—	(43,825)	—	—	(43,825)
Non-cash fair value of assumed liability-classified ordinary share warrants	—	(14,305)	—	—	(14,305)
Ordinary share issuance, net of issuance costs	319,000	—	—	—	—
Balance, September 30, 2021	126,675,098	499,683	—	(386,189)	113,494

See accompanying notes to condensed consolidated financial statements.

ROCKLEY PHOTONICS HOLDINGS LIMITED
Condensed Consolidated Statements of Cash Flows
(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (151,587)	$ (153,306)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,723	3,228
Non-cash operating lease cost	1,001	651
Gain on disposal of property and equipment	(114)	—
(Reversal) bad debt expense	(141)	377
Accretion of marketable securities to redemption value	(131)	(32)
Net realized loss on sale of marketable securities	(347)	—
Stock-based compensation	11,412	5,856
Change in equity-method investment	521	346
Change in fair value of debt instrument	20,352	59,916
Change in fair value of warrant liabilities	(13,351)	(515)
Forgiveness of Paycheck Protection Program loan	—	(2,860)
Non-cash interest on convertible loan notes	2,956	—
Changes in operating assets and liabilities:		
Accounts receivable	573	3,032
Other receivables	(782)	(6,942)
Prepaid expenses and other current assets	(3,097)	(7,859)
Other non-current assets	(2,595)	—
Trade payables	4,942	1,147
Accrued expenses	9,228	5,800
Other current and long-term liabilities	(872)	(741)
Net cash used in operating activities	(117,309)	(91,902)
Cash flows from investing activities:		
Purchase of property and equipment	(3,056)	(5,698)
Purchase of marketable securities	—	(54,800)
Proceeds from sale and maturities of marketable securities	45,102	5,030
Payment for asset acquisition	—	(500)
Net cash provided by (used in) investing activities	42,046	(55,968)
Cash flows from financing activities:		
Proceeds from convertible loan notes	80,685	76,723
Principal payments on long-term debt	(26,311)	—
Transaction costs	(11,976)	(41,484)
Proceeds from exercise of options	1,319	369
Withheld taxes paid on behalf of employees on net settled stock-based awards	(359)	—
Proceeds from issuance of ordinary shares	—	167,966
Proceeds from exercise of warrants	—	379
Proceeds from issuance of warrants	—	263
Debt issuance costs incurred	—	(383)
Net cash provided by financing activities	43,358	203,833
Net (decrease) increase in cash and cash equivalents	(31,905)	55,963
Cash and cash equivalents:		
Beginning of period	36,786	19,228
End of period	$ 4,881	$ 75,191

See accompanying notes to condensed consolidated financial statements.

1. Business and Significant Accounting Policies

Description of Business

Rockley specializes in the research and development of integrated silicon photonics chipsets. Rockley has developed a versatile, application specific, third-generation silicon photonics platform specifically designed for the optical integration challenges facing numerous mega-trend markets. Rockley has partnered with multiple tier-1 customers across markets to deliver complex optical systems required for transformational sensors, communications, and medical product realization.

On August 11, 2021, Rockley Photonics Limited ("Legacy Rockley") completed a business combination (the "Business Combination") with SC Health Corporation, a special purpose acquisition company ("SC Health"), with Rockley Photonics Holdings Limited and its subsidiaries surviving the merger. Upon the consummation of the Business Combination, the Company became a publicly traded company listed on the New York Stock Exchange ("NYSE") under the symbol "RKLY". For additional information on the Business Combination, please refer to Note 2, *Business Combination*, to these condensed consolidated financial statements. Unless the context otherwise requires, references in these notes to "Rockley", the "Company", "we", "us", or "our" and any related terms are intended to mean the post-Business Combination consolidated company, Rockley Photonics Holdings Limited, while "Legacy Rockley" and "SC Health" refers to the entities prior to the Business Combination.

Basis of Presentation and Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, comprehensive income, cash flows and shareholders' equity for the interim periods presented. The statements have been prepared in accordance with GAAP for interim financial information. Accordingly, these statements do not include all information and footnotes required by GAAP for annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes contained in our Annual Report on Form 10-K for the year ended December 31, 2021. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

We accounted for the Business Combination as a forward recapitalization in accordance with GAAP (the "Forward Recapitalization"). Under this method of accounting, SC Health was treated as the acquired company and Legacy Rockley was deemed to be the accounting acquirer for financial reporting purposes. Accordingly, for accounting purposes, the Forward Recapitalization was treated as the equivalent of Legacy Rockley issuing stock for the net assets of SC Health, accompanied by a recapitalization. The net assets of SC Health are stated at historical cost, with no goodwill or other intangible assets recorded. The condensed consolidated assets, liabilities and results of operations prior to the Forward Recapitalization are those of Legacy Rockley. The condensed consolidated financial statements of the combined company post-Forward Recapitalization represents the combined results of Rockley and SC Health beginning August 11, 2021, the date the Business Combination was consummated. The shares, corresponding capital amounts and earnings per share available for shareholders of Legacy Rockley, prior to the Business Combination, converted into the right to receive 2.4835 (the "Exchange Ratio") ordinary shares of Rockley Photonics Holdings Limited, par value $0.000004 (the "ordinary shares"). The recapitalization of the number of ordinary shares attributable to Legacy Rockley is reflected retroactively as shares reflecting the Exchange Ratio to the earliest period presented and is utilized for calculating earnings per share in all prior periods presented.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to, revenue recognition, reserves and allowances; valuation of intangibles; product warranties; employee compensation and benefit accruals; stock-based compensation; loss contingencies; income taxes; fair value measurements; and warrant liabilities. Actual results could differ materially from those estimates. Management's estimates include, as applicable, the anticipated impacts of the COVID-19 pandemic.

Going Concern

The Company has incurred net losses since inception, has an accumulated deficit of $552.5 million as of September 30, 2022 and negative cash flow from operations of $117.3 million for the nine months ended September 30, 2022 and expects to incur losses from operations for the foreseeable future. As of September 30, 2022, the Company had cash, cash equivalents and investments of $4.9 million. The Company's ability to meet its obligations in the ordinary course of business is dependent on its ability to obtain additional financing. As a result, there is substantial doubt about the Company's ability to continue as a going concern within one year after the date these financial statements are issued. The condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

The Company's future liquidity needs, and ability to address those needs, will largely be determined by its ability to obtain additional financing on terms acceptable to us. The Company will continue to seek additional capital through the sale of debt or equity, or other arrangements, however, there can be no assurance that we will be able to raise additional capital when needed or under acceptable terms, if at all. The sale of additional equity may dilute existing shareholders. If the Company raises funds by issuing debt securities, these debt securities would have rights, preferences, and privileges senior to the holders of ordinary shares. Issued debt securities may contain covenants that limit the Company's ability to pay dividends or make other distributions to shareholders. If we are unable to obtain additional financing, operations may be scaled back or discontinued.

Global Pandemic

The COVID-19 pandemic has nearly reached the three-year mark and our priority continues to be the health and safety of our employees. The overall recovery from the COVID-19 pandemic has been uneven and has presented many challenges and risks from general economic uncertainty, changes in consumer demand, disruption of supply chains and challenges with hiring, labor and supply cost inflation. We continue to provide greater levels of work flexibility to employees and maintain health and safety standards for employees meeting all regulatory requirements.

We continually evaluate the nature and extent of changes to the market and economic conditions related to the COVID-19 pandemic and assess the potential impact on our business, financial results and overall financial position.

Recently Adopted Accounting Pronouncements

In May 2021, the FASB issued ASU 2021-04, *Modification of Equity Classified Written Call Options*, to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options such as warrants that remain equity classified after modification or exchange based on consideration of the economic substance of the modification or exchange. ASU 2021-04 is effective for fiscal years beginning after December 15, 2021. The adoption of the guidance did not have a material effect on the Company's condensed consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832) Disclosures by Business Entities about Government Assistance*. This amendment in ASU 2021-10 aims to increase transparency about government assistance transactions that are not in the scope of other GAAP guidance. The ASU requires disclosure of the nature and significant terms and considerations of the transactions, the accounting policies used and the effects of those transactions. The ASU is effective for fiscal years beginning after December 15, 2021. Effective January 1, 2022, the Company adopted ASU 2021-10 on a prospective basis. The Company adopted this standard as of January 1, 2022.

Accounting Pronouncements Issued but Not Yet Adopted

Other recent accounting pronouncements not yet adopted are not expected to have a material impact on the Company's condensed consolidated financial statements.

2. Business Combination

On August 11, 2021 (the "Closing Date"), Legacy Rockley, SC Health, and Rockley Mergersub Limited, an exempted company incorporated in the Cayman Islands as a direct wholly owned subsidiary of the Company ("Merger Sub"), consummated the business combination contemplated by the Business Combination Agreement and Plan of Merger, dated as of March 19, 2021 (the "Business Combination Agreement"). Immediately upon the consummation of the Business Combination, Legacy Rockley became a wholly owned subsidiary of the Company and Merger Sub merged with and into SC Health, with SC Health surviving the merger and becoming a direct wholly owned subsidiary of the Company. Subsequently, SC Health's ordinary shares and warrants ceased trading on the NYSE while the Company's ordinary shares and warrants began trading on the NYSE under the symbols "RKLY" and "RKLY.WS," respectively.

Pursuant to the Business Combination Agreement, each of the following transactions occurred in the following order: (i) pursuant to a scheme of arrangement approved by the UK courts (the "Scheme"), on August 9, 2021, all of Legacy Rockley's ordinary shares, including shares issued immediately prior to the Scheme becoming effective as a result of the conversion of then-outstanding convertible loan notes and the exercise of warrants, were transferred by Rockley shareholders in exchange for an equivalent number of shares in the Company; (ii) the holders of options over shares in Legacy Rockley rolled over their options into new options to purchase shares in the Company; (iii) warrants to purchase shares in Legacy Rockley (other than one warrant instrument that by its terms was replicated at the Company) not exercised for shares in Legacy Rockley prior to the effectiveness of the Scheme described above were cancelled, such that immediately following the Scheme, Legacy Rockley became a direct wholly-owned subsidiary of the Company; (iv) the Company subsequently completed a stock-split to prepare its share capital for Merger Sub's merger into SC Health; (v) certain accredited investors (including entities affiliated with the SC Health Sponsor) purchased an aggregate of 15.0 million ordinary shares for a purchase price of $10.00 per share, or an aggregate purchase price of $150.0 million; (vi) on August 11, 2021, Merger Sub was merged with and into SC Health, with SC Health surviving the merger and becoming a direct wholly-owned subsidiary of the Company; and (vii) the ordinary shares and warrants in SC Health were exchanged for ordinary shares and warrants in the Company.

The Business Combination was accounted for as a forward recapitalization, with no goodwill or other intangible assets recorded, in accordance with GAAP. Under this method of accounting, SC Health was treated as the acquired company and Legacy Rockley was deemed to be the accounting acquirer for financial reporting purposes. This determination was primarily based on the existing shareholders of Legacy Rockley obtaining a majority voting power in the Company, and as such, having the power to appoint a majority of the members of the Company's board of directors (the "Board"); the operations of Legacy Rockley prior to the acquisition comprising the only ongoing operations of the combined entity based on the historical operating activity and employee base; and the senior management of Legacy Rockley comprising the majority of the senior management of the Company. Accordingly, for accounting purposes, the financial statements of the Company represent a continuation of the financial statements of Legacy Rockley with the acquisition being treated as the equivalent of Legacy Rockley issuing stock for the net assets of SC Health, accompanied by a recapitalization.

As a result of the Business Combination, the Company incurred equity issuance costs and other costs considered direct and incremental to the transaction, totaling $45.5 million and consisting of legal, accounting, financial advisory and other professional fees. These amounts are reflected within additional paid-in capital in the condensed consolidated balance sheet as of December 31, 2021.

Summary of Net Proceeds

The following table reconciles the elements of the net proceeds from the Business Combination as of December 31, 2021 (in thousands):

	Recapitalization
Cash inflow from SC Health's trust account, net of redemptions	$ 17,966
Cash inflow from PIPE	100,000
Cash inflow from SC Health Sponsor	50,000
Less: Transaction Costs	(45,515)
Net cash received from the Business Combination	$ 122,451

Summary of Shares Issued

The total number of shares of the Company's ordinary shares issued and outstanding immediately following the consummation of the Business Combination was approximately 126.7 million, comprising (in thousands):

	Number of Shares
Legacy Rockley shareholders prior to the Business Combination	104,016
SC Health Shareholders	1,777
Sponsor Shareholders	10,563
PIPE Investors	10,000
Other Shareholders[1]	319
Total number of shares	126,675

[1] The Company issued 319,000 ordinary shares at a value of $10.00 per share to Cowen and Company LLC ("Cowen") and BCW Securities LLC in lieu of cash payment for a portion of the $3.2 million fees payable to Cowen as part of the transaction costs.

3. Segment, Geographic, and Significant Customer Information

Our operations are organized into a single operating and reportable segment for financial reporting purposes, based on how our Chief Operating Decision Maker ("CODM") manages the business, makes operating decisions around the allocation of resources, and evaluates operating performance. Our CODM is our Chief Executive Officer, who reviews our operating results on a consolidated basis.

The following table presents our revenue disaggregated by primary geographical market where revenues are attributable to the region in which the billing address of the customer is located (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
United States	$ 556	$ 1,537	$ 3,023	$ 5,503
Rest of World	—	302	—	302
Total revenue	$ 556	$ 1,839	$ 3,023	$ 5,805

The following tables summarize our most significant customers as of September 30, 2022 and December 31, 2021 and for the three and nine months ended September 30, 2022 and 2021:

	Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Customer A	83 %	69 %	91 %	89 %

	Accounts Receivable	
	September 30, 2022	December 31, 2021
Customer A	42 %	72 %

The following table presents property, equipment, finance lease and intangible assets held in the U.S. and internationally in various foreign subsidiaries as of September 30, 2022 and December 31, 2021 (in thousands):

	As of	
	September 30, 2022	December 31, 2021
United States	$ 7,466	$ 8,442
Rest of World	5,136	4,793
Total property, equipment, finance lease and intangible assets	$ 12,602	$ 13,235

4. Equity Method Investment

As of September 30, 2022 and December 31, 2021, we held an investment in Hengtong Rockley Technology Co., Ltd ("HRT"). Two of HRT's five board members were appointed by Rockley. HRT manufactures and sells optical fiber transceivers based on silicon photonics chipsets. HRT has share capital consisting solely of ordinary shares. We hold 24.9% of HRT's ordinary shares, and the same proportion of its voting rights. We consider HRT to be a variable interest entity upon which the Company does exercise significant influence. However, considering key factors, such as ownership interest, representation on the board of directors, and participation in policy-making decisions, the Company concluded it does not control the investment. Accordingly, the investment in HRT is accounted for under the equity method. We elected to use a three-month lag to record our share of HRT's results.

The following table summarizes our investment in HRT for the nine months ended September 30, 2022 (in thousands):

Beginning balance, January 1, 2022	$	4,879
Remeasurement loss on HRT		(289)
Share of loss of HRT		(232)
Ending balance, September 30, 2022	$	4,358

Our maximum exposure to loss as a result of our involvement with HRT is limited to the balance of our investment.

5. Financial Instruments and Fair Value Measurements

The accounting guidance for fair value measurements provides a framework for measuring fair value on either a recurring or nonrecurring basis, whereby the inputs used in valuation techniques are assigned a hierarchical level. The following are the three levels of inputs to measure fair value:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs that reflect quoted prices for identical assets or liabilities in less active markets; quoted prices for similar assets or liabilities in active markets; benchmark yields, reported trades, broker/dealer quotes, inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs that reflect our own assumptions incorporated in valuation techniques used to measure fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and consider an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate, our own or the counterparty's non-performance risk is considered in measuring the fair values of liabilities and assets, respectively.

Investments

The following is a summary of our investments at their cost or amortized cost for the periods ended September 30, 2022 and December 31, 2021 (in thousands):

	September 30, 2022	December 31, 2021
Corporate bonds and commercial paper	$ —	$ 20,042
U.S. Treasury securities	—	24,587
Total investments	$ —	$ 44,629

Fair Value of Financial Instruments

The following table summarizes our financial assets measured at fair value on a recurring basis (in thousands):

	September 30, 2022		
		Fair Value Measurements at Reporting Date Using	
	Total	Level 1	Level 2
Cash and cash equivalents	$ 4,881	$ 4,881	$ —
Total cash, cash equivalents and investments	$ 4,881	$ 4,881	$ —

	December 31, 2021		
		Fair Value Measurements at Reporting Date Using	
	Total	Level 1	Level 2
Cash and cash equivalents	$ 36,786	$ 36,786	$ —
Corporate bonds and commercial paper	20,037	—	20,037
U.S. Treasury securities	24,587	24,587	—
Total cash and cash equivalents	$ 81,410	$ 61,373	$ 20,037

The financial liabilities subject to fair value measurement on a recurring basis and classified as Level 3, were as follows (in thousands):

	As of	
	September 30, 2022	December 31, 2021
Financial Liabilities		
Private Placement Warrants	$ 18	$ 3,477
2026 Convertible Notes (May Notes)	66,492	—
Warrants issued in connection with the 2026 Convertible Notes (May 144A Warrants)	20,811	—
Total financial liabilities	$ 87,321	$ 3,477

Private Placement Warrants

The Company has determined that the Private Placement Warrants are classified within Level 3 of the fair value hierarchy as the fair value is estimated using the Modified Black Scholes Option Pricing Model. The discussion on the accounting of the Private Placement Warrants is fully described in Note 5—"Fair Value Measurements", to the consolidated financial statements included in “Item 8—Financial Statements and Supplementary Data” of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on March 10, 2022.

The following table presents the changes in the fair value of the Private Placement Warrants (in thousands):

Fair value at December 31, 2021	$ 3,477
Change in fair value	$ (3,459)
Fair value at September 30, 2022	$ 18

May Notes

On May 27, 2022, we issued $81.5 million aggregate principal amount of the 2026 Convertible Notes (the "May Notes") and detachable warrants (the "May 144A Warrants") to purchase approximately 26.5 million ordinary shares of the Company (see Note 7, Debt and Note 8, Warrants for details). At September 30, 2022, after accounting for conversions and additional issuances described further in Note 7—"Debt", the outstanding principal balance of the May Notes was $78.5 million .

At September 30, 2022, the fair value of the outstanding principal of the May Notes was $66.5 million which was measured using a lattice model (which is discussed in further detail below) with the following significant inputs:

Fair value per share of ordinary shares, net of 4.0% discount for lack of marketability	$	0.71
Risk-free interest rate		4.19 %
Expected volatility		75.0 %
Expected term, in years		3.62
Credit spread (bps)		979
Coupon rate (all cash)		9.5 %
Coupon rate (cash & payment-in-kind)		
Cash		5.75 %
Payment-in-kind		6.25 %

For the nine months ended September 30, 2022, we recorded a change in fair value of $19.6 million from the remeasurement of the May Notes, as follows (in thousands).

Fair value at May 27, 2022	$	50,487
Less:		
Issuance discount		(505)
Conversion of May Notes to equity		(4,750)
Add:		
Issuance in-kind of May Notes for interest make-whole provision		1,706
Change in fair value		19,554
Fair value at September 30, 2022	$	66,492

Binomial Lattice Model

A lattice model was used to determine the fair value of the May Notes based on assumptions as to when the May Notes would be converted or redeemed at each decision point. Within the lattice model, the following assumptions were made: (i) each holder shall have the option to convert the May Notes to the Company's ordinary shares at a rate of 324.6753 (the "conversion rate") per $1,000 principal amount of May Notes prior to the close of the second trading date immediately preceding the maturity date; (ii) at any time prior to the maturity date, the Company may redeem the May Notes in an amount equal to the sum of the redemption price plus the redemption premium; (iii) the holders may surrender the May Notes subject to the optional redemption or tax redemption at any time prior to the close of business on the second trading day immediately preceding the redemption date; and (iv) upon any conversion, other than a conversion "in connection with" a Make-Whole Fundamental Change, Springing Repurchase Offer, a Make-Whole Redemption or a Tax Redemption, the Company will make an interest make-whole payment to the converting holder equal to the sum of the remaining scheduled payments of interest that would have been made on the May Notes to be converted had such May Notes remained outstanding from the conversion date to and including the maturity date. The lattice model uses the stock price, maturity date, risk-free rate, estimated stock volatility, and estimated credit spread. We remeasure the fair value of the debt instrument and record the change as a gain or loss from change in fair value of debt in the statements of operations and comprehensive loss for each reporting period.

May 144A Warrants issued in connection with the May Notes

In connection with the issuance of the May Notes, we issued detachable May 144A Warrants which were bifurcated from the May Notes and recorded at fair value as a liability. At September 30, 2022, the fair value of the May 144A Warrants was $20.8 million which was measured using the Monte Carlo simulation method. The May 144A Warrants' ratchet anti-dilution provision creates path-dependent exercise prices of the May 144A Warrants. The Company therefore concluded that the Monte Carlo simulation model is the appropriate method to fair value the May 144A Warrants and the inputs of the valuation model are classified as “Level 3”.

The following key inputs to the Monte Carlo simulation model were used at September 30, 2022:

Fair value per share of ordinary shares, net of 4.0% discount for lack of marketability	$	0.71
Interest rate		3.8 %
Expected volatility		74.5 %
Initial exercise price	$	5.00
Exercise price floor	$	2.80

For the nine months ended September 30, 2022, we recorded a change in fair value of $9.9 million from the initial issuance date of the May 144A Warrants, as follows (in thousands).

Fair value at, May 27, 2022	$	31,013
Less: Issuance discount		(309)
Change in fair value		(9,893)
Fair value at September 30, 2022	$	20,811

6. Balance Sheet Components

Cash and cash equivalents

Our cash and cash equivalents balances were concentrated by location as follows:

	September 30, 2022	December 31, 2021
United Kingdom	22 %	97 %
United States	77 %	3 %
Other	1 %	— %

Other receivables (in thousands)

	September 30, 2022	December 31, 2021
R&D tax credit receivable[1]	$ 47,331	$ 45,632
Grants receivable	559	753
VAT receivable	480	1,073
Other receivable, net	15	4
Total other receivables	$ 48,385	$ 47,462

[1] The research and development tax credit receivable consists of research and development expenses that have been claimed as research and development tax credits in accordance with the relevant U.K. tax legislation. The claims related to the 2020 year are currently under examination by the U.K. government.

Property and equipment, net (in thousands)

	September 30, 2022	December 31, 2021
Computer equipment	$ 2,298	$ 1,998
Lab equipment	15,349	13,940
Motor vehicles	31	31
Furniture and fixtures	327	315
Leasehold improvements	1,230	1,230
Assets under construction	656	—
Total property and equipment	$ 19,891	$ 17,514
Less: accumulated depreciation	(11,820)	(9,088)
Total property and equipment, net	$ 8,071	$ 8,426

Total depreciation expense for the three months ended September 30, 2022 and 2021 was $1.5 million and $1.2 million, respectively. Total depreciation expense for the nine months ended September 30, 2022 and 2021 was $4.4 million and $3.0 million, respectively.

Finance lease right-of-use assets, net (in thousands)

	September 30, 2022	December 31, 2021
Finance lease right-of-use assets	$ 2,966	$ 2,966
Less: accumulated amortization	(1,483)	(1,205)
Total finance lease right-of-use assets, net	$ 1,483	$ 1,761

Amortization expense for the three months ended September 30, 2022 and 2021 was $0.1 million and $0.1 million, respectively. Amortization expense for the nine months ended September 30, 2022 and 2021 was $0.3 million and $0.3 million, respectively.

Intangible assets, net (in thousands)

	September 30, 2022	December 31, 2021
In-process research and development	$ 3,048	$ 3,048
Total intangible assets, net	$ 3,048	$ 3,048

The Company reviews its intangible assets for potential impairment whenever events or circumstances indicate that the carrying value of the intangible assets may not be recoverable. No impairment charges were recorded for the three and nine months ended September 30, 2022 and 2021.

Other non-current assets (in thousands)

	September 30, 2022	December 31, 2021
Security deposits	$ 224	$ 280
Operating right of use assets	4,268	4,577
Prepaid asset, net of current portion	5,477	2,826
Total other non-current assets	$ 9,969	$ 7,683

Accrued expenses (in thousands)

	September 30, 2022	December 31, 2021
Accrued bonus	$ 4,974	$ 7,546
Accrued fabrication costs	2,605	3,110
Accrued payroll and benefits	2,280	2,750
Accrued interest expense	1,250	146
Accrued restructuring charges	955	—
Accrued taxes (taxes receivable)	(46)	439
Accrued transaction costs	—	1,004
Other accrued expenses	3,849	2,365
Total accrued expenses	$ 15,867	$ 17,360

In the quarter ended September 30, 22, we executed a restructuring plan to reduce costs and redirect resources to our highest priority activities, which included a reduction in our global workforce by approximately 20%. A restructuring charge of $1.0 million was recorded and consisted of employee severance-related costs. Substantially all activities under the plan have been completed. and we expect largely all of the accrued amounts to be paid by the end of the 2022 fiscal year.

7. Debt

The remeasurement of the fair value and the conversion of debt adjustments associated with prior period convertible debt instruments in the nine months ended September 30, 2021 are described in “Item 8—Financial Statements and Supplementary Data” of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on March 10, 2022. The disclosure below describes debt instruments with activity and balances in the current fiscal period and where applicable, the corresponding prior period balances of those debt instruments.

The following table summarizes information relating to our debt, (in thousands):

	September 30, 2022					
	Principal	Change in Fair Value Adjustment	Conversion of Debt Adjustment	Interest[1]	Cash Payment	Net
2026 Convertible Notes (May Notes)	$ 81,500	$ (11,964)	$ (4,750)	$ 1,706	$ —	$ 66,492
2020 Term Facility Loan	33,949	6,234	(13,003)	10,123	(37,303)	—
Total long-term debt	$ 115,449	$ (5,730)	$ (17,753)	$ 11,829	$ (37,303)	$ 66,492
Less: current portion of long-term debt						—
Long-term debt, net of current portion						$ 66,492

[1] Interest from the May Notes relates to the issuance in-kind of May Notes for the interest make-whole provision upon conversion of May Notes to equity in the fiscal quarter ended September 30, 2022. Interest from the 2020 Term Facility relates to the imputed interest of the payment arrangement in place upon the close of the Business Combination in August 2021.

	December 31, 2021					
	Principal	Change in Fair Value Adjustment	Conversion of Debt Adjustment	Accreted Interest	Cash Payment	Net
2020 Term Facility Loan	$ 33,949	$ 6,234	$ (13,003)	$ 4,132	$ (5,000)	$ 26,312
Less: current portion of long-term debt						(26,312)
Long-term debt, net of current portion						$ —

The following table summarizes our aggregate future principal debt maturities as of September 30, 2022 (in thousands):

Year Ending December 31,		
2022 (for the remaining three months)	$	—
2023		—
2024		—
2025		—
2026		78,456
Total aggregate future principal payments	$	78,456

May Notes

On May 27, 2022, we issued $81.5 million aggregate principal amount of Convertible Senior Secured Notes Due 2026 (the “May Notes”) and warrants (the "May 144A Warrants") to purchase approximately 26.5 million ordinary shares of the Company. The May Notes bear interest at a rate of 9.5% per annum if paid in cash or, subject to the satisfaction of certain conditions, at a rate of 12.0% per annum payable at a rate of 5.75% per annum in cash and 6.25% per annum through the issuance of additional Notes ("Payment-in-Kind" or "PIK"), which will also bear interest. Interest on the May Notes is payable quarterly in arrears on February 15, May 15, August 15 and November 15, commencing on August 15, 2022. The May Notes will mature on May 15, 2026 unless redeemed, repurchased or converted in accordance with their terms prior to such date. The May Notes were issued pursuant to an indenture (the "May Indenture"), which includes customary terms and covenants including certain events of default after which the May Notes may be due and payable immediately.

The Company has also granted the May Note holders an option to purchase up to an additional $81.5 million aggregate principal amount of notes and warrants for a period of 12 months following the date that the registration statement covering the resale of the ordinary shares issuable upon conversion of the May Notes and upon exercise of the May 144A Warrants became effective.

The May Notes are convertible at an initial conversion price equal to $3.08 per ordinary share. Holders of the May Notes have the right to convert all or a portion of their May Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date. Upon conversion, holders of the May Notes will receive ordinary shares and an interest make-whole for interest that would have accrued from the date of conversion until the maturity date, which interest make-whole shall be paid in cash or in ordinary shares at the Company’s election.

Following certain corporate events that occur prior to the maturity date or notice of redemption issued by the Company (as defined in the May Indenture), the Company will increase the conversion rate for a holder who elects to convert its May Notes in connection with such a corporate event or who elects to convert any May Notes called for redemption during the related redemption period. Additionally, in the event of a fundamental change (as defined in the May Indenture), the holders of the May Notes may require the Company to repurchase all or a portion of their May Notes at a price equal to the aggregate principal amount of any May Notes to be repurchased plus accrued and unpaid interest thereon plus a make-whole premium (as defined in the May Indenture).

The Company may redeem the May Notes in whole, and not in part, at its option, at any time prior to the maturity date, for a cash purchase price equal to the aggregate principal amount of any May Notes to be redeemed plus accrued and unpaid interest plus a make-whole premium as provided in the May Indenture. At any time prior to the maturity date, the Company may also redeem the May Notes in whole, if the last reported sale price of the ordinary shares exceeds 250.0% of the conversion price then in effect for at least 20 trading days (which need not be consecutive), for a cash purchase price equal to the aggregate principal amount of any May Notes to be redeemed plus accrued and unpaid interest thereon. The May Notes are also subject to redemption at the option of the Company in the event of certain changes in tax law or listing status of the Company.

Net proceeds from the offering of the May Notes were $80.7 million after deducting the initial purchasers’ discount of 1.0%. As of September 30, 2022, the Company incurred approximately $11.5 million in transaction costs that was recognized as an expense in the condensed consolidated statements of operations under selling, general and administrative. The Company used approximately $32.3 million of the net proceeds to repay the 2020 Term Facility Loan, which included principal and accrued interest. The Company used or intends to use the remaining net proceeds for operating expenses, working capital, general corporate purposes, and capital expenditures.

The Company allocated the proceeds from the May Notes and May 144A Warrants issued in the financing transaction using a relative fair value method at the issuance date. The issuance-date fair values for the May Notes and May 144A Warrants were measured using the binomial lattice and Monte Carlo simulation model, respectively. The initial amount recognized for the May Notes and May 144A Warrants was established by applying the respective fair values of the May Notes and May 144A Warrants to the amount of the proceeds of $81.5 million on a pro-rata basis.

The Company elected to account for May Notes at fair value as of the May 27, 2022 issuance date. Management believes that the fair value option appropriately reflects the underlying economics of the May Notes. Under the fair value election, changes in fair value will be reported in the condensed consolidated statements of operations, under change in fair value of debt instrument, in each reporting period subsequent to the issuance of the May Notes. For the nine months ended September 30, 2022, the Company recorded a change in fair value of $19.6 million. See Note 5 – Fair Value Measurements for information on the assumptions that the Company used to measure the fair value of the May Notes.

The Company registered the ordinary shares underlying the May Notes and the May 144A Warrants for sale by the initial purchasers pursuant to a Registration Rights Agreement. The Company's Registration Statement on Form S-1 (File No. 333-266077), was filed with the SEC on July 11, 2022 and declared effective on July 27, 2022. The Company registered up to 40,316,038 ordinary shares issuable upon conversion of the May 2026 Convertible Notes, which consists of (i) 26,461,038 ordinary shares initially issuable upon conversion of all of the May Notes at a conversion price of $3.08 per ordinary share; and (ii) an additional 13,855,000 ordinary shares that would have become due, assuming that the May Notes were converted on the date they were issued and the interest make-whole payment (as defined in the May Indenture) that would have become due in connection therewith was paid by the Company in ordinary shares on that date. The Company also registered up to 47,251,857 ordinary shares issuable upon the exercise of all the May 144A Warrants, which consists of (i) 26,461,038 ordinary shares initially issuable upon the exercise of all of the May 144A Warrants at an exercise price of $5.00 per ordinary share; and (ii) an additional 20,790,819 ordinary shares that, together with 26,461,038 ordinary shares, would be issuable upon the exercise of all the May 144A Warrants in connection with a ratchet anti-dilution adjustment at an assumed exercise price of $2.80 per ordinary share. See Note 8 - Warrants below.

The May Notes were classified as a long-term liability in the condensed consolidated balance sheet as of September 30, 2022.

During the three months ended September 30, 2022, $4.8 million of the May Notes with a fair value of $5.5 million were converted for 1.5 million ordinary shares. In connection with the conversion, the noteholder was entitled to $1.7 million of interest make-whole payable in cash. However, an additional $1.7 million of May Notes were issued in-kind in accordance with the interest make-whole provision in the May Indenture agreement.

2020 Term Facility Loan

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on March 10, 2022 for information on the 2020 Term Facility Loan. During the second quarter ended June 30, 2022, the Company paid off the total outstanding principal balance and all accrued interest for the 2020 Term Facility Loan balance, which resulted in a total cash payment of $37.3 million.

8. Warrants

Public and Private Placement Warrants

The discussion on the Public Warrants and Private Placement Warrants is described in Note 8—"Warrants", to the consolidated financial statements included in “Item 8—Financial Statements and Supplementary Data” of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on March 10, 2022.

As of September 30, 2022, the Company had 8,625,000 Public Warrants outstanding with a balance of $28.0 million, classified as equity and presented within Additional Paid-In Capital on our condensed consolidated balance sheet. As of September 30, 2022, the Company also had 5,450,000 Private Placement Warrants outstanding with a balance of $0.02 million, classified as liability and presented within warrant liabilities on our condensed consolidated balance sheet. The warrant liabilities are remeasured on a recurring basis, with changes in fair value presented in the condensed consolidated statement of operations at each reporting period.

May 144A Warrants issued in connection with the May Notes

The Company issued May 144A Warrants in connection with the May Notes with a balance of $20.8 million as of September 30, 2022, classified as a liability. The May 144A Warrants have a ten-year term and can only be exercised through May 27, 2032. The May 144A Warrants are exercisable for the Company's ordinary shares at an exercise price of $5.00, and include a ratchet anti-dilution adjustment in the event any ordinary shares or other equity or equity equivalent securities payable in ordinary shares are granted, issued or sold by the Company, in each case, at a price less than the exercise price of $5.00 then in effect, which automatically decreases the exercise price of the May 144A Warrants upon the occurrence of such event, and increases the number of ordinary shares issuable upon exercise of the May 144A Warrants, such that the aggregate exercise price of all May 144A Warrants remains the same before and after any such dilutive event; provided, that the exercise price may not be less than $2.80.

Upon the occurrence of a fundamental transaction (as defined in the May 144A Warrant Agreement), the May 144A Warrants provide each holder a put right. Upon the exercise of a put right by the holder, the Company is obligated to repurchase the May 144A Warrants from the holder for the fair market value (as defined in the May 144A Warrant Agreement) of the remaining exercised portion of the May 144A Warrants repurchased.

The May 144A Warrants also include cashless exercise rights which will go into effect if after the six months of the issue date, there is no effective registration statement registering the ordinary shares underlying the May 144A Warrants. The ordinary shares underlying the May 144A Warrants were registered for sale by the initial purchasers pursuant to the Company's Registration Statement on Form S-1 (File No. 333-266077), filed with the SEC on July 11, 2022 and declared effective on July 27, 2022. The Company registered for resale up to 47,251,857 ordinary shares issuable upon the exercise of all the Company’s May 144A Warrants, which consists of (i) 26,461,038 ordinary shares initially issuable upon the exercise of all of the May 144A Warrants at an exercise price of $5.00 per ordinary share; and (ii) an additional 20,790,819 ordinary shares that, together with 26,461,038 ordinary shares, would be issuable upon the exercise of all the May 144A Warrants in connection with a ratchet anti-dilution adjustment at an assumed exercise price of $2.80 per ordinary share. The Company also registered up to 40,316,038 ordinary shares issuable upon conversion of the May Notes, which consists of (i) 26,461,038 ordinary shares initially issuable upon conversion of all of the May Notes at a conversion price of $3.08 per ordinary share; and (ii) an additional 13,855,000 ordinary shares that would have become due, assuming that the May Notes were converted on the date they were issued and the interest make-whole payment (as defined in the May Indenture) that would have become due in connection therewith was paid by the Company in ordinary shares on that date. See Note 7 - Debt above.

The May 144A Warrants were accounted for as liabilities in accordance with ASC 815-40, *Derivatives and Hedging-Contracts in Entity’s Own Equity*, and are presented within warrant liabilities on our balance sheet. The liability is remeasured on a recurring basis, with changes in fair value presented in the condensed consolidated statement of operations at each reporting period. The May 144A Warrants are considered to be a Level 3 liability, see Note 5 – Fair Value Measurements for description of the valuation methodology of the May 144A Warrants.

The May 144A Warrants were classified as a long-term liability and included in the condensed consolidated balance sheet as of September 30, 2022.

During the three months ended September 30, 2022, an additional 553,895 May 144A Warrants were issued in connection with the additional $1.7 million of May Notes issued in-kind from the conversion of $4.8 million of May Notes to equity.

9. Income Taxes

Income tax expense (benefit) was $0.3 million and $0.6 million for the three months ended September 30, 2022 and 2021, respectively. Income tax expense (benefit) was $(0.1) million and $0.8 million for the nine months ended September 30, 2022 and 2021, respectively. The effective income tax rate was less than 1.0% in the three and nine months ended September 30, 2022 and 2021. Our effective tax rate differs from the U.K. statutory rate primarily due to a substantially full valuation allowance against our net deferred tax assets where it is more likely than not that some or all of the deferred tax assets will not be realized. The income tax expense is primarily related to corporate income taxes in the United States, which operates on cost–plus arrangements and minimum filing fees in the foreign jurisdictions where we have operations.

10. Shareholders' Equity (Deficit)

The Company is authorized to issue 12,443,961,038 ordinary shares with par value of $0.000004 per share. Each holder of the Company's ordinary shares is entitled to one vote per share. As of September 30, 2022, there were 132,660,683 of the Company's ordinary shares issued and outstanding. Holders of the Company's ordinary shares do not have cumulative voting rights. Additionally, the Company had 14,074,986 Public Warrants and Private Placement Warrants outstanding as of September 30, 2022, as well as May 144A Warrants to purchase approximately 26.5 million ordinary shares. See Note 8, *Warrants* for additional information.

Each holder of the Company's ordinary shares is entitled to the payment of dividends and other distributions as may be declared by the Board from time to time out of the Company's assets or funds legally available for dividends or other distributions. The Company has not declared or paid any dividends with respect to its ordinary shares for the periods presented.

If the Company is involved in voluntary or involuntary liquidation, dissolution or winding up of the Company's affairs, or a similar event, each holder of the Company ordinary shares will participate pro rata in all assets remaining after payment of liabilities, subject to prior distribution rights of the Company preferred shares, if any, then outstanding.

Equity Line of Credit

In October 2021, the Company entered into an equity line of credit arrangement ("ELOC") with Lincoln Park Capital Fund, LLC, an Illinois limited liability company ("LPCF"). The ELOC is a private placement with registration rights, providing LPCF the ability to purchase up to 7.8 million of the Company's ordinary shares for $50.0 million over 24 months. Proceeds from the sale of shares will go towards the Company to be used for working capital.

No amounts were drawn against the ELOC during any of the periods presented.

Private Placement Financing

In connection with the issuance of the May Notes, on July 11, 2022, we filed a Registration Statement on Form S-1 with the SEC (File No. 333-266077) which was declared effective on July 27, 2022, pursuant to which we registered for resale by the investors in our private placement up to 87.6 million ordinary shares, which includes (i) up to 40.3 million ordinary shares issuable upon conversion of the May Notes and (ii) up to 47.3 million ordinary shares issuable upon the exercise of the May 144A Warrants.

In August 2022, approximately 1.5 million ordinary shares were issued in connection with a partial conversion of the May Notes. See Note 7 - Debt for further details.

11. Net Income (Loss) per Share

The following is a calculation of basic and diluted[1] net income (loss) per share (in thousands, except for share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic and diluted[1]:				
Net income (loss)	$ 12,031	$ (57,972)	$ (151,587)	$ (153,306)
Weighted average ordinary shares outstanding	130,752,092	107,633,037	129,520,792	92,008,435
Basic and diluted[1] net income (loss) per share	$ 0.09	$ (0.54)	$ (1.17)	$ (1.67)

[1]Diluted net income (loss) per share excludes the three months ended September 30, 2022. See below for a calculation of the net loss per share on a diluted basis for the three months ended September 30, 2022.

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of the ordinary shares outstanding. For any period prior to the close of the Business Combination in August 11, 2021, we also included outstanding warrants with a $0.01 exercise price to the weighted average number of ordinary shares count.

For the nine months ended September 30, 2022 and the three and nine months ended September 30, 2021, we excluded the potential effect of outstanding and exercisable options, outstanding RSUs, and warrants in the calculation of the diluted loss per share, as the effect would be anti-dilutive due to losses incurred. For the three months ended September 30, 2022, the following table presents the calculation of diluted net loss per share with adjustments to net income and shares outstanding (in thousands, except per share amounts):

Numerator:		
Net income	$	12,031
Adjustment:		
Change in fair value of May Notes		(27,227)
Net loss - adjusted	$	(15,196)
Denominator:		
Basic weighted-average shares outstanding		130,752,092
Adjustment:		
Convertible Notes on If-Converted Basis		35,964,730
Options under Treasury Stock Method		3,321,283
RSUs under Treasury Stock Method[1]		—
Diluted shares outstanding		170,038,105
Diluted loss per share	$	(0.09)

[1]RSUs under Treasury Stock Method were anti-dilutive and excluded from calculation of diluted loss per share

As of September 30, 2022 there were approximately 15.6 million outstanding options and RSUs and 14.1 million of private and public warrants of potentially issuable shares with dilutive effect, as well as May 144A Warrants to purchase approximately 26.5 million ordinary shares and the May Notes described in Note 7 - Debt above. As of September 30, 2021, there were approximately 12.9 million potentially issuable shares with dilutive effect.

12. Stock-Based Compensation

The Company has established a number of share-based incentive plans for current employees, directors and others, including our 2013 Equity Incentive Plan (the "2013 Plan"), our 2021 Stock Incentive Plan (the "2021 Plan"), and our 2021 Employee Stock Purchase Plan (the "ESPP").

2013 Equity Incentive Plan

The holders of Legacy Rockley stock options under our 2013 Plan continue to hold such stock options, which remain subject to the same vesting, exercise and other terms and conditions outlined in the stock option agreements and the 2013 Plan. In connection with the Business Combination, the holders of Legacy Rockley options may exercise their options to purchase a number of the Company's ordinary shares equal to the number of shares of Legacy Rockley subject to such Legacy Rockley options multiplied by the Exchange Ratio of 2.4835 (rounded down to the nearest whole share) at an exercise price per share divided by the Exchange Ratio (rounded to the nearest whole cent). The information presented herein is as if the exchange of stock options occurred as of the earliest period presented.

As of September 30, 2022, there were no shares available for grant under our 2013 Plan. Any new grants will become available for issuance under our 2021 Plan.

The following table summarizes the stock option activity related to the 2013 Plan:

	Number of Options Outstanding		Average Exercise Price Per Share
Options outstanding at December 31, 2021	15,381,736	$	2.00
Granted	—	$	—
Exercised	(2,030,345)	$	0.66
Forfeited	(733,695)	$	3.48
Expired	(473,235)	$	2.82
Options outstanding at September 30, 2022	12,144,461	$	2.11
Options exercisable at September 30, 2022	11,106,668	$	1.97

2021 Stock Incentive Plan

On March 31, 2021, the Board approved the 2021 Plan. The purpose of the 2021 Plan is to attract, retain, incentivize and reward top talent through equity ownership, to improve operating and financial performance and strengthen the mutuality of interest between eligible service providers and shareholders.

As of September 30, 2022, there were 14,693,438 shares authorized for issuance under the 2021 Plan, of which 9,762,747 shares were available for grant.

The following table summarizes the stock option activity related to the 2021 Plan:

	Number of Options Outstanding		Average Exercise Price Per Share
Options outstanding at December 31, 2021	1,013,480	$	15.84
Granted	—	$	—
Exercised	—	$	—
Forfeited	(350,225)	$	15.84
Expired	(87,679)	$	15.84
Options outstanding at September 30, 2022	575,576	$	15.84
Options exercisable at September 30, 2022	155,885	$	15.84

Restricted Stock Units

In 2021, the Company granted restricted RSUs to employees and directors under the 2021 Plan. Each award will vest based on continued service which is generally over a four-year period. The grant date fair value of the award will be recognized as stock-based compensation expense over the requisite service period. The fair value of RSUs was estimated on the date of grant based on the fair value of the Company's ordinary shares.

RSUs activity for the nine months ended September 30, 2022 was as follows:

	Number of RSUs Outstanding	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2021	4,154,508	$ 6.71
Granted	2,089,743	$ 2.62
Vested	(927,693)	$ 7.01
Forfeited	(961,443)	$ 6.65
Outstanding at September 30, 2022	4,355,115	$ 4.70

2021 Employee Stock Purchase Plan

On October 2021, the Company adopted the ESPP, which became effective on December 1, 2021. The ESPP is more fully described in Note 12 of the "Notes to Consolidated Financial Statements" to our Annual Report on Form 10-K for the year ended December 31, 2021. As of September 30, 2022, 1,526,239 shares were available for issuance under the ESPP. The initial offering period for the ESPP is one year, commencing on December 1, 2021 and ending on November 30, 2022. As of September 30, 2022, 392,509 ordinary shares have been purchased under the ESPP.

The ESPP was suspended on October 7, 2022. All employee payroll withholdings related to the ESPP were reimbursed subsequent to the suspension of the program. The ESPP offering period which commenced on June 1, 2022 was in effect as of September 30, 2022, and the associated expense for the quarter then ended was recorded.

Stock-based compensation expense

The following table summarizes our stock-based compensation expense for all equity arrangements and is included in the condensed consolidated statements of operations and comprehensive income (loss) as follows (in thousands):

	Three Months Ended September 30, 2022		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	$ 141	$ 346	$ 816	$ 977
Research and development	2,195	1,340	7,073	3,559
Selling, general and administrative	1,099	469	3,523	1,320
Total stock-based compensation expense	$ 3,435	$ 2,155	$ 11,412	$ 5,856

As of September 30, 2022, there was approximately of $24.7 million of total unrecognized stock based compensation expenses related to our equity awards, which is expected to be recognized over a weighted average period of 1.3 year.

Performance Options

In 2019, the Company granted performance-based options to certain individuals with conditions that include specific sales and fundraising targets. We recognized an immaterial expense in relation to the performance-based options for the three months ended September 30, 2022 and $0.1 million for the three months ended September 30, 2021. For the nine months ended September 30, 2022 and 2021, we recognized a total expense of $0.1 million and $0.3 million, respectively in relation to the performance-based options. As of September 30, 2022, the unrecognized stock-based compensation expense related to the performance-based options was considered not material. As of December 31, 2021, there was approximately $0.9 million of unrecognized stock-based compensation expense related to the performance-based options. As of September 30, 2022, no additional performance-based awards were granted.

Modification of Equity Awards

On June 15, 2022, the Company entered into a separation agreement with our former Chief Financial Officer, which amended his employment agreement and provided for changes in the term of service and compensation under the

agreement. The outstanding stock options under the Company's 2013 Plan held by our former Chief Financial Officer were modified to extend the post-termination exercise period through June 13, 2024. As a result, the Company recorded stock-based compensation expense of $0.2 million related to the incremental fair value of the modified awards.

Warrants

In connection with the Business Combination on August 11, 2021, all outstanding warrants of Legacy Rockley were exercised on a cashless basis and converted into the right to receive 1.8 million ordinary shares of the Company, with a fair value of $18.1 million.

13. Leases

The weighted average remaining lease term was 4 years for operating leases as of September 30, 2022. The weighted average discount rate was 6.0% for operating leases as of September 30, 2022.

The components of operating lease cost for the three and nine months ended September 30, 2022 and 2021, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating Lease Cost:				
Fixed lease cost	$ 430	$ 268	$ 1,215	$ 773
Variable lease cost	65	81	195	200
Total operating lease cost	$ 495	$ 349	$ 1,410	$ 973

The supplemental cash flow information related to our operating leases is as follows (in thousands):

	Nine Months Ended September 30,	
	2022	2021
Supplemental Cash Flow Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 1,085	$ 706
Right-of-use assets obtained in exchange of lease obligations:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 692	$ 1,981

There are no finance lease liabilities as of September 30, 2022. Maturities of operating lease liabilities as of September 30, 2022, are as follows (in thousands):

	Operating Leases
2022 (for the remaining period)	$ 463
2023	1,542
2024	1,068
2025	978
2026	1,009
Thereafter	329
Total lease obligation	$ 5,389
Less: Imputed interest	(588)
Total lease liabilities	$ 4,801
Less: Current lease liabilities	(1,464)
Total non-current lease liabilities	$ 3,337

14. Commitments and Contingencies

Legal Contingencies

From time to time, we are a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. We apply accounting for contingencies to determine when and how much to accrue for and disclose related to legal and other contingencies. Accordingly, we disclose contingencies deemed to be reasonably possible and accrue loss contingencies when, in consultation with legal advisors, it is concluded that a loss is probable and reasonably estimable. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, management believes that as of September 30, 2022 there is no litigation pending that could have, individually and in the aggregate, a material adverse effect on our financial position, results of operations or cash flows.

Financial Commitments

In the ordinary course of business, we make commitments to third-party suppliers for various research and development activities. As of September 30, 2022 and December 31, 2021, we had $12.5 million and $13.6 million, respectively, in contractual obligations for which we have not yet received the services.

15. Defined Contribution Plan

We have defined contribution plans, under which we contribute based on a percentage of the employees' elected contributions. We will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized within selling, general and administrative expenses and research and development in the condensed consolidated statements of operations and comprehensive income (loss). Defined contributions were $0.2 million and $0.2 million for the three months ended September 30, 2022 and 2021, respectively. Defined contributions were $0.7 million and $0.6 million for the nine months ended September 30, 2022 and 2021, respectively.

16. Supplemental Cash Flow Information

Non-cash operating, investing, and financing activities, and supplemental cash flow information are as follows (in thousands):

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(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Supplemental Cash Flow Information:		
Cash payments for:		
Interest paid	$ 12,283	$ 465
Income tax paid	$ 206	$ 300
Non-cash Operating Activities:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 692	$ 1,981
Non-cash Investing Activities:		
Unpaid property and equipment received	$ 920	$ 707
Non-cash Financing Activities:		
Conversion of convertible debt and accrued interest to ordinary shares	$ 5,548	$ 181,404
Issuance in-kind of Notes for interest make-whole provision	$ 1,706	$ —
Unpaid transaction costs	$ 574	$ 2,263
Conversion of Legacy Rockley ordinary shares to Rockley ordinary shares	$ —	$ 206,888
Private Placement Warrants	$ —	$ 14,304
Public Warrants	$ —	$ 28,031
Issuance of ordinary shares in lieu of cash payment of transaction costs	$ —	$ 3,190
Forgiveness of Paycheck Protection Program loan	$ —	$ 2,860

17. Subsequent Events

On October 3, 2022, the Company issued $12.4 million aggregate original principal amount of senior secured notes due 2022 (the “Bridge Notes”) to (i) raise additional financing of $10.5 million, of which $7.5 million was received by the Company, approximately $1.9 million was applied to pay transaction expenses and the remaining amount of approximately $1.1 million was placed in an escrow account to be released at the direction of the requisite number of noteholders; and (ii) pay certain fees owing to holders of May Notes in an aggregate principal amount of approximately $1.9 million. Dr. Andrew Rickman, the Company’s founder and Chief Executive Officer, invested $0.5 million in Bridge Notes on the same terms as the holders of May Notes, and Dr. Rickman’s participation was separately reviewed and approved by the Company’s Audit Committee and independent members of the Company’s Board of Directors. In connection with the Bridge Note transaction, we also entered into a Forbearance Agreement and obtained a waiver of defaults related to the minimum liquidity covenant in the May Indenture covering the May Notes, and the minimum liquidity covenant was temporarily lowered from $20 million to $5 million. The Bridge Note transaction and related matters are described in greater detail in our Current Report on Form 8-K filed with the SEC on October 3, 2022.

On October 25, 2022, the Company (i) sold approximately $90.6 million in aggregate original principal amount of a new series of convertible senior secured notes due 2026 (the "October Notes”) with an initial conversion price of $0.6888 and warrants (the "October 144A Warrants") to purchase approximately 131.6 million ordinary shares at an exercise price of $1.1182 per share, subject to certain anti-dilution adjustments; and (ii) repurchased all of the Bridge Notes in an aggregate original principal amount of approximately $12.4 million and a portion of the May Notes in an aggregate original principal amount of $50.0 million. As a result of the conversion price of the October Notes and the initial exercise price of the October 144A Warrants being less than the initial exercise price of the May Warrants, the exercise price of the May 144A Warrants was reset to $2.80 per share and each May 144A Warrant became entitled to an additional 0.7857 shares upon exercise thereof due to the ratchet antidilution provision. The securities were issued in a private placement in reliance on an exemption from the registration requirements of the Securities Act of 1933 (the “Securities Act”) provided by Section 4(a)(2) of the Securities Act, and the transactions are described in greater detail in our Current Reports on Form 8-K filed with the SEC on October 25, 2022 and October 31, 2022.

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

The following discussion and analysis of our financial condition and results of operations should be read together with the Company's condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and our audited annual consolidated financial statements as of and for the year ended December 31, 2021 and the related notes thereto, contained in our Annual Report on Form 10-K.

Unless the context otherwise requires, references in these notes to "Rockley", the "Company", "we", "us", or "our" and any related terms are intended to mean the post-Business Combination consolidated company, Rockley Photonics Holdings Limited, while "Legacy Rockley" and "SC Health" refers to the entities prior to the Business Combination.

Overview

We have developed a unique sensing platform that we believe can reshape the health & wellness and healthcare industries through multiple applications in non-invasive, multi-modal biomarker monitoring. We believe products based on our technology platform could have the potential to unlock and accelerate advancements in areas such as early disease detection, nutrition management, and preventative healthcare delivery through continuous health and wellness monitoring.

To date, we have been engaged in developing customer-specific designs of our silicon photonics chipsets for incorporation into our customers' end products and finished goods wearables targeted towards the consumer wearables and medtech markets. While all of our products are presently in the development stage, we have shipped early prototypes to multiple customers. We do not currently have any of our own end products in commercial production and have not yet shipped any products commercially. Our unique sensing platform has been built upon our silicon photonics technology, which enables compelling sensor performance, power, resolution, and density. This technology has the potential to allow monitoring devices, currently the size of clinical machines, to be condensed to the size of a wearable device. We believe this in turn has the potential to unlock additional uses in consumer electronics and medical devices. The resulting combination of technologies and manufacturing know-how is the "full-stack Rockley Platform" which is made up of photonic integrated circuits ("PICs") in silicon with integrated III-V devices (devices incorporating certain conductor elements that offer superior electronic properties, such as lasers), ASICs, photonic and electronic co-packaging, together with biosensing algorithms and AI cloud analytics, firmware/software, system architecture, and hardware design.

As testament to the relevance of our product development, we have captured the attention of several consumer wearables and medtech companies and, as of the date of this Quarterly Report on Form 10-Q, we have established strategic relationships with six of the world's largest manufacturers of smart watches and wristbands (based on volume as reported by IDC) and two of the five largest medtech companies (based on Becker's ASC Review). We plan to leverage these relationships to develop new capabilities in consumer and medtech wearables in the near term, and to expand further into medical devices and other industry applications.

Our vision is to address many pressing healthcare concerns using our technology and we believe that there exists a large market opportunity for our platform. We estimate the consumer wearable, mobile device, and medical device markets to be over $50 billion by 2025, based on data sourced from the Yole Report, the IDTechEx Report, and the TrendForce Report. Further, our internal forecasts for smartphones, smart watches, and smart earbuds through 2025 (based on customer data), also suggests these markets are rapidly expanding as healthcare and consumer wearable devices continue to incorporate additional sensing capabilities. Our target biomarkers for consumer health and wellness include blood oxygen, core body temperature, hydration, blood pressure, alcohol, glucose (indicator), and lactate. Our high-performance lasers have up to 1,000,000 times higher resolution, 1,000 times higher accuracy and 100 times broader range in wavelengths compared with existing LED offerings in wearable solutions (based on product analysis undertaken by Rockley comparing the Rockley silicon photonics-based spectrometer chip to existing solutions). In addition, as opposed to LED-based solutions, our lasers can be turned on more intermittently, and we employ dynamic adaptive power control to optimize laser on-time and overall power consumption for each different biomarker measurement, thus our solution will be more power efficient than existing solutions.

We believe our platform will also be able to address existing applications in consumer and medtech wearables with significantly higher resolution, accuracy, and range. Further, we believe there are multiple additional markets and opportunities for our technology platform in areas such as data center connectivity (optical transceivers), machine vision (robotic and automotive LiDAR), and compute connectivity (co-packaged optics, or CPO).

Following the completion of our product development phase and introduction of our products to the consumer and medtech wearable markets, we expect our revenue to be derived from sales of both high-volume consumer wearable products and wearables targeting medical applications. In addition, we plan to offer advanced module applications with biomarker detection capabilities for advanced health metrics that can detect and classify data that could potentially alert patients and healthcare providers to take preemptive action to prevent disease. We also expect to offer a cloud analytics platform to provide

a full range of subscription services, including the deployment of our technology through a subscription and cloud-based software as a service.

To date, we have generated revenue primarily from non-recurring engineering ("NRE") and development services for customer-specific designs of silicon photonics chipsets for incorporation into their customers' end products and we have financed our operations primarily through the Business Combination, issuance of convertible loan notes, as well as private placements of ordinary shares. From the date of our formation through September 30, 2022 we have raised aggregate gross proceeds of approximately $371.5 million from the issuance of convertible loan notes and ordinary shares. For the nine months ended September 30, 2022, we had net loss of $151.6 million and utilized $117.3 million in cash to fund our operations.

While we remain committed to being efficient in the use of cash in our operations, we have built a framework to enable a rapid move to commercial production by focusing our capital and operating expenditures on:

- investing in our technology and our silicon photonics solutions;
- developing innovative solutions and applications for our technology;
- commercializing our silicon photonics solutions;
- investing in our sales and marketing activities and distribution channels;
- improving our operational, financial, and management information systems;
- obtaining, maintaining and expanding our intellectual property portfolio; and
- enhancing our internal functions to support our operations as a public company.

Impact of COVID-19

The COVID-19 pandemic has nearly reached the three-year mark and our priority continues to be the health and safety of our employees. The overall recovery from the COVID-19 pandemic has been uneven and has presented many challenges and risks from general economic uncertainty, changes in consumer demand, disruption of supply chains, challenges with hiring, and labor and supply cost inflation. However, as we implemented our phased return to office plan starting in July 2021, we were able to provide greater levels of work flexibility to employees and maintain health and safety standards for employees meeting all regulatory requirements.

We continually evaluate the nature and extent of changes to the market and economic conditions related to the COVID-19 pandemic and assess the potential impact on our business and financial position. Despite the emergence of vaccines and vaccine boosters, the end of the COVID-19 pandemic is still uncertain. As such, we expect that the pandemic may continue to have an effect on our results, although the magnitude, duration, and full effects of the pandemic on our future results of operations or cash flows remain difficult to predict at this time.

For further discussion of the risks posed to our business from the COVID-19 pandemic, refer to Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021.

Key Factors Affecting Operating Results

We believe that our performance and future success depend on several factors that present significant opportunities for us but also pose risks and challenges, including those discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on March 10, 2022, and in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Results of Operations for the Three and Nine Months Ended September 30, 2022 Compared to the Three and Nine Months Ended September 30, 2021

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	$ 556	$ 1,839	$ 3,023	$ 5,805
Cost of revenue	2,066	3,459	7,753	11,742
Gross profit	(1,510)	(1,620)	(4,730)	(5,937)
Operating expenses:				
Selling, general, and administrative expenses	13,010	13,568	45,114	27,588
Research and development expenses	25,748	26,418	76,849	59,949
Total operating expenses	38,758	39,986	121,963	87,537
Loss from operations	(40,268)	(41,606)	(126,693)	(93,474)
Other income (expense):				
Other (expense) income, net	(180)	—	(349)	2,860
Interest expense, net	(3,690)	(1,587)	(10,857)	(1,913)
(Loss) gain on equity method investment	(270)	40	(232)	(720)
Change in fair value of debt instruments	27,227	(14,255)	(20,352)	(59,916)
Change in fair value of warrant liabilities	31,359	515	13,351	515
(Loss) gain on foreign currency	(1,877)	(481)	(6,522)	150
Total other income (expense)	52,569	(15,768)	(24,961)	(59,024)
Income (loss) before income taxes	12,301	(57,374)	(151,654)	(152,498)
Provision for income tax (benefit)	270	598	(67)	808
Net income (loss)	$ 12,031	$ (57,972)	$ (151,587)	$ (153,306)

Discussion and Analysis of Results of Operations

Revenue (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Revenue	$ 556	$ 1,839	$ (1,283)	(70)%	$ 3,023	$ 5,805	$ (2,782)	(48)%

Revenue decreased by $1.3 million, or 70%, to $0.6 million for the three months ended September 30, 2022 from $1.8 million for the three months ended September 30, 2021. Revenue decreased by $2.8 million, or 48%, to $3.0 million for the nine months ended September 30, 2022 from $5.8 million for the nine months ended September 30, 2021. This decrease is primarily driven by timing of project milestones for our significant customers in fiscal 2022 when compared to fiscal 2021.

To date, we have primarily generated revenue from development services, which entail developing customer-specific designs of silicon photonics chipsets. Our contracts with customers include specific achievement of agreed-upon projects and a substantive acceptance criteria for each agreed-upon project. In the event an agreed-upon project is successful and the customer provides acceptance, we allocate the contract consideration related to the performance obligations that are satisfied during the period and recognize the revenue at that point in time.

Cost of Revenue and Gross Profit (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Cost of revenue	$ 2,066	$ 3,459	$ (1,393)	(40)%	$ 7,753	$ 11,742	$ (3,989)	(34)%
Gross profit	(1,510)	(1,620)	110	(7)%	(4,730)	(5,937)	1,207	(20)%
Gross margin	(272)%	(88)%	NM	NM	(156)%	(102)%	NM	NM

NM – Not meaningful

Cost of revenue decreased by $1.4 million, or 40%, to $2.1 million for the three months ended September 30, 2022 from $3.5 million for the three months ended September 30, 2021. Cost of revenue decreased by $4.0 million, or 34%, to $7.8 million for the nine months ended September 30, 2022 from $11.7 million for the nine months ended September 30, 2021. For both the three and nine-month periods ended September 30, 2022, the decrease in cost of revenue was primarily driven by an overall decrease in revenue and decrease in allocation of costs related to revenue generating activities when comparing to the corresponding periods in the prior year.

Gross profit remained relatively flat when comparing the three and nine-month periods ended September 30, 2022 when comparing to the corresponding periods in the prior year.

Our gross margin has fluctuated and may fluctuate from period to period based on a number of factors, including the timing of completion of project milestones with each project requiring differing levels of time and costs. The projects we undertake are determined by our customer commitments and our long-term strategy goals.

To date, our cost of revenue has included cost related to our development services which include cost of materials, cost associated with packaging and assembly, testing and shipping, cost of talent, including stock-based compensation, and equipment associated with manufacturing support, logistics, and quality assurance, overhead, and occupancy costs. Once we commence commercial production of our silicon photonics chipsets, cost of revenues will include direct parts, material, and labor costs, manufacturing overhead, including amortized tooling costs, shipping and logistics costs, and reserves for estimated warranty expenses.

Gross profit is calculated based on the difference between our revenue and cost of revenue. Gross margin is the percentage obtained by dividing gross profit by our revenue. As we approach commercial production of spectra-sense chipsets, advanced module applications, and Rockley Photonics Cloud Analytics technology, we expect our gross profit and gross margin to vary.

Selling, General and Administrative Expenses (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Selling, general, and administrative expenses	$ 13,010	$ 13,568	$ (558)	(4)%	$ 45,114	$ 27,588	$ 17,526	64 %

Selling, general and administrative expenses decreased by $0.6 million, or 4%, to $13.0 million for the three months ended September 30, 2022 from $13.6 million for the three months ended September 30, 2021. The decrease was primarily due to a reduction in professional fees of $1.9 million from the prior year quarter, and a decrease in human capital costs of $0.3 million offset by a $0.6 million increase in stock-based compensation costs.

Selling, general and administrative expenses increased by $17.5 million, or 64%, to $45.1 million for the nine months ended September 30, 2022 from $27.6 million for the nine months ended September 30, 2021. The increase was primarily due to an increase in professional fees of $8.6 million from the prior year corresponding period, mainly related to our financing activities in fiscal 2022. Further, the increase in expense related to general corporate growth, of which $3.7 million was due to an increase in insurance expense, $2.0 million and $1.5 million were due to increased human capital and stock-based compensation costs, respectively.

Selling, general, and administrative expenses consist of human capital related expenses for employees involved in general corporate functions, including executive management and administration, accounting, finance, tax, legal, information technology, marketing, and human resources; depreciation expense and rent relating to facilities; travel costs; professional fees;

and other general corporate costs. Human capital expenses primarily include salaries, benefits, bonuses, and stock-based compensation. We proactively manage our selling, general and administrative expenses and we believe our current headcount is sufficient to support anticipated growth in our business, and to operate as a public company, including compliance with the rules and regulations of the SEC, legal, audit, additional general and director and officer insurance expenses, investor relations activities, and other administrative and professional services.

Research and Development Expenses (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Research and development expenses	$ 25,748	$ 26,418	$ (670)	(3)%	$ 76,849	$ 59,949	$ 16,900	28 %

Research and development expenses decreased by $0.7 million, or 3%, to $25.7 million for the three months ended September 30, 2022 from $26.4 million for the three months ended September 30, 2021. The decrease was primarily attributable to an decrease in human capital and third-party engineering costs of $3.1 million and $0.8 million, respectively, partially offset by an increase in IT infrastructure costs of $1.1 million, a decrease in allocation of expenses of $1.6 million to R&D, and increased stock-based compensation costs of $0.6 million.

Research and development expenses increased by $16.9 million, or 28%, to $76.8 million for the nine months ended September 30, 2022 from $59.9 million for the nine months ended September 30, 2021. The increase was primarily attributable to an increase in human capital and stock-based compensation expenses of $3.8 million and $4.1 million, respectively. The increase was also attributable to higher IT infrastructure costs of $4.1 million and a decrease in allocation of expenses of $4.9 million to R&D.

Research and development expense consists primarily of talent costs for engineers and third parties engaged in the design and development of products, software, and technologies, including salary, bonus, and stock-based compensation expense, project material costs, services, and depreciation of our research and development facilities and equipment. We expense research and development costs as they are incurred. Research and development expense also includes the research and development tax credits that we are able to claim in accordance with the relevant U.K. tax legislation. These tax credits are payable to us in cash and are carried on the consolidated balance sheets at the amount claimed and expected to be received from the U.K. government within the next 12 months. We proactively manage research and development expense whilst remaining focused in the development of our products and technology.

Other (expense) income, net (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Other (expense) income, net	$ (180)	$ —	$ (180)	100 %	$ (349)	$ 2,860	$ (3,209)	(112)%

In the three months ended September 30, 2022, other expense related to realized losses from the disposal of available-for-sale investments. In the nine months ended September 30, 2022, the decrease in other expense is attributable to the absence of the forgiveness of Paycheck Protection Program debt and related accrued interest which only occurred in fiscal 2021.

Interest Expense, net (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021		
Interest expense, net	$ 3,690	$ 1,587	$ 2,103	133 %	$ 10,857	$ 1,913	$ 8,944	468 %

The increase in interest expense, net of $2.1 million or 133% for the three months ended September 30, 2022 when compared to the same period in fiscal 2021 was due to the additional interest expense from the May Notes. The increase in interest expense of $8.9 million or 468% for the nine months ended September 30, 2022 when compared to the same period in fiscal 2021 is due to the imputed interest expense from the 2020 Term Facility Loan, and interest from the May Notes.

Interest income consists primarily of interest received or earned on our cash, cash equivalents, and investment balances held in interest-bearing deposit accounts. Interest expense consists of interest paid or accrued on our Term Facility Loan and May Notes.

Gain/(Loss) on Equity Method Investment (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Equity method investment (loss) gain	$ (270)	$ 40	$ (310)	(775)%	$ (232)	$ (720)	$ 488	(68)%

Change in equity method investment captures our share of gains (losses) of the investment in HRT according to our percentage of ownership.

Equity method investments consist of entities over which we have significant influence but not control or joint control. Under the equity method of accounting, all of our investments are initially recognized at cost and adjusted thereafter to recognize our share of the post-acquisition profits or losses of the investee in our consolidated statements of operations.

Change in Fair Value of Debt Instruments (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Change in fair value of debt instruments	$ 27,227	$ (14,255)	$ 41,482	(291)%	$ (20,352)	$ (59,916)	$ 39,564	(66)%

Change in fair value of debt instruments captures gains and losses from a change in fair value estimates that use binomial lattice methodologies based upon a set of valuation assumptions to value the debt instruments. In the three and nine month periods ended September 30, 2022, the change in fair value of the May Notes was recorded in other income or expense.

All convertible debt instruments held by the Company prior to the Business Combination in August 2021 were converted to ordinary shares in the Company as part of the close of the Business Combination in August 2021.

Change in Fair Value of Warrant Liabilities (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Change in fair value of warrants	$ 31,359	$ 515	$ 30,844	NM	$ 13,351	$ 515	$ 12,836	NM

Change in fair value of warrant liabilities captures activity from a change in fair value estimates based upon a set of Black-Scholes valuation assumptions or binomial lattice methodologies. The warrant liabilities include the Private Placement Warrants assumed from SC Health as part of the Business Combination in August 2021 and the May 144A Warrants issued by the Company in May 2022.

Provision for Income Tax (in thousands, except for percentages)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
Provision for income tax	$ 270	$ 598	$ (328)	(55)%	$ (67)	$ 808	$ (875)	(108)%

Change in provision for income tax expense for the three months ended September 30, 2022 is due to an overall decrease in expenditures. The effective income tax rate was less than 1.0% for the three and nine months ended September 30, 2022 and 2021. Our effective tax rate differs from the U.S. statutory rate primarily due to a substantially full valuation allowance against our net deferred tax assets where it is more likely than not that some or all of the deferred tax assets will not be realized. The income tax expenses shown above are primarily related to corporate income taxes in the United States, which operates on a cost-plus arrangement and minimum filing fees in the foreign jurisdictions where we have operations.

We are subject to income taxes in the United Kingdom, the United States, Finland, Ireland, and Switzerland. Our income tax provision consists of an estimate of federal, state, and foreign income taxes based on enacted federal, state, and foreign tax rates, as adjusted for allowable credits, deductions, uncertain tax positions, changes in the valuation of our deferred tax assets and liabilities, and changes in tax laws. Due to cumulative losses, we maintain a valuation allowance against our U.S. federal and foreign deferred tax assets.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the following non-GAAP measures are useful in evaluating our operational performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively and in context, may be helpful to investors in assessing our operating performance and trends and in comparing our financial measures with those of comparable companies which may present similar non-GAAP financial measures.

Limitations of Non-GAAP Measures

These non-GAAP financial measures are not prepared in accordance with GAAP, are supplemental in nature, and are not intended, and should not be construed, as the sole measure of our performance, and should not be considered in isolation from or as a substitute for comparable financial measures prepared in accordance with GAAP. There are a number of limitations related to EBITDA and Adjusted EBITDA, including the following:

- EBITDA and Adjusted EBITDA exclude certain recurring, non-cash charges, such as depreciation of property and equipment and/or amortization of intangible assets. While these are non-cash charges, we may need to replace the assets being depreciated and amortized in the future and Adjusted EBITDA and Adjusted EBITDA Margin do not reflect cash requirements for these replacements or new capital expenditure requirements;
- EBITDA and Adjusted EBITDA do not reflect interest expense, net, which may constitute a significant recurring expense in the future;
- Adjusted EBITDA excludes stock-based compensation, which may constitute a significant recurring expense in the future, as equity awards are expected to continue to be an important component of our compensation strategy; and
- Future expenses may be similar to the non-recurring special items that are excluded from Adjusted EBITDA.

Because of these limitations, you should consider EBITDA and Adjusted EBITDA alongside other financial performance measures, including net income (loss) and our other GAAP results.

EBITDA and Adjusted EBITDA

We define “EBITDA” as net income (loss) before interest expense, net, income tax expense, and depreciation and amortization. We define “Adjusted EBITDA” as EBITDA adjusted for stock-based compensation, non-capitalized transaction costs, and other non-recurring special items determined by management that are not considered representative of our underlying operating performance. Adjusted EBITDA is intended as a supplemental measure of our performance that is neither required by, nor presented in accordance with, GAAP. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate EBITDA or Adjusted EBITDA in the same fashion.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA on a supplemental basis. You should review the reconciliation of our net income (loss) to EBITDA and Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

Reconciliation

The following table reconciles our net income (loss) (the most directly comparable GAAP measure) to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Income (Loss)	$ 12,031	$ (57,972)	$ (151,587)	$ (153,306)
Interest expense, net	3,690	1,587	10,857	1,913
Provision for income tax (benefit)	270	598	(67)	808
Depreciation and amortization	1,638	1,229	4,723	3,228
EBITDA	17,629	(54,558)	(136,074)	(147,357)
Non-capitalized transaction costs*	1,511	3,214	11,499	4,254
Stock-based compensation	3,435	2,155	11,412	5,856
Change in equity-method investment	702	(145)	521	346
Change in fair value of debt instruments	(27,227)	14,255	20,352	59,916
Change in fair value of warrants	(31,359)	(515)	(13,351)	(515)
Forgiveness of PPP Loan	—	—	—	(2,860)
Adjusted EBITDA	$ (35,309)	$ (35,594)	$ (105,641)	$ (80,360)

* Non-capitalized transaction costs include non-recurring expense related to the issuance of convertible loan notes in 2022, 2021 and the Business Combination.

Liquidity and Capital Resources

Due to our history of recurring losses from operations, negative cash flows from operations, and a significant accumulated deficit, management concluded that there is substantial doubt about the Company's ability to continue as a going concern. In addition, our independent registered public accounting firm has included an explanatory paragraph in their opinion for the year ended December 31, 2021 as to the substantial doubt about our ability to continue as a going concern. The Company has financed its operations primarily through Business Combination, the issuance and sale of convertible loan notes, ordinary shares, agreed-upon projects, and research and development tax credit receivables in accordance with the relevant U.K. tax legislation. As of September 30, 2022 and December 31, 2021, the cash, cash equivalents and investments balance was $4.9 million and $81.4 million, respectively. The Company will need to raise additional capital in the short- and long-term in order to fund its operations and execute on its business strategy.

Liquidity Requirements

In October 2021, the Company entered into an equity line of credit arrangement ("ELOC") with Lincoln Park Capital Fund, LLC, an Illinois limited liability company ("LPCF"). The ELOC is a private placement with registration rights, providing LPCF the ability to purchase up to 7.8 million of the Company's ordinary shares for up to $50.0 million over 24 months. Proceeds from the sale of shares will go towards the Company to be used for working capital.

On May 27, 2022, the Company issued the May Notes in an aggregate principal amount of $81.5 million pursuant to the May Indenture, dated as of May 27, 2022, among the Company, certain of its subsidiaries, as guarantors, and Wilmington Savings Fund Society, FSB, as trustee and as collateral agent in a private placement financing and in connection therewith agreed to comply with the affirmative and negative covenants contained in the May Indenture, including a covenant that requires the Company to pledge at all time at least $20.0 million of cash and cash equivalents to secure the May Notes. This minimum cash and cash equivalents requirement potentially limits the Company's liquidity position. See "Risk Factors — We are subject to restrictive debt covenants that limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities." for a discussion of risks related to restrictive covenants in the May Indenture.

As of September 30, 2022, we have yet to generate any material revenue from our business operations. Management continues to explore a range of options to further address the Company's capitalization and liquidity. If we raise funds by issuing debt securities or incurring loans, this form of financing would have rights, preferences, and privileges senior to those of holders of our ordinary shares. The availability and the terms under which we can borrow additional capital could be disadvantageous, and the terms of debt securities or borrowings could impose significant restrictions on our operations. Macroeconomic conditions and credit markets could also impact the availability and cost of potential future debt financing. If we raise capital through the issuance of additional equity, such sales and issuance would dilute the ownership interests of the existing holders of the Company's ordinary shares. There can be no assurances that any additional debt or equity financing would be available to us or if available, that such financing would be on favorable terms to us.

As of the date of this Quarterly Report on Form 10-Q, our anticipated cash needs are significant in order to fund the execution of our business strategy, including (1) investing in research and developments activities, including completion and commercialization of our wearables, smart phone and point-of-care technologies, (2) investing in backend processing, intellectual property protection, quality control and process, (3) expanding sales and marketing activities, and (4) pursuing strategic partnerships. However, our anticipated cash needs could vary materially as a result of a number of factors, including:

- Timing and the costs involved in bringing our products to market;
- Anticipated customer contracts and design wins may not materialize;
- Delay in launching our products due to technical challenges from our customers or our product development team;
- Pricing and the volume of sales of our products may be different from our forecast;
- Execution delays due to resources constraints;
- Assisting our fabless manufacturing partners with expansion of production capacity;
- The cost of maintaining, expanding and protecting our intellectual property portfolio, including litigation costs and liabilities;
- The cost of additional general and administrative talent, including accounting and finance, legal and human resources, as a result of becoming a public company;
- The costs associated with financing activities required to fund the execution of our business strategy, including our convertible senior notes; and
- Other risks discussed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 and in this Quarterly Report on Form 10-Q.

If adequate funds are not available, we will need to curb our expansion plans or limit our research and development activities, which would have a material adverse impact on our business prospects and results of operations. In addition, we have substantial debt obligations and limited liquidity. If we are unable to pay our obligations as they become due, our creditors could exercise their remedies under our debt agreements, which could include seizing control of our bank accounts, which in turn could require us to initiate bankruptcy proceedings. These actions could have the effect of substantially reducing or completely eliminating the value of our ordinary shares. You should not invest in our ordinary shares unless you are willing and able to withstand the complete loss of your investment.

Historical Cash Flows

For the Nine Months Ended September 30, 2022 and 2021 (in thousands)

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	$ (117,309)	$ (91,902)
Net cash provided by (used in) investing activities	42,046	(55,968)
Net cash provided by financing activities	43,358	203,833
Net (decrease) increase in cash and cash equivalents	$ (31,905)	$ 55,963

Cash Flows from Operating Activities

During the nine months ended September 30, 2022, net cash used in operating activities was $117.3 million, primarily consisting of net losses of $151.6 million, adjusted by non-cash depreciation and amortization of $4.7 million, reversal of bad debt expense of $0.1 million, stock-based compensation of $11.4 million, change in equity-method investment of $0.5 million, and changes in fair value of warrants of $13.4 million. Changes in assets and liabilities for the nine months ended September 30, 2022 included the following: increases in prepaid expenses and other current assets, other receivables, other non-current assets, trade payables and accrued expenses, offset by decreases in accounts receivable and other current and long-term liabilities.

During the nine months ended September 30, 2021, net cash used in operating activities was $91.9 million, primarily consisting of net losses of $153.3 million, adjusted by non-cash depreciation and amortization of $3.2 million, bad debt expense of $0.4 million, stock-based compensation of $5.9 million, change in equity-method investment of $0.3 million, and changes in fair value of debt instruments of $59.9 million. Changes in assets and liabilities for the nine months ended September 30, 2021 included the following: increases in prepaid expenses and other current assets, other receivables, trade payables and accrued expenses, offset by decreases in accounts receivable and other current and long-term liabilities.

Cash Flows from Investing Activities

Net cash provided by investing activities was $42.0 million for the nine months ended September 30, 2022, primarily related to the proceeds received from the sale of marketable securities of $45.1 million and from the purchases of property and equipment to be used in the ordinary course of business. Net cash used in investing activities was $56.0 million for the nine months ended September 30, 2021, primarily related to the purchase and the sale of marketable securities of $54.8 million and $5.0 million, respectively, and also from the purchases of property and equipment to be used in the ordinary course of business.

Cash Flows from Financing Activities

Net cash provided by financing activities was $43.4 million for the nine months ended September 30, 2022, primarily related to the proceeds from the May Notes, partially offset by the principal payments we have made on the 2020 Term Facility Loan and payment on transaction costs. Net cash provided by financing activities was $203.8 million for the nine months ended September 30, 2021, primarily consisting of proceeds received from issuance of ordinary shares and proceeds received from convertible loan notes, partially offset by the payment of transaction costs.

Contractual Obligations and Commitments

Purchase obligations include commitments to third-party suppliers for various research and development activities. As of September 30, 2022, we had $12.5 million in contractual obligations for which we have not yet received services.

Off-Balance Sheet Arrangements

Since the date of our incorporation, we have not engaged in any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Recent Accounting Pronouncements

Please refer to Note 1 of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information about recent accounting pronouncements, the timing of their adoption, and our assessment, to the extent we have made one, of their potential impact on our financial condition and our results of operations.

Critical Accounting Policies and Estimates

Our financial statements have been prepared in accordance with GAAP as set forth in the Financial Accounting Standards Board's Accounting Standards Codification, and we consider the various staff accounting bulletins and other applicable guidance issued by the SEC. The preparation of our condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

There have been no substantial changes to these estimates, or the related policies during the nine months ended September 30, 2022. For a full discussion of these estimates and policies is fully described in "Item 7—Management's

Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on March 10, 2022.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and is not required to provide this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer and principal accounting officer), as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures under the Exchange Act as of September 30, 2021. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and internal control over financial reporting were effective at the reasonable level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including Rockley’s, no matter how well designed and operated, can only provide reasonable, not absolute assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings, nor, to our knowledge, any material legal proceeding threatened against us or any of our officers or directors in their capacity as such.

Item 1A. Risk Factors

The Company's business, reputation, results of operations and financial condition, as well as the price of the Company's ordinary shares, can be affected by a number of factors, whether currently known or unknown, including those described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 Form 10-K") under the heading "Risk Factors." When any one or more of these risks materialize from time to time, the Company's business, reputation, results of operations and financial condition, as well as the price of the Company's ordinary shares, could be materially and adversely affected. Below are additions to our risk factors since our 2021 Form 10-K.

We are subject to restrictive debt covenants that limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

On May 27, 2022, we issued and sold convertible senior secured notes (the "May Notes") and warrants (the "May 144A Warrants") to certain investors pursuant to an Amended and Restated Subscription Agreement dated May 26, 2022. On October 25, 2022, we issued and sold new convertible senior secured notes (the "October Notes" and, together with the May Notes, the "Notes") and new warrants (the "October 144A Warrants" and, together with the May 144A Warrants, the 144A Warrants) to certain investors pursuant to a Repurchase and Subscription Agreement dated as of October 24, 2022. The May Notes were issued pursuant to an indenture dated as of May 27, 2022 (the "May Indenture") and the October Notes were issued pursuant to a new indenture dated as of October 25, 2022 (the "October Indenture" and, together with the May Indenture, the "Indentures"). The Indentures impose significant operating and financial restrictions on us and our subsidiaries. These restrictions limit our ability, among other things, to:

- issue securities convertible or exercisable into ordinary shares;
- incur additional indebtedness or issue certain disqualified stock and preferred stock;
- pay dividends and limit our subsidiaries' ability to pay dividends and make other payments to us;
- enter into agreements limiting subsidiary distributions;
- redeem or repurchase equity securities;
- prepay subordinated indebtedness;
- make certain investments, including acquisitions;
- engage in transactions with affiliates;
- sell certain assets or merge with or into other companies;
- guarantee indebtedness; and
- create liens.

In addition, the Indentures require us to pledge cash and cash equivalents to secure the Notes in an amount, together with the aggregate amount of funds then on deposit in an escrow account under the October Indenture, of $5.0 million until December 29, 2022 and $20.0 million thereafter, which requirement further limits our liquidity position.

As a result of these covenants and restrictions, we may be limited in how we conduct our business and we may be unable to raise additional debt or equity-linked financings to pursue our business plan or otherwise compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we incur could include more restrictive covenants. There is no assurance that we will be able to maintain compliance with these covenants or have the ability to obtain waivers from the holders of the Notes and/or amend the covenants in the Indentures.

These restrictions significantly limit our ability to operate our businesses and may prohibit or limit activity to enhance our operations or take advantage of potential business opportunities as they arise. All of these limitations are subject to significant exceptions and qualifications. These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest. If we breach any of these covenants, we would be in default under our indebtedness, which may then become immediately due and payable. In addition, we will become subject to significant penalties if we fail to meet our obligations under the financing documents relating to these securities, including the registration rights agreements entered into in connection with these financings, and we may not have,

or be able to obtain, sufficient funds to make accelerated or penalty payments which may become due. If we are unable to pay our obligations as they become due, our creditors could exercise their remedies under our debt agreements with them, which could include seizing control of our bank accounts, which in turn could require us to initiate bankruptcy proceedings. These actions could have the effect of substantially reducing or completely eliminating the value of our ordinary shares. You should not invest in our ordinary shares unless you are willing and able to withstand the complete loss of your investment. Our ability to comply with the provisions of our financing arrangements may be affected by changes in economic or business conditions or other events beyond our control. These restrictions and covenants, or our failure to maintain compliance with them, would materially and adversely affect our business, results of operations, financial condition, our growth prospects and our ability to continue operations.

We will need to raise additional capital and if we are able to raise additional capital in the future, our shareholders could be diluted or securities we issue may have rights senior to the rights of a holder of ordinary shares. If we fail to raise additional capital, it would materially and adversely affect our ability to continue to fund our operations and pursue our business plan.

On October 25, 2022, after giving effect to the transactions related to the issuance of the October Notes, we had approximately $14.5 million in cash in the Escrow Account (as defined in the October Indenture) which will only be released to us by the requisite number of holders of the October Notes and approximately $14.5 million in unrestricted cash and cash equivalents. We will need to raise additional capital in the short- and long-term in order to fund our operations and execute on our business strategy. Any potential financing may include ordinary shares, preferred shares, warrants to purchase ordinary shares or preferred shares, debt securities, convertible securities, rights to purchase the foregoing securities, equity investments from strategic partners, or some combination of the foregoing. Any issuance of equity we may undertake in the future to raise additional capital could cause the price of our ordinary shares to decline, or require us to issue shares at a price that is lower than that paid by holders of our ordinary shares in the past, which would result in those newly issued shares being dilutive, and such dilution could be significant. If we obtain funds through a credit facility or through the issuance of debt or preferred securities, these securities would likely have rights senior to the rights of an ordinary shareholder, which could impair the value of our ordinary shares.

Due to our history of recurring losses from operations, negative cash flows from operations, and a significant accumulated deficit, our management concluded that there is substantial doubt about our ability to continue as a going concern. This determination could further materially limit our ability to raise additional funds. There can be no assurance that we will ever become profitable or be able to continue as a going concern. Further, we cannot assure you that any additional financing, whether from the issuance of equity securities, debt or convertible debt financing, or other means of financing, will be available on a timely basis, in the amounts needed, on reasonable terms, on terms acceptable to us, or at all. If we fail to raise additional capital, it would materially and adversely affect our ability to continue to fund our operations and pursue our business plan, and may even lead to a bankruptcy filing and/or reorganization of our business and capital structure.

We have a significant number of securities outstanding that can be converted into, or exercised for, ordinary shares and certain of our outstanding warrants contain anti-dilution protection, all which may cause significant dilution to our shareholders, have a material adverse impact on the market price of our ordinary shares and make it more difficult for us to raise funds through future equity offerings.

As of October 20, 2022, we had outstanding 132,660,683 ordinary shares. On October 25, 2022, after giving effect to the transactions related to the issuance of the October Notes, we had outstanding May Notes convertible into 9,238,961 ordinary shares (excluding any ordinary shares which may be issued in connection with interest make-whole payments), May 144A Warrants exercisable into an aggregate of 48,240,955 ordinary shares (as a result of the ratchet antidilution feature thereof which was triggered by the issuance of the October Notes), October Notes convertible into 131,600,861 ordinary shares (excluding any ordinary shares which may be issued in connection with interest make-whole payments) and October 144A Warrants exercisable into an aggregate of 131,600,861 ordinary shares. We also granted an overallotment option to purchase additional May Notes and additional May 144A Warrants convertible or exercisable into ordinary shares in connection with our private placement financing in May 2022. We also granted, in connection with our private placement of the October Notes, an overallotment option that may be exercised by a holder of October Notes solely in connection with an interest make-whole payment due upon a conversion of all or a portion of the October Notes held by such holder to purchase additional October Notes and additional October 144A Warrants convertible or exercisable into ordinary shares. To the extent we issue such ordinary shares upon the conversion or exercise of these securities (including any ordinary shares which may be issued in connection with interest make-whole payments upon conversion of the Notes), it would dilute the percentage ownership interest of all shareholders, might dilute the book value per share of our ordinary shares, and would increase the number of our publicly traded shares, which could depress the market price of our ordinary shares. Our October 144A Warrants contain a ratchet anti-dilution provision which, subject to limited exceptions, would reduce the exercise price of such securities (and increase the number of shares issuable) in the event that we in the future issue ordinary shares, or securities convertible into or exercisable to purchase ordinary shares, at a price per share lower than the exercise price then in effect. This ratchet anti-dilution provision

would be triggered by the future issuance by us of ordinary shares or ordinary share equivalents at a price per share below the then applicable exercise price of the October 144A Warrants, subject to limited exceptions. If issued pursuant to the overallotment option, the additional 144A Warrants will contain similar ratchet anti-dilution terms.

In addition to the dilutive effects described above, the perceived risk of dilution as a result of the significant number of increased outstanding ordinary shares due to the conversion of the Notes and the exercise of the 144A Warrants, as well as the additional Notes and additional 144A Warrants that may be issued if the overallotment option is exercised, may cause our ordinary shareholders to be more inclined to sell their shares, which would contribute to a downward movement in the price of our ordinary shares. Moreover, the perceived risk of dilution and the resulting downward pressure on our ordinary share price could encourage investors to engage in short sales of our ordinary shares, which could further contribute to price declines in our ordinary shares. The fact that our shareholders, note holders and warrant holders can sell substantial amounts of our ordinary shares in the public market, whether or not sales have occurred or are occurring, as well as the existence of the ratchet anti-dilution provision in the 144A Warrants and, if issued pursuant to the overallotment option, the additional 144A Warrants could make it more difficult for us to raise additional funds through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate, or at all. Any of the foregoing would likely cause our stock price to decline.

If we fail to meet the continued listing standards of the NYSE, it could result in a de-listing of our ordinary shares.

Our ordinary shares are listed on the NYSE under the symbol “RKLY.” On October 18, 2022, we received a notice from the NYSE that, because the average closing price for our ordinary shares has fallen below $1.00 per share for 30 consecutive trading days, we no longer comply with the price criteria for continued listing on the NYSE. The NYSE continued listing criteria provide us with a compliance period of six months in which to regain compliance. On November 7, 2022, the last reported sale price of our ordinary shares on the NYSE was $0.43 per share. If we fail to satisfy the continued listing standards of the NYSE, such as the corporate governance requirements or the minimum average closing price requirement of $1.00 per share for 30 consecutive trading days, the NYSE may take steps to de-list our ordinary shares. Such a de-listing would most likely have a negative effect on the price of our ordinary shares and would impair shareholders’ ability to sell or purchase our ordinary shares when they wish to do so. In the event of a de-listing, we would attempt to take actions to restore our compliance with the NYSE’s listing requirements, but we can provide no assurance that any such action taken by us would allow our ordinary shares to become listed again, stabilize the market price, improve the liquidity of our ordinary shares, prevent our ordinary shares from dropping below the NYSE minimum average closing price requirement or prevent future non-compliance with the NYSE’s listing requirements.

If our shares are delisted from the NYSE and become subject to the penny stock rules, it would become more difficult to trade our shares.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than $5.00, other than securities registered on certain national securities exchanges or authorized for quotation on certain automated quotation systems, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. If we do not maintain a listing on the NYSE and if the price of our ordinary shares is less than $5.00 at such time, our ordinary shares will be deemed a penny stock. The penny stock rules require a broker-dealer, before a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document containing specified information. In addition, the penny stock rules require that before effecting any transaction in a penny stock not otherwise exempt from those rules, a broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive (i) the purchaser’s written acknowledgment of the receipt of a risk disclosure statement; (ii) a written agreement to transactions involving penny stocks; and (iii) a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our ordinary shares, and therefore stockholders may have difficulty selling their shares.

Rockley has a history of recurring losses and negative cash flows from operations, and a significant accumulated deficit, which raises substantial doubt about its ability to continue as a “going concern.”

Since inception, Rockley has financed its operations primarily through the issuance and sale of convertible debt, ordinary shares and revenue received from agreed-upon projects. As of December 31, 2021 and September 30, 2022, Rockley’s cash and cash equivalents balance was $36.8 million and $4.9 million, respectively, and it had an accumulated deficit of $400.9 million and $552.5 million, respectively. Due to Rockley’s history of recurring losses from operations, negative cash flows from operations, and a significant accumulated deficit, its management concluded that there is substantial doubt about Rockley’s ability to continue as a going concern. There have been no adjustments to the accompanying financial statements of Rockley to reflect this uncertainty. Rockley’s ability to continue as a going concern is dependent upon it becoming profitable in the future or obtaining the necessary capital to meet its obligations. Rockley’s determination of substantial doubt about its ability to

continue as a going concern could materially limit its ability to raise additional funds through the issuance of equity securities, debt financing or otherwise. There can be no assurance that any such issuance of equity securities, debt financing or other means of financing will be available in the future, or the terms of any such financing will be acceptable to Rockley. Further, there can be no assurance that Rockley will ever become profitable or continue as a going concern.

Our business depends substantially on the efforts of our executive officers, including our Chief Executive Officer and founder, Dr. Andrew Rickman, OBE, our President and Chief Financial Officer, Richard A. Meier, and other highly skilled talent, and our operations may be severely disrupted if we lost their services.

We are highly dependent on our founder and Chief Executive Officer, Dr. Andrew Rickman, OBE, our President and Chief Financial Officer, Richard A. Meier, as well our other executive officers, and the loss of their services could adversely affect our business because their loss could make it more difficult to, among other things, compete with other market participants, manage our research and development activities, and retain existing customers or cultivate new ones. Competition for highly-skilled talent is often intense, we may incur significant costs to attract highly-skilled talent, and we may not be successful in attracting, integrating, or retaining qualified talent to fulfill our current or future needs. We have, from time to time, experienced, and expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In addition, we have experienced, and may in the future experience, changes in our senior management.

In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity or equity awards declines, it may adversely affect our ability to retain highly skilled employees. If we fail to attract new talent or fail to retain and motivate our current talent, or if we fail to effectively manage any transitions among our senior management, our business, operations, and future growth prospects could be adversely affected.

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

On October 25, 2022, the Company (i) sold approximately $90.6 million in aggregate original principal amount of a new series of convertible senior secured notes due 2026 (the “October Notes”) with an initial conversion price of $0.6888 and warrants ("October 144A Warrants") to purchase approximately 131.6 million ordinary shares at an exercise price of $1.1182 per share, subject to certain anti-dilution adjustments; and (ii) repurchased all of the Bridge Notes in an aggregate original principal amount of approximately $12.4 million and a portion of the May Notes in an aggregate original principal amount of $50.0 million. As a result of the conversion price of the October Notes and the initial exercise price of the October 144A Warrants being less than the initial exercise price of the May Warrants, the exercise price of the May 144A Warrants was reset to $2.80 per share and each May 144A Warrant became entitled to an additional 0.7857 shares upon exercise thereof due to the ratchet antidilution provision. The securities were issued in a private placement in reliance on an exemption from the registration requirements of the Securities Act of 1933 (the “Securities Act”) provided by Section 4(a)(2) of the Securities Act, and the transactions are described in greater detail in our Current Reports on Form 8-K filed with the SEC on October 25, 2022 and October 31, 2022.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Second Amended and Restated Memorandum and Articles of Association of Rockley Photonics Holdings Limited. (incorporated by reference from Exhibit 3.1 to the Registrant's quarterly report on Form 10-Q for the quarter ended June 30, 2021).
4.1	Form of Specimen Ordinary Share Certificate of Rockley Photonics Holdings Limited (incorporated by reference from Exhibit 4.4 to the Registration Statement on Form S-4 (File No. 333-255109)).
4.2	Form of Specimen Warrant Certificate of Rockley Photonics Holdings Limited (incorporated by reference from Exhibit 4.3 to the Registration Statement on Form S-4 (File No. 333-255109)).
4.3	Indenture (including form of Note) dated May 27, 2022 by and among Rockley Photonics Holdings Limited, each of the guarantor subsidiaries party thereto and Wilmington Savings Fund Society, FSB, as trustee and collateral agent (incorporated by reference from Exhibit 4.5 to the Registrant's Registration Statement on Form S-1 (File No. 333- 266077)).
4.4	First Supplemental Indenture dated August 4, 2022 by and among Rockley Photonics Holdings Limited, each of the guarantor subsidiaries party thereto and Wilmington Savings Fund Society, FSB, as trustee and collateral agent (incorporated by reference from Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed August 5, 2022)
4.5	Second Supplemental Indenture dated September 30, 2022 by and among Rockley Photonics Holdings Limited, each of the guarantor subsidiaries party thereto and Wilmington Savings Fund Society, FSB, as trustee and collateral agent (incorporated by reference from Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed October 3, 2022)
4.6	Third Supplemental Indenture dated September 30, 2022 by and among Rockley Photonics Holdings Limited, each of the guarantor subsidiaries party thereto and Wilmington Savings Fund Society, FSB, as trustee and collateral agent (incorporated by reference from Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed October 3, 2022)
4.7	Fourth Supplemental Indenture dated October 25, 2022 by and among Rockley Photonics Holdings Limited, each of the guarantor subsidiaries party thereto and Wilmington Savings Fund Society, FSB, as trustee and collateral agent (incorporated by reference from Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed October 31, 2022)
4.8	Form of Indenture (including form of October Note) by and among Rockley Photonics Holdings Limited, each of the guarantor subsidiaries party thereto and Wilmington Savings Fund Society, FSB, as trustee and collateral agent (incorporated by reference from Exhibit 4.1 to the Registrants Current Report on Form 8-K filed October 25, 2022)
4.9	Form of Ordinary Share Purchase Warrant issued May 27, 2022 (incorporated by reference from Exhibit 4.6 to the Registrant's Registration Statement on Form S-1 (File No. 333- 266077)).
4.10	Form of Ordinary Share Purchase Warrant issued October 25, 2022 (incorporated by reference from Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed October 25, 2022).
4.11*	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
10.1	Amended and Restated Subscription Agreement dated May 26, 2022 by and among Rockley Photonics Holdings Limited, each of the Subsidiaries (as defined therein) of Rockley Photonics Holdings Limited and the Subscribers named therein. (incorporated by reference from Exhibit 10.1 to the Registrant's current report on Form 8-K filed May 31, 2022).
10.2	Registration Rights Agreement dated May 26, 2022 by and among Rockley Photonics Holdings Limited and the Subscribers named therein. (incorporated by reference from Exhibit 10.15 to the Registrant's Registration Statement on Form S-1 (File No. 333- 266077)).
10.3	First Amendment to Amended and Restated Subscription Agreement dated August 4, 2022 by and among Rockley Photonics Holdings Limited, each of the guarantor subsidiaries party thereto and the Subscribers named therein (incorporated by reference from Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed August 5, 2022)
10.4	Repurchase and Subscription Agreement dated October 24, 2022 by and among Rockley Photonics Holdings Limited, each of the guarantor subsidiaries party thereto and the subscribers named therein (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 25, 2022).
10.5	Form of Noteholder Agreement by and among the Company and the Purchasers named therein (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed October 25, 2022).
10.6	Form of Registration Rights Agreement by and among Rockley Photonics Holdings Limited and the subscribers named therein (incorporated by reference from Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed October 25, 2022).
10.7	Bridge Note Subscription Agreement dated September 30, 2022 by and between the Company, each of the Company's subsidiaries named therein and the Subscribers named therein (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 3, 2022).
10.8	Forbearance Agreement dated September 30, 2022 by and between the Company, each of the Guarantor Subsidiaries (as defined therein), Wilmington Savings Fund Society, FSB, as trustee and collateral agent and each beneficial owner of Convertible Senior Secured Notes due 2026 (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed October 3, 2022).
10.9	Employment Agreement between Rockley Photonics and Richard A. Meier dated October 20, 2022 (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 20, 2022)
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit Number	Description
32.1#	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2#	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page interactive data file (embedded within the Inline XBRL document).

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34 - 47986, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Exchange Act or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act of 1933 except to the extent that the Company specifically incorporates it by reference.

* Filed herewith

SIGNATURES

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

Rockley Photonics Holdings Limited

Date:	November 10, 2022	/s/ Dr. Andrew Rickman, OBE
	Name:	Dr. Andrew Rickman, OBE
	Title	Chief Executive Officer *(Principal Executive Officer)*
Date:	November 10, 2022	/s/ Mr. Richard A. Meier
	Name:	Mr. Richard A. Meier
	Title	President and Chief Financial Officer *(Principal Financial Officer)*

Exhibit 4.11

DESCRIPTION OF SHARE CAPITAL

References in this exhibit to "Rockley," "we," "us," or "our" are to Rockley Photonics Holdings Limited and does not include our subsidiaries.

The following summary of the material terms of our share capital is not intended to be a complete summary of the rights and preferences of such securities, and is qualified by reference to our Second Amended and Restated Memorandum and Articles of Association, or the Articles of Association, the warrant-related documents and the convertible notes-related documents described herein. We urge to you read each of the Articles of Association, the warrant-related documents and the convertible notes-related documents described herein in their entirety for a complete description of the rights and preferences of our securities.

Exempted Company

We are incorporated as an exempted company with limited liability under Cayman Islands law and our affairs are governed by the provisions of our Articles of Association, as amended and restated from time to time, and by the provisions of the Companies Act (Revised) of the Cayman Islands, as amended from time to time, or the Companies Act.

A Cayman Islands company qualifies for exempted status if its operations will be conducted mainly outside of the Cayman Islands. Exempted companies are exempted from complying with certain provisions of the Companies Act. An exempted company is not required to obtain prior approval for registration or to hold an annual general meeting, and the annual return that must be filed with the Registrar of Companies in the Cayman Islands is considerably simpler than for non-exempted Cayman Islands companies. Names of shareholders are not required to be filed with the Registrar of Companies in the Cayman Islands.

While there are currently no forms of direct taxation, withholding or capital gains tax in the Cayman Islands, an exempted company is entitled to apply for a tax exemption certificate from the Financial Secretary, which provides written confirmation that, among other things, should the laws of the Cayman Islands change, the company will not be subject to taxes for the period during which the certificate is valid (usually 20 years).

Share Capital

Authorized Capitalization

General

The total amount of our authorized share capital consists of 12,417,500,000 ordinary shares with a par value of $0.000004026575398 per share, or our ordinary shares.

Ordinary Shares

Our ordinary shares are not entitled to preemptive or other similar subscription rights to purchase any of our securities. Our ordinary shares are neither convertible nor redeemable. Unless our board of directors, or the Board, determines otherwise, we will issue all of our share capital in uncertificated form. Our shareholders may freely hold and vote their ordinary shares.

Voting Rights

On a show of hands, each shareholder present in person or by proxy (or, for a corporation or other non-natural person, present by its duly authorized representative or proxy) at general meeting shall have one vote and on a poll, shall have one vote for each share registered in his name in the register of members of Rockley. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by any one or more shareholders together holding at least ten percent (10%) of our paid up voting share capital, present in person or by proxy.

A quorum required for a general meeting of shareholders consists of one or more holders of shares holding not less than an aggregate of one-third of all voting share capital in issue present in person or by proxy (or, if a corporation or other non-natural person, by its duly authorized representative) and entitled to vote. When a quorum is present, the affirmative vote of a majority of the votes cast is required to take action, unless otherwise specified by law, the governing documents. There are no cumulative voting rights.

We may (but are not obliged to) hold an annual general meeting at such time and place the Board shall determine. The Board may call general meetings. Advance notice to shareholders of at least seven calendar days is required for the convening of any general meeting. The Companies Act provides shareholders with only limited rights to requisition a general meeting and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association.

Under the Companies Act, certain matters must be approved by special resolution of the shareholders, including alteration of the memorandum or articles of association, reduction of share capital, change of name, or voluntary winding up of Rockley.

Dividend Rights

Subject to any rights and restrictions for the time being attached to any class or classes of shares and our Articles of Association, the Board may from time to time declare dividends (including interim dividends) and other distributions on shares in issue and authorize payment of the same out of our lawfully available funds. In addition, our shareholders may declare dividends by ordinary resolution, but no dividend shall exceed the amount recommended by the Board. No dividend shall be paid otherwise than out of profits or, subject to the restrictions of the Companies Act, the share premium account, a concept analogous to paid-in surplus in the United States.

Other Rights

Each holder of our ordinary shares is subject to, and may be adversely affected by, the rights of the holders of any series of our preferred shares, if any, that we may designate and issue in the future.

Liquidation Rights

If we are involved in voluntary or involuntary liquidation, dissolution or winding up of our affairs, or a similar event, each holder of our ordinary shares will participate pro rata in all assets remaining after payment of liabilities, subject to prior distribution rights of our preferred shares, if any, then outstanding.

Inspection of Books and Records

Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholder or our corporate records.

Special Meetings of Shareholders

Our governing documents provide that a meeting of shareholders may be called by the Board. At least seven calendar days' notice will be given for any meeting. Every notice will be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and will specify the place, the day and the hour of the meeting and the general nature of the business.

Action by Written Consent

Our governing documents provide that any action required or permitted to be taken by the shareholders may be effected at an annual or extraordinary general meeting of the shareholders, or taken by unanimous written consent in lieu of a meeting.

Removal of Directors

The Board or any individual director may be removed from office at any time but only for cause and only by the affirmative vote of the holders of at least a majority of our ordinary shares entitled to vote and who vote at a general meeting.

Preferred Shares

Our Articles of Association provide that preferred shares may be issued from time to time in one or more series. The Board is authorized to fix the voting rights, if any, designations, powers and preferences, the relative, participating, optional or other special rights, and any qualifications, limitations and restrictions thereof, applicable to the shares of each series of preferred shares. The Board is able to, without shareholder approval, issue preferred shares with voting and other rights that could adversely affect the voting power and other rights of the holders of the ordinary shares and could have anti-takeover effects. The ability of the Board to issue preferred shares without shareholder approval could have the effect of delaying, deferring or preventing a change of control of Rockley or the removal of existing management.

Limitations on Liability and Indemnification of Officers and Directors

Our governing documents provide that we will indemnify our directors. In addition, we expect to enter into agreements to indemnify our directors, executive officers and other employees as determined by the Board.

Transfer Agent

The transfer agent for Rockley ordinary shares is Computershare Trust Company, N.A.

Register of Members

Under Cayman Islands law, we must keep a register of members and include the following items:

- the names and addresses of the members, together with a statement of the shares held by each member, and such statement shall confirm (i) the amount paid or agreed to be considered as paid, on the shares of each member, (ii) the number and category of shares held by each member, and (iii) whether each relevant category of shares held by a member carries voting rights under our Articles of Association , and if so, whether such voting rights are conditional;

- the date on which the name of any person was entered on the register as a member; and

- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members is prima facie evidence of the matters set forth therein (i.e., the register of members will raise a presumption of fact on the matters referred to above unless rebutted), and a member registered in the register of members shall be deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members. Upon the closing of an offering of shares, the register of members shall be immediately updated to reflect the shares that were issued in connection with such offering. Once our register of members has been updated, the shareholders recorded in the register of members shall be deemed to have legal title to the shares set against their names. If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in updating the register for any person that has ceased to be a member of Rockley, such aggrieved person or member (or any member of Rockley or Rockley itself) may apply to the Cayman Islands Grand Court for an order that the register be rectified, and the Court may either refuse such application or, if satisfied with the justice of the case, order the register be rectified.

Warrants

Public Warrants

Each of our publicly traded warrants to purchase ordinary shares, or the Public Warrants, entitles the registered holder to purchase one Rockley ordinary share at a price of $11.50 per share, subject to adjustment as discussed below, at any time commencing 30 days after the closing of the Business Combination discussed below, provided that there is an effective registration statement under the Securities Act of 1933, as amended, or the Securities Act, covering the Rockley ordinary shares issuable upon exercise of the Public Warrants and a current prospectus relating to them available (or Rockley permits holders to exercise their Public Warrants on a cashless basis under the circumstances specified in the warrant agreement governing the terms of the Public Warrants, or the Rockley Warrant Agreement) and such shares are registered, qualified or exempt from registration under the securities, or blue sky, laws of the state of residence of the holder. Pursuant to the Rockley Warrant Agreement, a Public Warrant holder may exercise its Public Warrants only for a whole number of Rockley ordinary shares. This means only a whole Public Warrant may be exercised at a given time by a Public Warrant holder. The Public Warrants will expire five years after the closing of the Business Combination, at 5:00 p.m. Eastern Time, or earlier upon redemption or liquidation.

Rockley will not be obligated to deliver any Rockley ordinary shares pursuant to the exercise of a Public Warrant and will have no obligation to settle such Public Warrant exercise unless a registration statement under the Securities Act with respect to the Rockley ordinary shares underlying the Public Warrants is then effective and a prospectus relating thereto is current, subject to Rockley satisfying its obligations described below with respect to registration. No Public Warrant will be exercisable and Rockley will not be obligated to issue a Rockley ordinary share upon exercise of a Public Warrant unless the Rockley ordinary shares issuable upon such Public Warrant exercise has been registered, qualified or deemed to be exempt under the securities laws of the state of residence of the registered holder of the Public Warrants. In the event that the conditions in the two immediately preceding sentences are not satisfied with respect to a Public Warrant, the holder of such Public Warrant will not be entitled to exercise such Public Warrant and such Public Warrant may have no value and expire worthless. In no event will Rockley be required to net cash settle any Public Warrant.

Rockley was obligated to use its best efforts to file as soon as practicable, but in no event later than 30 business days after the closing of the Business Combination, with the Securities and Exchange Commission, or the SEC, a registration statement for the registration, under the Securities Act, of the Rockley ordinary shares issuable upon exercise of the Public Warrants. Rockley is obligated to use its best efforts to cause the same to become effective and to maintain the effectiveness of such registration statement, and a current prospectus relating thereto, until the expiration of the Public Warrants in accordance with the provisions of the Rockley Warrant Agreement. If a registration statement covering the Rockley ordinary shares issuable upon exercise of the Public Warrants was not effective by the 60th business day after the closing of the Business Combination, Public Warrant holders may, until such time as there was an effective registration statement and during any period when Rockley will have failed to maintain an effective registration statement, exercise such Public Warrants on a “cashless basis” in accordance with Section 3(a) (9) of the Securities Act or another exemption. Notwithstanding the above, if the Rockley ordinary shares are at the time of any exercise of a Public Warrant not listed on a national securities exchange such that they satisfy the definition of a “covered security” under Section 18(b)(1) of the Securities Act, Rockley may, at its option, require holders of Public Warrants who exercise their Public Warrants to do so on a “cashless basis” in accordance

with Section 3(a)(9) of the Securities Act and, in the event Rockley so elects, it will not be required to file or maintain in effect a registration statement, and in the event Rockley does not so elect, it will use its best efforts to register or qualify the shares under applicable blue sky laws to the extent an exemption is not available.

Once the Public Warrants become exercisable, Rockley may call the warrants for redemption:

- in whole and not in part;
- at a price of $0.01 per Public Warrant;
- upon not less than 30 days' prior written notice of redemption, or the 30-day redemption period, to each warrantholder; and
- if: and only if, the reported closing price of the Rockley ordinary shares equals or exceeds $18.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within a 30 trading-day period ending three business days before Rockley sends the notice of redemption to the warrantholders.

If and when the Public Warrants become redeemable by Rockley, Rockley may exercise its redemption right even if it is unable to register or qualify the underlying securities for sale under all applicable state securities laws.

If the foregoing conditions are satisfied and Rockley issues a notice of redemption of the Public Warrants, each Public Warrant holder will be entitled to exercise his, her or its Public Warrant prior to the scheduled redemption date. However, the price of Rockley ordinary shares may fall below the $18.00 redemption trigger price (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) as well as the $11.50 Public Warrant exercise price after the redemption notice is issued.

If Rockley calls the Public Warrants for redemption as described above, Rockley's Board will have the option to require any holder that wishes to exercise his, her or its Public Warrant to do so on a "cashless basis." In determining whether to require all holders to exercise their Public Warrants on a "cashless basis," Rockley's management will consider, among other factors, Rockley's cash position, the number of warrants that are outstanding and the dilutive effect on its shareholders of issuing the maximum number of Rockley ordinary shares issuable upon the exercise of Rockley's Public Warrants. If Rockley's management takes advantage of this option, all holders of w Public Warrants would pay the exercise price by surrendering their Public Warrants for that number of Rockley ordinary shares equal to the quotient obtained by dividing (a) the product of the number of Rockley ordinary shares underlying the Public Warrants, multiplied by the excess of the "fair market value" (defined below) over the exercise price of the Public Warrants by (b) the fair market value. The "fair market value" will mean the average reported closing price of the Rockley ordinary shares for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of Public Warrants. If Rockley's management takes advantage of this option, the notice of redemption will contain the information necessary to calculate the number of Rockley ordinary shares to be received upon exercise of the Public Warrants, including the "fair market value" in such case. Requiring a cashless exercise in this manner will reduce the number of shares to be issued and thereby lessen the dilutive effect of a Public Warrants redemption. Rockley believes this feature is an attractive option to it if it does not need the cash from the exercise of the Public Warrants after the closing of the Business Combination. If Rockley calls its Public Warrants for redemption and Rockley's management does not take advantage of this option, the holders of the Private Warrants discussed below and their permitted transferees would still be entitled to exercise their Private Warrants for cash or on a cashless basis using the same formula described above that other Public Warrant holders would have been required to use had all Public Warrant holders been required to exercise their Public Warrant on a cashless basis, as described in more detail below. A holder of a Public Warrant may notify Rockley in writing in the event it elects to be subject to a requirement that such holder will not have the right to exercise such Public Warrant, to the extent that after giving effect to such exercise, such person (together with such person's affiliates), to the Public Warrant agent's actual knowledge, would beneficially own in excess of 4.9% or 9.8% (or such other amount as specified by the holder) of the Rockley ordinary shares outstanding immediately after giving effect to such exercise.

If the number of outstanding Rockley ordinary shares is increased by a stock dividend payable in Rockley ordinary shares, or by a split-up or other similar event, then, on the effective date of stock dividend, split-up or similar event, the number of Rockley ordinary shares issuable on exercise of each Public Warrant will be increased in proportion to such increase in the outstanding Rockley ordinary shares. A rights offering to holders of Rockley ordinary shares entitling holders to purchase Rockley ordinary shares at a price less than the fair market value will be deemed a stock dividend of a number of Rockley ordinary shares equal to the product of (a) the number of Rockley ordinary shares actually sold in such rights offering (or issuable under any other equity securities sold in such rights offering that are convertible into or exercisable for Rockley ordinary shares) and (b) the quotient of (i) the price per Rockley ordinary share paid in such rights offering and (ii) the fair market value. For these purposes (a) if the rights offering is for securities convertible into or exercisable for Rockley ordinary shares, in determining the price payable for Rockley ordinary shares, there will be taken into account any consideration received for such rights, as well as any additional amount payable upon exercise or conversion and (b) fair market value means the

volume weighted average price of Rockley ordinary shares as reported during the 10 trading day period ending on the trading day prior to the first date on which the Rockley ordinary shares trade on the applicable exchange or in the applicable market, regular way, without the right to receive such rights.

In addition, if Rockley, at any time while the Public Warrants are outstanding and unexpired, pay a dividend or make a distribution in cash, securities or other assets to the holders of Rockley ordinary shares on account of such Rockley ordinary shares (or other securities into which the Public Warrants are convertible), other than (a) as described above, (b) certain ordinary cash dividends, (c) to satisfy the redemption rights of the holders of Rockley ordinary shares in connection with the closing of the Business Combination, or (d) to satisfy the redemption rights of the holders of Rockley ordinary shares in connection with a shareholder vote to amend the governing documents, then the Public Warrant exercise price will be decreased, effective immediately after the effective date of such event, by the amount of cash and/or the fair market value of any securities or other assets paid on each Rockley ordinary share in respect of such event.

If the number of outstanding Rockley ordinary shares is decreased by a consolidation, combination, reverse stock split or reclassification of Rockley ordinary shares or other similar event, then, on the effective date of such consolidation, combination, reverse stock split, reclassification or similar event, the number of Rockley ordinary shares issuable on exercise of each Public Warrant will be decreased in proportion to such decrease in outstanding Rockley ordinary shares.

Whenever the number of Rockley ordinary shares purchasable upon the exercise of the Public Warrants is adjusted, as described above, the Public Warrant exercise price will be adjusted by multiplying the Public Warrant exercise price immediately prior to such adjustment by a fraction (a) the numerator of which will be the number of Rockley ordinary shares purchasable upon the exercise of the Public Warrants immediately prior to such adjustment, and (b) the denominator of which will be the number of Rockley ordinary shares so purchasable immediately thereafter.

In case of any reclassification or reorganization of the outstanding Rockley ordinary shares (other than those described above or that solely affects the par value of such Rockley ordinary shares), or in the case of any merger or consolidation of Rockley with or into another corporation (other than a consolidation or merger in which Rockley is the continuing corporation and that does not result in any reclassification or reorganization of the issued and outstanding Rockley ordinary shares), or in the case of any sale or conveyance to another corporation or entity of the assets or other property of Rockley as an entirety or substantially as an entirety in connection with which Rockley is dissolved, the holders of the Public Warrants will thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in the Public Warrants and in lieu of the Rockley ordinary shares immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, the kind and amount of Rockley ordinary shares or other securities or property (including cash) receivable upon such reclassification, reorganization, merger or consolidation, or upon a dissolution following any such sale or transfer, that the holder of the Public Warrants would have received if such holder had exercised their Public Warrants immediately prior to such event. If less than 70% of the consideration receivable by the holders of Rockley ordinary shares in such a transaction is payable in the form of Rockley ordinary shares in the successor entity that is listed for trading on a national securities exchange or is quoted in an established over-the-counter market, or is to be so listed for trading or quoted immediately following such event, and if the registered holder of the Public Warrant properly exercises the Public Warrant within 30 days following public disclosure of such transaction, the Public Warrant exercise price will be reduced as specified in the Rockley Warrant Agreement based on the Black-Scholes Warrant Value (as defined in the Rockley Warrant Agreement) of the Public Warrant. The purpose of such exercise price reduction is to provide additional value to holders of the Public Warrants when an extraordinary transaction occurs during the exercise period of the Public Warrants pursuant to which the holders of the Public Warrants otherwise do not receive the full potential value of the Public Warrants.

The Rockley Warrant Agreement provides that the terms of the Public Warrants may be amended without the consent of any holder for the purpose of (a) curing any ambiguity or to correct any defective provision, (b) adjusting the provisions relating to cash dividends on Rockley ordinary shares as contemplated by and in accordance with the Rockley Warrant Agreement or (c) adding or changing any other provisions with respect to matters or questions arising under the Rockley Warrant Agreement as the parties to the Rockley Warrant Agreement may deem necessary or desirable and that the parties deem to not adversely affect the interests of the registered holders of the Public Warrants. All other modifications or amendments will require the approval by the holders of at least 50% of the then-outstanding Public Warrants and, solely with respect to any amendment to the terms of the Private Warrants, 50% of the then outstanding Private Warrants. You should review a copy of the Rockley Warrant Agreement, which is incorporated by reference as an exhibit to our Annual Report on Form 10-K for our most recently completed fiscal year, for a complete description of the terms and conditions applicable to the Public Warrants.

The Public Warrants may be exercised upon surrender of the Public Warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the Public Warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price (or on a cashless basis, if applicable), by certified or official bank check payable to Rockley, for the number of Public Warrants being

exercised. The Public Warrant holders do not have the rights or privileges of holders of Rockley ordinary shares and any voting rights until they exercise their Public Warrants and receive Rockley ordinary shares. After the issuance of Rockley ordinary shares upon exercise of the Public Warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by shareholders.

No fractional shares will be issued upon exercise of the Public Warrants. If, upon exercise of the Public Warrants, a holder would be entitled to receive a fractional interest in a share, Rockley will, upon exercise, round down to the nearest whole number of Rockley ordinary shares to be issued to the warrantholder.

Exclusive Forum Provision in Rockley Warrant Agreement

The Rockley Warrant Agreement provides that the courts of the State of New York or the U.S. District Court for the Southern District of New York is the exclusive jurisdiction for any claims relating to such agreement. Further, the exclusive forum provision in the Rockley Warrant Agreement provides that such exclusive jurisdiction will not apply to claims arising under the Securities Act or the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. As a result, the exclusive forum provision in the Rockley Warrant Agreement will not apply to suits brought to enforce any duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. Accordingly, the exclusive forum provision does not designate the courts of the State of New York as the exclusive forum for any derivative action arising under the Exchange Act, as there is exclusive federal jurisdiction in that instance.

Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. As a result, the enforceability of the exclusive forum provision in the Rockley Warrant Agreement is uncertain, and a court may determine that such provision will not apply to suits brought to enforce any duty or liability created by the Securities Act or any other claim for which the federal and state courts have concurrent jurisdiction. Further, compliance with the federal securities laws and the rules and regulations thereunder cannot be waived by investors in our ordinary shares.

This exclusive forum provision may limit a shareholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors and officers or other employees arising under the Rockley Warrant Agreement, which may discourage such lawsuits against us and our directors, officers, or other employees. Alternatively, if a court were to find this exclusive forum provision is inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition, and results of operations and result in a diversion of the time and resources of our management and Board.

Private Warrants

In connection with the initial public offering of SC Health, the Sponsor purchased an aggregate of 5,000,000 warrants, or the Private Warrants, each exercisable to purchase one SC Health Class A Ordinary Share at $11.50 per share, at a price of $1.00 per Private Warrant, or $5,000,000 in the aggregate. On August 2, 2019, SC Health consummated the closing of the sale of 2,250,000 additional units at the price of $10.00 per SC Health unit upon receiving the underwriters' election to fully exercise their over-allotment option, generating additional gross proceeds of $22,500,000 to SC Health. Simultaneously with the exercise of the over-allotment, SC Health completed the private sale of an additional 450,000 Private Warrants to the Sponsor, generating gross proceeds to SC Health of $450,000.

The Private Warrants will not be redeemable by Rockley so long as they are held by the Sponsor, members of the Sponsor or their permitted transferees. The Sponsor or its permitted transferees, have the option to exercise the Private Warrants on a cashless basis. Except as described below, the Private Warrants have terms and provisions that are identical to those of the Public Warrants, including as to exercise price, exercisability and exercise period. If the Private Warrants are held by holders other than the Sponsor or its permitted transferees, the Private Warrants will be redeemable by Rockley and exercisable by the holders on the same basis as the Public Warrants.

If holders of the Private Warrants elect to exercise them on a cashless basis, they would pay the exercise price by surrendering his, her or its Private Warrants for that number of Rockley ordinary shares equal to the quotient obtained by dividing (a) the product of the number of Rockley ordinary shares underlying the Private Warrants, multiplied by the excess of the "fair market value" (defined below) over the exercise price of the Private Warrants by (b) the fair market value. The "fair market value" will mean the average reported closing price of the Rockley ordinary shares for the 10 trading days ending on the third trading day prior to the date on which the notice of Private Warrant exercise is sent to the warrant agent. The Private Warrants will expire five years after the closing of the Business Combination, at 5:00 p.m. Eastern Time, or earlier upon redemption or liquidation.

October Warrants

On October 24, 2022, we entered into a financing transaction, or the October Financing, relating to (i) the issuance and sale for cash to certain subscribing investors of warrants, or the October Warrants to purchase 131.6 million ordinary shares, at an initial exercise price of $1.1182 per share, subject to certain anti-dilution provisions, and the October Notes (as defined below). The October Warrants have a term that ends on May 27, 2032 and include customary anti-dilution adjustments as well as a ratchet anti-dilution adjustment in the event any ordinary shares or other equity or equity equivalent securities payable in ordinary shares are granted, issued or sold (or Rockley enters into any agreement to grant, issue or sell), in each case, at a price less than the exercise price then in effect. Upon the occurrence of such an event, the exercise price of the October Warrants will be decreased to the lower price (subject to a floor of $0.6262 per ordinary share, or the October Floor Price) and the number of ordinary shares issuable upon exercise of the October Warrants will be increased, such that the aggregate exercise price of all October Warrants remains the same before and after any such event. This will result in additional ordinary shares that may be issuable upon exercise of the October Warrants and may result in dilution to the existing shareholders. Upon the occurrence of a Fundamental Transaction (as defined in the October Warrants), the October Warrants provide each holder a put right in respect of the October Warrants. Upon the exercise of a put right by a holder, Rockley will be obligated to repurchase the October Warrants for the fair market value of the October Warrants repurchased, as calculated by a third-party valuation firm selected by Rockley and reasonably acceptable to the holder. The October Warrants also include cashless exercise rights.

May Warrants

On May 27, 2022, we entered into a financing transaction, or the May Financing, relating to the issuance and sale for cash to certain subscribing investors of warrants, or the Initial May Warrants, to purchase approximately 26.5 million of our ordinary shares at an initial exercise price of $5.00 per share, subject to certain anti-dilution adjustments, and the Initial May Notes (as defined below). We also granted the purchasers of the Initial May Warrants an option to purchase additional warrants (which we refer to herein, together with the Initial May Warrants, as the May Warrants) for a period of 12 months following the effectiveness of a registration statement covering the ordinary shares issuable upon conversion and exercise of the Initial May Notes and Initial May Warrants. The May Warrants have a term that ends on May 27, 2032 and include customary anti-dilution adjustments. As a result of the initial conversion price of the Initial October Notes (as defined below) and the initial exercise price of the Initial October Warrants being less than the initial exercise price of the May Warrants, the exercise price of the May Warrants was reset to $2.80 per share and each May Warrant became entitled to an additional 0.7857 shares upon exercise thereof. Upon the occurrence of a Fundamental Transaction (as defined in the May Warrants), the May Warrants provide each holder a put right in respect of the May Warrants. Upon the exercise of a put right by a holder, Rockley will be obligated to repurchase the May Warrants for the fair market value of the May Warrants repurchased, as calculated by a third-party valuation firm selected by Rockley and reasonably acceptable to the holder. The May Warrants also include cashless exercise rights.

Notes

October Notes

In connection with the October Financing, we issued approximately $90.6 million aggregate original principal amount of a series of Convertible Senior Secured Notes due 2026, or the October Notes, pursuant to the Indenture, dated as of October 25, 2022, among Rockley, the Rockley Photonics, Inc., Rockley Photonics Limited, Rockley Photonics Ireland Limited and Rockley Photonics Oy, each a wholly owned subsidiary of Rockley, or, collectively, the Guarantor Subsidiaries, and Wilmington Savings Fund Society, FSB, or WSFS, as trustee and collateral agent, which we refer to herein as the October Indenture. The October Notes are senior secured obligations of Rockley and the Guarantor Subsidiaries secured by substantially all assets of Rockley and each Guarantor Subsidiary; provided that the liens securing the October Notes and guarantees in respect thereof are contractually senior to the liens securing the May Notes (as defined below) and guarantees in respect thereof pursuant to that certain Collateral Agency and Intercreditor Agreement, dated as of October 25, 2022, among Rockley, the Guarantor Subsidiaries, the Collateral Agent (as defined therein), the Junior Lien Representative (as defined therein) and the Senior Lien Representative (as defined therein), or the Intercreditor Agreement. Interest on the October Notes is payable quarterly in arrears at a rate of 12.5% per annum if paid in cash or, subject to the satisfaction of certain conditions, at a rate of 15.0% per annum payable at a rate of 5.75% per annum in cash and 9.25% per annum through the issuance of additional October Notes, or PIK Interest, which will also bear interest. Interest on the October Notes is payable quarterly in arrears on January 15, April 15, July 15 and October 15, commencing on January 15, 2023, and unless the context otherwise requires, references herein to the October Notes include any interest paid as PIK Interest. The October Notes will mature on May 15, 2026, or the October Maturity Date, unless redeemed, repurchased or converted in accordance with their terms prior to such date.

The October Notes are convertible at an initial conversion price equal to $0.6888 per ordinary share and subject to certain customary anti-dilution adjustments. Holders of the October Notes have the right to convert all or a portion of their October Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the October Maturity Date and the right to receive additional ordinary shares if Rockley elects, and is permitted thereunder, to pay the interest make-whole payment (as defined in the October Indenture) that may become due in connection therewith in ordinary shares. In addition, the October Notes are also subject to

redemption at the option of Rockley in the event of certain changes in tax law or listing status of the October Notes or the status of the relevant stock exchange on which the October Notes may be listed as a “recognised stock exchange” for purposes of certain tax laws related to withholding on payments of interest. Upon conversion, holders of the October Notes will receive ordinary shares and cash for fractional interests and except in connection with certain events, an interest make-whole payment for interest that would have accrued from the date of conversion until the October Maturity Date, which interest make-whole payment shall be paid in cash or subject to the satisfaction of certain conditions, in ordinary shares at Rockley’s election; provided, however, until the earlier to occur of (i) the third business day prior to December 31, 2022 and (ii) the approval by Rockley’s shareholders to authorize the issuance of ordinary shares in connection therewith at a price less than the October Floor Price, if the Company would not be entitled to otherwise issue such shares in satisfaction of such interest make whole payment because the shares would be valued in accordance with the October Indenture at less than the October Floor Price, the holder who so converted all or a portion of its October Notes will be entitled to either (x) exercise an option to purchase additional October Notes or (y) receive shares valued at the October Floor Price, in each case, in the amount of cash that would otherwise have come due to such holder.

Rockley may redeem the October Notes in whole, and not in part, at its option, at any time prior to the October Maturity Date, for a cash purchase price equal to the aggregate principal amount of any October Notes to be redeemed plus accrued and unpaid interest thereon plus a make-whole premium as provided in the October Indenture. At any time prior to the October Maturity Date, Rockley may also redeem the October Notes in whole, or from time to time in part, if the last reported sale price of the ordinary shares exceeds 250% of the conversion price then in effect and if the daily trading volume for ordinary shares on the NYSE exceeds 1,000,000 shares, in each case, for at least 20 trading days (which need not be consecutive), including at least one of the five trading days preceding the date on which Rockley provides a notice for such redemption, during any 30 consecutive trading day period ending on, and including, the trading day preceding such notice date, for a cash purchase price equal to the aggregate principal amount of any October Notes to be redeemed plus accrued and unpaid interest thereon. The October Notes are also subject to redemption at the option of Rockley in the event of certain changes in tax law or listing status of the October Notes or the status of the relevant stock exchange on which the October Notes may be listed as a “recognised stock exchange” for purposes of certain tax laws related to withholding on payments of interest.

In addition, following certain corporate events that occur prior to the October Maturity Date or following issuance by Rockley of a notice of redemption, in each case as provided in the October Indenture, in certain circumstances, Rockley will increase the conversion rate for a holder who elects to convert its October Notes in connection with such a corporate event or who elects to convert any October Notes called for redemption during the related redemption period. Additionally, in the event of a fundamental change (such term as defined in the October Indenture), holders of the October Notes will have the right to require Rockley to repurchase all or a portion of their October Notes at a price equal to the aggregate principal amount of any October Notes to be repurchased plus accrued and unpaid interest thereon plus a make-whole premium.

The October Indenture includes restrictive covenants that, subject to specified exceptions, limit the ability of Rockley and its subsidiaries to, among other things, (a) incur debt or issue preferred shares or disqualified stock; (b) make (i) dividends and distributions, (ii) redemptions and repurchases of equity, (iii) investments and (iv) prepayments, redemptions and repurchases of subordinated debt; (c) incur liens; (d) make asset sales; (e) enter into transactions with affiliates and (f) enter into agreements limiting subsidiary distributions. In addition, Rockley is required to maintain minimum unrestricted cash and cash equivalents, when taken together with the aggregate amount of funds then on deposit in an escrow account under the October Indenture, of $5.0 million until December 29, 2022 and $20.0 million thereafter. The October Indenture also includes customary events of default after which the holders of the October Notes may accelerate the maturity of the October Notes to become due and payable immediately; provided, however, that the October Notes will be automatically accelerated upon certain events of bankruptcy, insolvency and reorganization involving Rockley or any of its subsidiaries. Such events of default include: (i) certain payment defaults on the October Notes (which, in the case of a default in the payment of interest and liquidated damages on the October Notes, will be subject to a 30-day cure period); (ii) Rockley’s failure in its obligation to convert a October Note, if such default is not cured within three business days; (iii) Rockley’s failure to send certain notices under the October Indenture within specified periods of time, if such failure is not cured within three business days; (iv) Rockley’s failure to comply with certain covenants in the October Indenture relating to Rockley’s ability to consolidate with or merge with or into, or sell, lease or otherwise transfer, in one transaction or a series of transactions, all or substantially all of the assets of Rockley and its subsidiaries, taken as a whole, to another person; (v) a default by Rockley in its other obligations or agreements under the October Indenture or the other note documents (as defined in the October Indenture) if such default is not cured or waived within 30 days after written notice is given by WSFS or the holders of 25% in aggregate principal amount of the October Notes then outstanding; (vi) certain defaults by Rockley or any of its subsidiaries with respect to indebtedness for borrowed money of at least $3.5 million; (vii) final judgments of at least $3.5 million (excluding amounts not covered by insurance) rendered against Rockley or any of its subsidiaries, which judgments are not discharged or stayed within 60 days; (viii) certain events of bankruptcy, insolvency or reorganization involving Rockley or any of its subsidiaries; (ix) any guarantee in respect of the October Notes ceases to be in full force and effect, other than in accordance with the October Indenture, or any Guarantor Subsidiary denies or disaffirms its obligations under its

guarantee in respect of the October Notes or gives notice to such effect; (x) any material provision of any note document ceases to be valid and binding on or enforceable against Rockley or any Guarantor Subsidiary or Rockley or any Guarantor Subsidiary shall so state in writing or any note security document (as defined in the October Indenture) ceases to create a valid security interest in the collateral (as defined in the October Indenture), excepted as permitted pursuant to the terms thereof or the October Indenture; (xi) certain defaults under that certain Noteholder Agreement, dated as of October 25, 2022, among the Issuer, the Guarantor Subsidiaries, each beneficial owner of the May Notes (discussed below) that is a party thereto and the holders of the October Notes, or the Noteholder Agreement; and (xii) except as permitted under the October Indenture, Rockley or any Guarantor Subsidiary shall contest in any manner the validity or enforceability of a permitted intercreditor agreement (as defined in the October Indenture) or deny that it has any further liability or obligation thereunder, or the note obligations or the liens securing the note obligations, for any reason shall not have the priority contemplated by the October Indenture, the note security documents or such permitted intercreditor agreement.

May Notes

In connection with the May Financing, we issued $81,500,000 aggregate original principal amount of a series of Convertible Senior Secured Notes due 2026, or the Initial May Notes, pursuant to the Indenture, dated as of May 27, 2022, among Rockley, the Guarantor Subsidiaries, and WSFS, as trustee and collateral agent, as supplemented by the First Supplemental Indenture, dated as of August 4, 2022, the Second Supplemental Indenture, dated as of September 30, 2022 and the Fourth Supplemental Indenture, dated as of October 25, 2022, or, as so amended, the May Indenture. We also granted the purchasers of the Initial May Notes and Initial May Warrants an option to purchase up to an additional $81,500,000 aggregate principal amount of Convertible Senior Secured Notes due 2026 (which we refer to herein, together with the Initial May Notes, as the May Notes) that would be issued under, and governed by, the May Indenture for a period of 12 months following the effectiveness of a registration statement covering the ordinary shares issuable upon conversion and exercise of the Initial May Notes and Initial May Warrants.

The May Notes are senior secured obligations of Rockley and the Guarantor Subsidiaries secured by substantially all assets of Rockley and each Guarantor Subsidiary; provided that the liens securing the May Notes and guarantees in respect thereof are contractually subordinated to the liens securing the October Notes and guarantees in respect thereof pursuant to the Intercreditor Agreement. Interest on the May Notes is payable quarterly in arrears at a rate of 9.5% per annum if paid in cash or, subject to the satisfaction of certain conditions, at a rate of 12.0% per annum payable at a rate of 5.75% per annum in cash and 6.25% per annum through the issuance of additional May Notes, or PIK Interest, which will also bear interest. Interest on the May Notes is payable quarterly in arrears on February 15, May 15, August 15 and November 15, commencing on August 15, 2022, and unless the context otherwise requires, references herein to the May Notes include any interest paid as PIK Interest.

The May Notes will mature on May 15, 2026, or the May Maturity Date, unless redeemed, repurchased or converted in accordance with their terms prior to such date. In connection with the October Financing, we repurchased a portion of the outstanding May Notes in an aggregate original principal amount of $50.0 million.

The May Notes are convertible at an initial conversion price equal to $3.08 per ordinary share and subject to certain customary anti-dilution adjustments. Holders of the May Notes have the right to convert all or a portion of their May Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the May Maturity Date and the right to receive additional ordinary shares if Rockley elects, and is permitted thereunder, to pay the interest make-whole payment (as defined in the May Indenture) that may become due in connection therewith in ordinary shares. In addition, the May Notes are also subject to redemption at the option of Rockley in the event of certain changes in tax law or listing status of the May Notes or the status of the relevant stock exchange on which the May Notes may be listed as a “recognised stock exchange” for purposes of certain tax laws related to withholding on payments of interest. Under the May Indenture, we are required to offer to repurchase the May Notes upon Rockley’s receipt of certain tax credit payments in an amount not to exceed 40% of the funds so received by Rockley, subject to certain conditions, including a minimum cash balance of $20.0 million pro forma for any such repurchase.

Rockley may redeem the May Notes in whole, and not in part, at its option, at any time prior to the May Maturity Date, for a cash purchase price equal to the aggregate principal amount of any May Notes to be redeemed plus accrued and unpaid interest thereon plus a make-whole premium as provided in the May Indenture. At any time prior to the May Maturity Date, Rockley may also redeem the May Notes in whole, or from time to time in part, if the last reported sale price of the ordinary shares exceeds 250% of the conversion price then in effect and if the daily trading volume for ordinary shares on the NYSE exceeds 1,000,000 shares, in each case, for at least 20 trading days (which need not be consecutive), including at least one of the five trading days preceding the date on which Rockley provides a notice for such redemption, during any 30 consecutive trading day period ending on, and including, the trading day preceding such notice date, for a cash purchase price equal to the aggregate principal amount of any May Notes to be redeemed plus accrued and unpaid interest thereon. The May Notes are also subject to redemption at the option of Rockley in the event of certain changes in tax law or listing status of the May Notes or the status of the relevant stock exchange on which the May Notes may be listed as a “recognised stock exchange” for purposes of certain tax laws related to withholding on payments of interest.

In addition, following certain corporate events that occur prior to the May Maturity Date or following issuance by Rockley of a notice of redemption, in each case as provided in the May Indenture, in certain circumstances, Rockley will increase the conversion rate for a holder who elects to convert its May Notes in connection with such a corporate event or who elects to convert any May Notes called for redemption during the related redemption period. Additionally, in the event of a fundamental change (such term as defined in the May Indenture), holders of the May Notes will have the right to require Rockley to repurchase all or a portion of their May Notes at a price equal to the aggregate principal amount of any May Notes to be repurchased plus accrued and unpaid interest thereon plus a make-whole premium.

The May Indenture includes restrictive covenants that, subject to specified exceptions, limit the ability of Rockley and its subsidiaries to, among other things, (a) incur debt or issue preferred shares or disqualified stock; (b) make (i) dividends and distributions, (ii) redemptions and repurchases of equity, (iii) investments and (iv) prepayments, redemptions and repurchases of subordinated debt; (c) incur liens; (d) make asset sales; (e) enter into transactions with affiliates and (f) enter into agreements limiting subsidiary distributions. In addition, Rockley is required to maintain minimum unrestricted cash and cash equivalents, when taken together with the aggregate amount of funds then on deposit in an escrow account under the October Indenture, of $5.0 million until December 29, 2022 and $20.0 million thereafter. The May Indenture also includes customary events of default after which the holders of the May Notes may accelerate the maturity of the May Notes to become due and payable immediately; provided, however, that the May Notes will be automatically accelerated upon certain events of bankruptcy, insolvency and reorganization involving Rockley or any of its subsidiaries. Such events of default include: (i) certain payment defaults on the May Notes (which, in the case of a default in the payment of interest and liquidated damages on the May Notes, will be subject to a 30-day cure period); (ii) Rockley's failure in its obligation to convert a May Note, if such default is not cured within three business days; (iii) Rockley's failure to send certain notices under the May Indenture within specified periods of time, if such failure is not cured within three business days; (iv) Rockley's failure to comply with certain covenants in the May Indenture relating to Rockley's ability to consolidate with or merge with or into, or sell, lease or otherwise transfer, in one transaction or a series of transactions, all or substantially all of the assets of Rockley and its subsidiaries, taken as a whole, to another person; (v) a default by Rockley in its other obligations or agreements under the May Indenture or the other note documents (as defined in the May Indenture) if such default is not cured or waived within 30 days after written notice is given by WSFS or the holders of 25% in aggregate principal amount of the May Notes then outstanding; (vi) certain defaults by Rockley or any of its subsidiaries with respect to indebtedness for borrowed money of at least $3.5 million; (vii) final judgments of at least $3.5 million (excluding amounts not covered by insurance) rendered against Rockley or any of its subsidiaries, which judgments are not discharged or stayed within 60 days; (viii) certain events of bankruptcy, insolvency or reorganization involving Rockley or any of its subsidiaries; (ix) any guarantee in respect of the May Notes ceases to be in full force and effect, other than in accordance with the May Indenture, or any Guarantor Subsidiary denies or disaffirms its obligations under its guarantee in respect of the May Notes or gives notice to such effect; (x) any material provision of any note document ceases to be valid and binding on or enforceable against Rockley or any Guarantor Subsidiary or Rockley or any Guarantor Subsidiary shall so state in writing or any note security document (as defined in the May Indenture) ceases to create a valid security interest in the collateral (as defined in the May Indenture), excepted as permitted pursuant to the terms thereof or the May Indenture; (xi) certain defaults under the Noteholder Agreement; and (xii) except as permitted under the May Indenture, Rockley or any Guarantor Subsidiary shall contest in any manner the validity or enforceability of a permitted intercreditor agreement (as defined in the May Indenture) or deny that it has any further liability or obligation thereunder, or the note obligations or the liens securing the note obligations, for any reason shall not have the priority contemplated by the May Indenture, the note security documents or such permitted intercreditor agreement.

In addition, in connection with the issuance of the May Notes, Rockley is required to pay an annual facility fee in advance on the date of such issuance and each anniversary thereof from the date of the issuance thereof through the May Maturity Date in an amount equal to 1% of the original principal amount of the May Notes on the date of such issuance; provided that upon the earliest to occur of (i) the first date upon which all of the then-outstanding May Notes have been converted to ordinary shares, (ii) the first date upon which all of the then-outstanding May Notes are subject to a fundamental change offer (as defined in the May Indenture), (iii) the first date upon which Rockley has exercised an optional redemption or tax redemption (as each such term is defined in the May Indenture) as to all then-outstanding May Notes are subject to a fundamental change offer (as defined in the May Indenture), and (iv) the date upon which the May Notes are accelerated or otherwise become due prior to the May Maturity Date as a result of or during the continuance of an event of default under the May Indenture, then, in each case, the remaining unpaid facility fees payable on each such anniversary remaining prior to the May Maturity Date shall be accelerated and become due and payable.

Rule 144

Rule 144 is not available for the resale of securities initially issued by shell companies (other than business combination related shell companies) or issuers that have been at any time previously a shell company, such as Rockley. However, Rule 144 also includes an exception to this prohibition if the following conditions are met:

- the issuer of the securities that was formerly a shell company has ceased to be a shell company;
- the issuer of the securities is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act;
- the issuer of the securities has filed all Exchange Act reports and material required to be filed, as applicable, during the preceding 12 months (or such shorter period that the issuer was required to file such reports and materials), other than Form 8-K reports; and
- at least one year has elapsed from the time that the issuer filed current Form 10 type information with the SEC reflecting its status as an entity that is not a shell company.

On August 11, 2021, Rockley Photonics Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, Rockley Photonics Limited, a company organized under the laws of England and Wales, or Rockley UK, and SC Health Corporation, an exempted company incorporated in the Cayman Islands with limited liability, or SC Health, consummated the business combination, or the Business Combination, contemplated by the Business Combination Agreement and Plan of Merger, dated March 19, 2021, by and among Rockley, Rockley UK, SC Health, and Rockley Mergersub Limited, an exempted company incorporated in the Cayman Islands with limited liability and a direct wholly owned subsidiary of Rockley, or Merger Sub. In connection with the closing of the Business Combination, Rockley UK became a direct wholly owned subsidiary of Rockley and Merger Sub was merged with and into SC Health, with SC Health surviving the merger and becoming a direct wholly owned subsidiary of Rockley. Upon the closing of the Business Combination, Rockley ceased to be a shell company.

When and if Rule 144 becomes available for the resale of our securities, a person who has beneficially owned restricted ordinary shares or restricted warrants or other restricted securities for at least six months would be entitled to sell their securities, provided that (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the three months preceding, a sale and (ii) we are subject to the Exchange Act periodic reporting requirements for at least three months before the sale and have filed all required reports under Section 13 or 15(d) of the Exchange Act during the 12 months (or such shorter period as we were required to file reports) preceding the sale.

Persons who have beneficially owned restricted ordinary shares or restricted warrants or other restricted securities for at least six months but who are our affiliates at the time of, or at any time during the three months preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of:

- one percent (1%) of the total number of ordinary shares then outstanding; or
- the average weekly reported trading volume of the ordinary shares during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales by our affiliates under Rule 144 will also be limited by manner of sale provisions and notice requirements and to the availability of current public information about us.

Transfer Agent, Warrant Agent and Registrar

The transfer agent, warrant agent and registrar for our ordinary shares, Public Warrants, Private Warrants, October Warrants and May Warrants is ComputerShare Trust Company.

Listing of Securities

Our ordinary shares and Public Warrants are listed on the NYSE under the symbols “RKLY” and “RKLY.WS,” respectively.

Comparison of Cayman Islands Corporate Law

Cayman Islands companies are governed by the Companies Act. The Companies Act is modeled on English Law but does not follow recent English Law statutory enactments, and differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the material differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (i) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (ii) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each

constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a "parent" of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provided that the dissenting shareholder complies strictly with the procedures set out in the Companies Act. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Act also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest individual of that class acting in respect of his or her interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the "squeeze out" of dissenting minority shareholders upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares affected within four (4) months, the offeror may, within a two-month period commencing on the expiration of such four (4) month period, require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted, in accordance with the foregoing statutory procedures, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits

Our Cayman Islands counsel is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed the availability for such actions. In most cases, we will be the proper plaintiff in any claim based on a breach of duty owed to us, and a claim against (for example) our officers or directors usually may not be brought

by a shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority and be applied by a court in the Cayman Islands, the Cayman Islands court can be expected to apply and follow the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) which permit a minority shareholder to commence a class action against, or derivative actions in the name of, a company to challenge the following:

- a company is acting, or proposing to act, illegally or beyond the scope of its authority;
- the act complained of, although not beyond the scope of the authority, could only be effected if duly authorized by more than the number of votes which have actually been obtained; or
- those who control the company are perpetrating a "fraud on the minority."

A shareholder may have a direct right of action against us where the individual rights of that shareholder have been infringed or are about to be infringed.

Enforcement of Civil Liabilities

We have been advised by our Cayman Islands legal counsel, Travers Thorp Alberga, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against Rockley judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any State; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against Rockley predicated upon the civil liability provisions of the securities laws of the United States or any State, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For a foreign judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, and/or being of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

Anti-Money Laundering – Cayman Islands

If any person in the Cayman Islands knows or suspects, or has reasonable grounds for knowing or suspecting that another person is engaged in criminal conduct or money laundering, or is involved with terrorism or terrorist financing and property, and the information for that knowledge or suspicion came to their attention in the course of business in the regulated sector, or other trade, profession, business or employment, the person will be required to report such knowledge or suspicion to (i) the Financial Reporting Authority of the Cayman Islands, or FRA, pursuant to the Proceeds of Crime Act (As Revised) of the Cayman Islands, if the disclosure relates to criminal conduct or money laundering, or (ii) a police officer of the rank of constable or higher, or the FRA, pursuant to the Terrorism Act (As Revised) of the Cayman Islands, if the disclosure relates to involvement with terrorism or terrorist financing and property.

Cayman Islands Data Protection

We have certain duties under the Data Protection Act (As Revised) of the Cayman Islands, or DPA, based on internationally accepted principles of data privacy.

Privacy Notice

Introduction

This privacy notice puts our shareholders on notice that through your investment in our company you will provide us with certain personal information which constitutes personal data within the meaning of the DPA, or personal data.

In the following discussion, the "Company" refers to us and our affiliates, delegates, or both, except where the context requires otherwise.

Investor Data

We will collect, use, disclose, retain, and secure personal data to the extent reasonably required only and within the parameters that could be reasonably expected during the normal course of business. We will only process, disclose, transfer or retain personal data to the extent legitimately required to conduct our activities on an ongoing

basis or to comply with legal and regulatory obligations to which we are subject. We will only transfer personal data in accordance with the requirements of the DPA, and will apply appropriate technical and organizational information security measures designed to protect against unauthorized or unlawful processing of the personal data and against the accidental loss, destruction or damage to the personal data.

In our use of this personal data, we will be characterized as a "data controller" for the purposes of the DPA, while our affiliates and service providers who may receive this personal data from us in the conduct of our activities may either act as our "data processors" for the purposes of the DPA or may process personal information for their own lawful purposes in connection with services provided to us.

We may also obtain personal data from other public sources. Personal data includes, without limitation, the following information relating to a shareholder and/or any individuals connected with a shareholder as an investor: name, residential address, email address, contact details, corporate contact information, signature, nationality, place of birth, date of birth, tax identification, credit history, correspondence records, passport number, bank account details, source of funds details and details relating to the shareholder's investment activity.

Who This Affects

If you are a natural person, this will affect you directly. If you are a corporate investor (including, for these purposes, legal arrangements such as trusts or exempted limited partnerships) that provides us with personal data on individuals connected to you for any reason in relation your investment in Rockley, this will be relevant for those individuals and you should transmit the content of this Privacy Notice to such individuals or otherwise advise them of its content.

How We May Use a Shareholder's Personal Data

Rockley, as the data controller, may collect, store and use personal data for lawful purposes, including, in particular:

- where this is necessary for the performance of our rights and obligations under any purchase agreements;
- where this is necessary for compliance with a legal or regulatory obligation to which we are subject (such as compliance with anti-money laundering and FATCA/CRS requirements); and/or
- where this is necessary for the purposes of our legitimate interests and such interests are not overridden by your interests, fundamental rights or freedoms.

Should we wish to use personal data for other specific purposes (including, if applicable, any purpose that requires your consent), we will contact you.

Why We May Transfer Your Personal Data

In certain circumstances we may be legally obliged to share personal data and other information with respect to your shareholding with the relevant regulatory authorities such as the Cayman Islands Monetary Authority or the Tax Information Authority. They, in turn, may exchange this information with foreign authorities, including tax authorities.

We anticipate disclosing personal data to persons who provide services to us and their respective affiliates (which may include certain entities located outside the US, the Cayman Islands or the United Kingdom) who will process your personal data on our behalf.

The Data Protection Measures We Take

Any transfer of personal data by us or our duly authorized affiliates and/or delegates outside of the Cayman Islands shall be in accordance with the requirements of the DPA.

We and our duly authorized affiliates and/or delegates shall apply appropriate technical and organizational information security measures designed to protect against unauthorized or unlawful processing of personal data, and against accidental loss or destruction of, or damage to, personal data.

We shall notify you of any personal data breach that is reasonably likely to result in a risk to your interests, fundamental rights or freedoms or those data subjects to whom the relevant personal data relates.

Exhibit 31.1

Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

CERTIFICATION

I, Andrew Rickman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rockley Photonics Holdings Limited;

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

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

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

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

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

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

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

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

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

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

By: /s/ Andrew Rickman

Andrew Rickman

Chief Executive Officer
(Principal Executive Officer)

Date: November 10, 2022

Exhibit 31.2

Certification Pursuant to Rules 13A-14(A) and 15d-14(A) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

CERTIFICATION

I, Richard A. Meier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rockley Photonics Holdings Limited;

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

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

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

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

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

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

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

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

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

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

By: /s/ Richard A. Meier

Richard A. Meier
President and Chief
Financial Officer
(Principal Financial Officer)

Date: November 10, 2022

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Rockley Photonics Holdings Limited (the "Company") for the quarterly period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew Rickman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Andrew Rickman

Andrew Rickman

Chief Executive Officer
(Principal Executive Officer)

Date: November 10, 2022

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Rockley Photonics Holdings Limited (the "Company") for the quarterly period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Meier, President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Richard A. Meier

Richard A. Meier
President and Chief Financial Officer
(Principal Financial Officer)

Date: November 10, 2022