UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):
March 5, 2021

ImmunityBio, Inc.
(Exact name of registrant as specified in its charter)

Delaware	001-37507	43-1979754
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

3530 John Hopkins Court
San Diego, California 92121
(Address of principal executive offices, including zip code)

(858) 633-0300
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	**IBRX**	**Nasdaq Global Select Market**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

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. ☐

Explanatory Note

As previously reported, on March 10, 2021, ImmunityBio, Inc. (formerly known as NantKwest, Inc.) (the "Company") completed its merger with NantCell, Inc. (formerly known as ImmunityBio, Inc., a private company) ("ImmunityBio"), in accordance with the terms of the Agreement and Plan of Merger, dated December 21, 2020 (the "Merger Agreement"), by and among the Company, Nectarine Merger Sub, Inc. ("Merger Sub"), and ImmunityBio, pursuant to which Merger Sub merged with and into ImmunityBio, with ImmunityBio surviving as a wholly owned subsidiary of the Company (the "Merger") and subsequently renamed NantCell, Inc. This Amendment No. 1 on Form 8-K/A is being filed by the Company to amend the Current Report on Form 8-K filed on March 10, 2021 (the "Original Report"), solely to provide the financial statements and pro forma financial information required by Item 9.01 of Form 8-K that were not previously filed with the Original Report in reliance on the instructions to such Item and to voluntarily include the related Management's Discussion and Analysis of Financial Condition and Results of Operations.

Capitalized terms used but not defined herein have the meanings assigned to them in the Original Report.

Item 8.01 Other Events

Included herewith as Exhibit 99.3 and incorporated by reference herein, is the related Management's Discussion and Analysis of Financial Condition and Results of Operations of ImmunityBio, based on the Combined Consolidated financial statements of ImmunityBio, Inc. as of December 31, 2020 and December 31, 2019 (including NantCell, Inc.).

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The financial statements required by Item 9.01(a) and the notes related thereto are filed as Exhibit 99.1 to this report.

(b) Pro Forma Financial Information

The pro forma financial information required by Item 9.01(b) and the notes related thereto are filed as Exhibit 99.2 to this report.

(d) Exhibits.

Exhibit Number	Exhibit Title
23.1	Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm
23.2	Consent of Ernst & Young, LLP, Independent Auditors
99.1	Consolidated financial statements of NantCell, Inc. (fka ImmunityBio, Inc., a private company), as of December 31, 2020 and December 31, 2019
99.2	Combined Consolidated financial statements of ImmunityBio, Inc., as of December 31, 2020 and December 31, 2019 (including NantCell, Inc.)
99.3	Management's Discussion and Analysis of Financial Condition and Results of Operations of ImmunityBio, Inc. (based on the Combined Consolidated financial statements of ImmunityBio, Inc., as of December 31, 2020 and December 31, 2019 (including NantCell, Inc.))
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

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

IMMUNITYBIO, INC.

Date: April 22, 2021

By: /s/ David Sachs
Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-233434) of ImmunityBio, Inc. for the registration of common stock, preferred stock, warrants, debt securities and units,

(2) Registration Statement (Form S-4 No. 333-252232) of ImmunityBio, Inc. for the registration of common stock to be issued in connection with the merger with NantCell, Inc. (fka ImmunityBio, Inc., a private company),

(3) Registration Statement (Form S-8 No. 333-205942) pertaining to the 2014 Equity Incentive Plan and 2015 Equity Incentive Plan,

(4) Registration Statement (Form S-8 No.333-233082) pertaining to the 2015 Equity Incentive Plan as Amended and Restated, and

(5) Registration Statement (Form S-8 No. 333-243725) pertaining to the 2015 Equity Incentive Plan as Amended and Restated;

of our report dated April 22, 2021, with respect to the combined consolidated financial statements of ImmunityBio, Inc., as of December 31, 2020 and December 31, 2019 included in this Current Report (Form 8-K/A) of ImmunityBio, Inc.

/s/ Ernst & Young LLP

Los Angeles, California
April 22, 2021

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-233434) of ImmunityBio, Inc. for the registration of common stock, preferred stock, warrants, debt securities and units,

(2) Registration Statement (Form S-4 No. 333-252232) of ImmunityBio, Inc. for the registration of common stock to be issued in connection with the merger with NantCell, Inc. (fka ImmunityBio, Inc., a private company),

(3) Registration Statement (Form S-8 No. 333-205942) pertaining to the 2014 Equity Incentive Plan and 2015 Equity Incentive Plan,

(4) Registration Statement (Form S-8 No.333-233082) pertaining to the 2015 Equity Incentive Plan as Amended and Restated, and

(5) Registration Statement (Form S-8 No. 333-243725) pertaining to the 2015 Equity Incentive Plan as Amended and Restated;

of ImmunityBio, Inc. our report dated March 30, 2021 relating to the consolidated financial statements of NantCell, Inc. (fka ImmunityBio, Inc., a private company) as of and for the years ended December 31, 2020 and December 31, 2019 appearing in this Current Report (Form 8-K/A) of ImmunityBio, Inc.

/s/ Ernst & Young LLP

Los Angeles, California
April 22, 2021

Exhibit 99.1

INDEX TO IMMUNITYBIO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

To the Board of Directors and Stockholders of
ImmunityBio, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of ImmunityBio, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, consolidated statements of stockholders' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ImmunityBio, Inc. and Subsidiaries at December 31, 2020 and 2019, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
March 30, 2021

ImmunityBio, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except for share amounts)

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 23,474	$ 60,293
Marketable securities	7,324	4,055
Prepaid expenses and other current assets (including a related party)	5,084	10,411
Related party receivable	5,575	1,918
Total current assets	41,457	76,677
Property and equipment, net	21,078	27,776
Intangible assets, net	1,463	12,074
Convertible note receivable	6,129	5,879
Operating lease right-of-use assets, net	7,881	—
Other assets (including a related party)	1,477	1,132
Total assets	$ 79,485	$ 123,538
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 7,409	$ 7,051
Accrued expenses and other current liabilities (including related parties)	27,418	18,555
Operating Lease Liability, current portion	1,486	—
Related party payable	13,402	10,909
Total current liabilities	49,715	36,515
Related party notes payable, non-current	254,353	181,621
Deferred income tax liability	170	3,108
Contingent consideration, net of current portion	116	939
Operating Lease Liability, net of current portion	7,601	0
Other non-current liabilities (including a related party)	1,276	4,236
Total liabilities	313,231	226,419
Commitments and Contingencies (Note 10)		
Stockholders' deficit		
Common stock, $0.001 par value; 1,000,000,000 shares authorized at December 31, 2020 and 2019; 333,964,092 shares issued and outstanding at December 31, 2020 and 2019, respectively; excluding treasury stock, 200,000 shares outstanding at December 31, 2020 and 2019, respectively.	63	63
Additional paid-in-capital	623,049	623,001
Accumulated deficit	(858,420)	(729,617)
Accumulated other comprehensive income	244	18
Total ImmunityBio stockholders' deficit	(235,064)	(106,535)
Non-controlling interests	1,318	3,654
Total stockholders' deficit	(233,746)	(102,881)
Total liabilities and stockholders' deficit	$ 79,485	$ 123,538

ImmunityBio, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except per share amounts)

	Year Ended December 31, 2020	2019
Revenue (including $1,201 and $1,352 with a related party for the year ended December 31, 2020 and 2019, respectively)	$ 1,695	$ 2,994
Operating expenses:		
Research and development	75,762	62,253
General and administrative	43,666	27,505
Change in loss contingency	434	886
Impairment of intangible assets	10,660	0
Total operating expenses	130,522	90,644
Loss from operations	(128,827)	(87,650)
Other income (expense):		
Interest expense, net	(8,612)	(5,143)
Other income (expense), net	4,211	(1,019)
Loss before income taxes and non-controlling interest	(133,228)	(93,812)
Income tax benefit	1,851	8
Net loss	(131,377)	(93,804)
Net loss attributable to non-controlling interests, net of tax	(2,336)	(2,381)
Net loss attributable to ImmunityBio's common stockholders	$(129,041)	$ (91,423)
Net loss per ImmunityBio common share- basic and diluted	$ (0.39)	$ (0.28)
Weighted-average number of common shares used in computing net loss per share -basic and diluted	333,964	332,252
Other comprehensive income (loss):		
Other comprehensive income (loss), net of tax	226	(35)
Comprehensive loss	(131,151)	(93,839)
Comprehensive loss attributable to non-controlling interests	(2,336)	(2,381)
Comprehensive loss attributable to ImmunityBio common stockholders	$(128,815)	$ (91,458)

ImmunityBio, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Deficit
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total ImmunityBio Stockholders' deficit	Non-controlling Interests	Total
	Shares	Amount						
Balance at December 31, 2018	329,170	$ 59	$585,482	$ (4,088)	$ (632,053)	$ (50,600)	$(12,318)	$ (62,918)
Issuance of common stock for equity investment	2,500	2	29,998	—	—	30,000	—	30,000
Issuances of common stock under equity incentive plan	11	—	16	—	—	16	—	16
Stock-based compensation	—	—	794	—	—	794	—	794
Warrant exercise	2,533	2	6,711	—	—	6,713	—	6,713
Deconsolidation of Precision Biologics	—	—	—	—	—	—	18,353	18,353
Stock repurchase and cancellation	(250)	—	—	—	(2,000)	(2,000)	—	(2,000)
Adjustment to beginning accumulated deficit from adoption of ASU2016-01	—	—	—	4,141	(4,141)	—	—	—
Other comprehensive loss, net of tax	—	—	—	(35)	—	(35)	—	(35)
Net loss	—	—	—	—	(91,423)	(91,423)	(2,381)	(93,804)
Balance at December 31, 2019	333,964	$ 63	$623,001	$ 18	$ (729,617)	$ (106,535)	$ 3,654	$(102,881)
Stock-based compensation	—	—	48	—	—	48	—	48
Implementation of Lease Accounting	—	—	—	—	238	238	—	238
Other comprehensive income, net of tax	—	—	—	226	—	226	—	226
Net loss	—	—	—	—	(129,041)	(129,041)	(2,336)	(131,377)
Balance at December 31, 2020	333,964	$ 63	$623,049	$ 244	$ (858,420)	$ (235,064)	$ 1,318	$(233,746)

ImmunityBio, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2020	2019
Cash flows from operating activities:		
Net loss	$(131,377)	$ (93,804)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,714	5,031
Impairment of intangible asset	10,660	
Noncash lease expense	1,727	—
Loss on disposal of assets	—	725
Stock-based compensation	48	794
Unrealized (gain) or loss on marketable securities	(2,876)	319
Change in fair value of contingent consideration	(753)	(65)
Changes in accrued interest, including related parties	8,782	(949)
Change in loss contingency	434	886
Deferred income tax	(2,938)	(8)
Other	—	(1)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	4,982	(3,320)
Accounts payable	290	1,533
Accrued expenses and other current liabilities	9,691	2,812
Operating lease liability, non-current	(518)	—
Net cash used in operating activities	(97,134)	(86,047)
Cash flows from investing activities:		
Purchases of property and equipment	(1,178)	(3,316)
Payment to Precision to facilitate deconsolidation	—	(2,500)
Purchase of marketable securities	(193)	(571)
Proceeds from sales of marketable securities	—	72
Net cash used in investing activities	(1,371)	(6,315)
Cash flows from financing activities:		
Proceeds from issuance of related party promissory notes	63,700	47,670
Repayments of related party payables	(1,991)	(1,287)
Proceeds from issuance of common stock	—	30,000
Proceeds from exercise of stock options	—	16
Repurchase of common stock	—	(2,000)
Net cash provided by financing activities	61,709	74,399
Effect of currency exchange rate changes on cash	(23)	(23)
Net decrease in cash and cash equivalents	(36,819)	(17,986)
Cash and cash equivalents, beginning of period	60,293	78,279
Cash and cash equivalents, end of period	$ 23,474	$ 60,293
Significant non-cash investing and financing activities		
Issuance of equity for warrant exercises via reduction of related party promissory notes	$ —	$ 6,713

1. Business

Organization

ImmunityBio, Inc. (fka NantCell, Inc.) (including its subsidiaries, referred to as "ImmunityBio" or the "Company") was originally formed as a Delaware limited liability company on November 18, 2014, under the name NantBioCell, LLC. On January 9, 2015, the name of the limited liability company was changed to NantCell, LLC. On April 10, 2015, it was converted to a Delaware corporation under the name NantCell, Inc. On May 31, 2019, its name was changed to ImmunityBio, Inc. The Company is majority owned by an entity controlled by Dr. Soon-Shiong, chairman and chief executive officer of the Company. The Company is headquartered in Culver City, California.

ImmunityBio is an immunotherapy company with a broad portfolio of biological molecules at various stages of clinical development. The Company's goal is to employ this portfolio to activate endogenous natural killer and CD8+ T cells for the treatment and prevention of cancer and infectious diseases. Specifically, ImmunityBio's goal is to develop a memory T cell cancer vaccine to combat multiple tumor types, without the use of high-dose chemotherapy. In the field of infectious disease, ImmunityBio's goal is to develop therapies, including vaccines, for the prevention and treatment of human immunodeficiency virus, or HIV, influenza, and the novel coronavirus SARS-CoV-2.

ImmunityBio's first-in-human platform of technologies has enabled it to achieve one of the most comprehensive, late-stage clinical pipelines, activating both the innate (natural killer cell) and adaptive immune systems. The product pipeline includes an antibody cytokine fusion protein (an IL-15 superagonist (N-803) known as Anktiva), an albumin-associated anthracycline synthetic immunomodulator (aldoxorubicin), second-generation adenovirus (hAd5) and yeast vaccine technology (targeting tumor-associated antigens and neoepitopes), checkpoint inhibitors, macrophage polarizing peptides, bi-specific fusion proteins targeting TGF-ß and IL-12.

In December 2019, the U.S. Food and Drug Administration, or FDA, granted Breakthrough Therapy designation to Anktiva for bacillus Calmette-Guérin, or BCG, unresponsive carcinoma in situ non-muscle invasive bladder cancer. Other indications currently at registration-potential studies include BCG unresponsive papillary bladder cancer, first- and second-line lung cancer, and metastatic pancreatic cancer.

Liquidity and Capital Resources

The Company has experienced net losses since its inception and had an accumulated deficit of $858.4 million as of December 31, 2020. The Company expects to continue to incur losses and have negative net cash flows from operating activities, as a result of substantial resources required for expanding its portfolio and engaging in further research and development of immunotherapy products, particularly for conducting preclinical studies and clinical trials and the lack of sources of revenues until such time as the Company's product candidates are commercialized. These conditions could raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. This contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and does not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of this uncertainty. As a result of continuing anticipated operating cash outflows, we believe that substantial doubt exists regarding our ability to continue as a going concern without additional funding or financial support. The Company believes its existing cash, cash equivalents and ability to borrow from affiliated entities will be sufficient to fund operations through at least 12 months following the issuance date of the consolidated financial statements based upon the intent and ability of the Company's chairman and chief executive officer to support the Company's operations with additional funds as required, which we believe alleviates such doubt. The Company expects to fund

operating activities through a combination of equity, equity-linked and debt financings, government or other third-party funding, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements, however, the Company may not be able to secure such financing in a timely manner or on favorable terms. Without additional funds, the Company may choose to delay, reduce, or eliminate its product development or future commercialization efforts. Further, because of the risk and uncertainties associated with the commercialization of the Company's existing product candidates, the Company may need additional funds to meet its needs sooner than planned. To date, the Company's primary sources of capital have been private placements and debt financing agreements including related party promissory notes with NantCapital, LLC, or NantCapital, California Capital Equity, LLC, or CalCap, NantCancerStemCell, LLC, or NCSC, NantMobile, LLC, or NantMobile, and NantWorks, LLC, or NantWorks, which are primarily funded and led by the Company's chairman and chief executive officer. See Note 15 for more information regarding related party transactions.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and are prepared in accordance with the U.S. generally accepted accounting principles, or U.S. GAAP. All intercompany amounts have been eliminated. Certain items in the prior year's consolidated financial statements have been reclassified to conform to the current presentation. These reclassifications had no effect on the reported results of operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis, the Company evaluates its significant accounting policies and estimates. The Company bases its estimates on historical experience and on various other market-specific and relevant assumptions that it believes to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all unrestricted, liquid investments with an initial maturity of three months or less to be cash equivalents. These amounts are stated at cost, which approximates fair value. While the Company maintains cash deposits in FDIC-insured financial institutions in excess of federally insured limits, the Company believes that such funds are subject to minimal credit risk due to the financial position of the depository institutions in which those deposits are held. The Company has not experienced any losses on deposits of cash and cash equivalents to date.

Marketable Securities

The Company classifies all marketable debt securities as available-for-sale at the time of purchase and reevaluates such designation at each balance sheet date. The entire marketable securities portfolio is considered available for use in current operations and, accordingly, all such investments are considered current assets although the stated maturity of individual investments may be more than one year beyond the balance sheet date. All marketable debt securities are reported at fair value and unrealized gains and losses are reported as a component of "accumulated other comprehensive income (loss), net of tax", on the consolidated statement of stockholders' deficit, with the exception of unrealized losses believed to be other-than-temporary, which are recorded within "Other income (expense), net" in the current period. Investments in mutual funds and equity securities, other than equity method investments, are recorded at fair market value, if fair value is readily determinable and, beginning January 1, 2019, any unrealized gains and losses are included in "Other income (expense), net" on the consolidated statements of operations and comprehensive loss. Realized gains and losses from the sale of the securities are determined on a specific identification basis and the amounts are included in "Other income (expense), net."

The Company regularly reviews all investments for other-than-temporary declines in fair value. If any adjustment to fair value reflects a decline in value of the investment, the Company considers all available evidence to evaluate the extent to which the decline is “other-than-temporary” and, if so, marks the investment to market through a charge to Other income (expense), net.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, marketable securities, and convertible note receivable. The Company maintains balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for the banks located in the United States. Balances at financial institutions within certain foreign countries are not covered by insurance. The Company has not experienced any losses in these financial institution accounts. The Company also monitors the creditworthiness of the borrower of the convertible promissory note. The Company believes that any concentration of credit risk in its convertible note receivable was mitigated in part by the Company’s ability to convert, if necessary, at the qualifying financing event or upon a payment default into shares of the senior class of equity securities of the borrower.

Property and Equipment, Net

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Property and equipment assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. All repairs and maintenance are charged to a net loss during the financial period in which they are incurred. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Building	39 years
Furniture & fixtures	5 years
Laboratory equipment	5 to 7 years
Computer equipment and Software	3 years
Leasehold improvements	The lesser of the lease term or the life of the asset

Business Combinations

Business combinations are accounted for using the acquisition method of accounting in accordance with Accounting Standards Codification, or ASC 805, *Business Combinations*. These standards require that the total cost of acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition, with the excess purchase price recorded as goodwill. The allocation of the purchase price is dependent upon certain valuations and other studies. Acquisition costs are expensed as incurred.

Contingent consideration obligations incurred in connection with a business combination are recorded at their fair values on the acquisition date and re-measured at their fair values each subsequent reporting period until the related contingencies are resolved. The resulting changes in fair values are recorded as “research and development” expenses on the consolidated statements of operations and comprehensive loss. Changes in fair values reflect changes to the Company’s assumptions regarding probabilities of successful achievement of related milestones, the timing in which the milestones are expected to be achieved, and the discount rate used to estimate the fair value of the obligation.

Goodwill and Intangible Assets

Goodwill represents the excess of the consideration transferred over the estimated fair value of assets acquired and liabilities assumed in a business combination. Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value on the acquisition date. The in-process research and development, or IPR&D, assets are required to be classified as indefinite-lived assets and are

not amortized until they become definite lived assets, upon the successful completion of the associated research and development effort. At that time, the Company will evaluate whether recorded amounts are impaired and make any necessary adjustments, and then determine the useful life of the asset and begin amortization. If the associated research and development effort is abandoned, the related IPR&D assets will be written-off and an impairment charge recorded. Intangible assets are tested for impairment at least annually or more frequently if indicators of potential impairment exist.

Acquired definite life intangible assets are amortized using the straight-line method over their respective estimated useful lives. The Company evaluates the potential impairment of intangible assets if events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Impairment is based on the excess of the carrying amount over the fair value of those assets.

Variable Interest Entities

The Company applies the variable interest model under ASC 810, *Consolidation*, to any entity in which the Company holds an equity investment or to which the Company has the power to direct the entity's most significant economic activities and the ability to participate in the entity's economics. If the entity is within the scope of the variable interest model and meets the definition of a variable interest entity, or VIE, the Company considers whether it must consolidate the VIE or provide additional disclosures regarding the Company's involvement with the VIE. If the Company determines that it is the primary beneficiary of the VIE, the Company will consolidate the VIE. This analysis is performed at the initial investment in the entity or upon any reconsideration event.

Fair Value of Financial Instruments

The Company determines the fair value of financial and non-financial assets and liabilities using the fair value hierarchy, which establishes three levels of inputs that may be used to measure fair value, as follows:

Level 1: Inputs based on unadjusted quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Certain financial instruments reflected in the consolidated balance sheets, including cash and cash equivalents, prepaid expenses, other current assets, accounts payable, accrued expenses and certain other current liabilities, are recorded at cost, which approximates fair value due to their short-term nature. The fair values of the Company's marketable securities are determined based on quoted prices. The fair values of financial instruments other than marketable securities and cash and cash equivalents disclosed in Note 4 are determined through a combination of management estimates and third party valuations. No transfers between levels have occurred during the periods presented.

Preclinical and Clinical Trial Accruals

As part of the process of preparing the consolidated financial statements, the Company is required to estimate expenses resulting from obligations under contracts with vendors, clinical research organizations and consultants. The financial terms of these contracts vary and may result in payment flows that do not match the periods over which materials or services are provided under such contracts.

The Company estimates clinical trial and research agreement related expenses based on the services performed, pursuant to contracts with research institutions and clinical research organizations and other vendors that conduct clinical trials and research on the Company's behalf. In accruing clinical and research-related fees, the Company estimates the period over which services will be performed and activity expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company will adjust the accrual accordingly. Payments made to third parties under these arrangements in advance of the receipt of the related services are recorded as prepaid expenses and other current assets until the services are rendered.

Income Taxes

Income taxes are recorded in accordance with ASC 740, *Income Taxes*, which provides for deferred taxes using an asset and liability approach. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records valuation allowances to reduce deferred tax assets to the amount the Company believes is more likely than not to be realized.

The Company recognizes uncertain tax positions when the positions will be more likely than not upheld on examination by the taxing authorities based solely upon the technical merits of the positions. The Company recognizes interest and penalties, if any, related to unrecognized income tax uncertainties in income tax expense. The Company did not have unrecognized tax benefits, and there is no accrued interest or penalties associated with uncertain tax positions as of December 31, 2020 and 2019.

Revenue Recognition and Deferred Revenue

The Company has primarily generated revenues from grant programs. Additionally, the Company has generated revenues from product sales of its proprietary GMP-in-a-Box bioreactors and related consumables associated with such equipment.

Under the Company's license agreements with customers, the Company typically promises to provide a license to use or perform research and development activities. The terms of such license agreements usually include the license of functional intellectual property, given the functionality of the intellectual property is not expected to change substantially as a result of the licensor's ongoing activities. The Company does not have any material license arrangements that contain multiple deliverables. The Company is compensated under license arrangements through non-refundable up-front payments, event-based milestone payments, and future royalties on net product sales. Nonrefundable license fees are recognized as revenue at a point in time when the licensed intellectual property is made available for the customer's use and benefit, which is generally at the inception of the arrangement.

Milestone fees, which are a type of variable consideration, are recognized as revenue to the extent that it is probable that a significant reversal will not occur. Given the uncertainty surrounding event-based milestone payments and that no such milestones have been achieved to date, the Company currently estimates variable consideration related to milestone payments to approximate $0, and no revenues to date have been recognized for milestone payments. The Company will recognize revenues from sales-based royalty payments when or as the sales occur. On a quarterly basis, the Company will re-evaluate its estimate of milestone variable consideration to determine whether any amount should be included in the transaction price and recorded in revenues prospectively.

The Company also has sold its proprietary GMP-in-a-Box bioreactors and related consumables to affiliated companies. The arrangements typically include delivery of bioreactors, consumables, and providing installation service and perpetual software licenses for using the equipment. The Company recognizes revenue when customers obtain control and can benefit from the promised goods or services, generally upon installation of the bioreactors, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. Upfront payments and fees are recorded as deferred revenue upon receipt and recognized as revenue when the Company satisfies its performance obligations under these arrangements.

Grant revenue is typically paid for reimbursable costs incurred over the duration of the associated research project or clinical trial and is recognized when expenses reimbursable under the grants have been incurred and payments under the grants become contractually due.

Research and Development Expenses

Major components of research and development costs include cash compensation, stock-based compensation, depreciation and amortization expense on lab equipment, software, and other property and equipment and intangible assets, costs of internal and external preclinical studies, and clinical trial costs, including contract

research organizations, or CROs and related clinical manufacturing, including contract manufacturing organizations, or CMOs, costs of materials and supplies, facilities cost, overhead costs, regulatory and compliance costs, and fees paid to consultants and other entities that conduct certain research and development activities on the Company's behalf. These costs are expensed as incurred. The Company records the estimated expenses of research and development activities conducted by third-party service providers based upon the estimated amount of services provided within research and development expense. The Company adjusts the accruals in the period when actual costs become known.

General and Administrative Expenses

General and administrative expenses are related to finance, human resources, legal and other administrative activities. These expenses consist primarily of personnel costs, outside services, legal expenses, management fees and other general and administrative costs.

Patents

The Company expenses patent costs, including related legal costs, as incurred, and records such costs within "general and administrative" expenses on the consolidated statements of operations and comprehensive loss.

Other Income (Expense)

Other income (expense), net consists of interest income, interest expense, non-cash costs related to fair value adjustments to derivative warrant assets, unrealized gains and losses on equity securities, gains and losses on the disposal of the property and equipment, realized gains or losses on both debt and equity securities, and gains and losses on foreign currency transactions.

Risks and Uncertainties

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. To date, the Company's operations have not been significantly impacted by the COVID-19 outbreak. However, the Company cannot at this time predict the specific extent, duration, or full impact that the COVID-19 outbreak may have on the financial condition and results of operations, including ongoing and planned clinical trials. More specifically, the recent uptick of COVID-19 outbreaks worldwide and in particular across the U.S. may result in prolonged impacts that the Company cannot predict at this time and the Company expects that such uncertainties will continue to exist until such time a vaccine is available. The impact of the COVID-19 coronavirus outbreak on the financial performance of the company will depend on future developments, including the duration and spread of the outbreak and related governmental advisories and restrictions. These developments and the impact of COVID-19 on the financial markets and the overall economy are highly uncertain. If the financial markets and/or the overall economy are impacted for an extended period, our results may be adversely affected.

Loss contingencies

The Company is involved in various legal proceedings in the normal course of business. A loss contingency is recorded if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The Company evaluates, among other factors, the probability of an unfavorable outcome and its ability to make a reasonable estimate and the amount of the ultimate loss. Loss contingencies that are determined to be reasonably possible, but not probable, are disclosed but not recorded. Legal fees incurred as a result of the legal procedures are expensed as incurred.

Stock-Based Compensation

The Company accounts for its stock-based compensation awards in accordance with ASC 718, *Compensation-Stock Compensation*. ASC 718 requires all stock-based payments to employees and members of its board of directors, including grants of stock options and restricted stock awards, to be recognized in the consolidated statements of operations and comprehensive loss based on their fair value. The Company estimates the fair value of each stock option on the date of grant using the Black-Scholes options-pricing model. For awards subject to service-based vesting conditions, stock-based compensation expense is recognized over the service period using the straight-line method. Forfeitures are recognized as they occur.

The Company expenses restricted stock awards to employees based on the fair value of the award on a straight-line basis over the associated service period of the award.

The Company also accounts for equity instruments issued to non-employees using a fair value approach under ASC Subtopic 505-50, *Equity-Based Payments to Non-Employees*. The Company values equity instruments and stock options granted using the Black-Scholes option-pricing model. The value of non-employee stock-based compensation is subject to periodic adjustments as the underlying equity instruments vest and is recognized as an expense over the term of the related financing or the period over which services are received.

Basic and Diluted Net Loss per Common Share

Basic and diluted net loss per share, or EPS, is computed by dividing the net loss attributable to ImmunityBio common stockholders by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing the net loss attributable to ImmunityBio common stockholders by the weighted-average number of common shares, including the dilutive effect from outstanding stock options, restricted stock, liability warrants and other contingently issuable shares. The potential dilutive effect from contingent shares has been excluded from the diluted loss per share calculation when the effect of including such shares is anti-dilutive.

The following table details those securities, which have been excluded from the computation of potentially dilutive securities (in thousands):

	Year ended December 31,	
	2020	2019
Warrants to purchase common stock	2,000	2,000
Options to purchase common stock	1,805	1,941
Total	3,805	3,941

Lease Obligations

The Company adopted Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 842, Leases, or ASC 842, effective January 1, 2020, using the modified retrospective approach and utilizing the effective date as its date of initial application. As a result, prior periods are presented in accordance with the previous guidance in ASC 840, Leases, or ASC 840.

The Company elected the following practical expedients, which must be elected as a package and applied consistently to all of its leases at the transition date (including those for which the entity is a lessee or a lessor): i) the Company did not reassess whether any expired or existing contracts are or contain leases; ii) the Company did not reassess the lease classification for any expired or existing leases (that is, all existing leases that were classified as operating leases in accordance with ASC 840 are classified as operating leases, and all existing leases that were classified as capital leases in accordance with ASC 840 are classified as finance leases); and iii) the Company did not reassess initial direct costs for any existing leases.

For contracts entered into on or after the effective date, the Company determines if an arrangement is, or contains, a lease at lease inception based on the unique facts and circumstances present in the arrangement. Leases entered into prior to January 1, 2020, which were accounted for under ASC 840, Leases, were not reassessed as the Company elected the package of practical expedients permitted under the transition guidance within the new standard, allowed the Company to carry forward the historical lease classification.

For all leases other than short-term leases, at the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset represents the right to use the leased asset for the lease term. At lease commencement, leases are classified as either finance leases or operating leases. The Company does not currently have any leases classified as finance leases. The operating leases are included in operating lease right-of-use assets, net, operating Lease Liability, current portion, and operating lease liabilities, net of current portion on the consolidated balance sheet.

At the commencement date, operating lease right-of-use assets and operating lease liabilities are measured based on the present value of lease payments to be made over the lease term. Operating lease right-of-use assets also include any rent paid prior to the commencement date, less any lease incentives received, and initial direct costs incurred. Lease expense is recognized on a straight-line basis over the lease term. As the rate implicit in lease contracts are not readily determinable, the Company utilizes its incremental borrowing rate as a discount rate for purposes of determining the present value of lease payments, which is based on the estimated interest rate at which the Company could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. To estimate its incremental borrowing rate, a credit rating applicable to the Company is estimated using a synthetic credit rating analysis since the Company does not currently have a rating agency-based credit rating. Prospectively, the Company will remeasure the lease liability at the net present value of the remaining lease payments using the same incremental borrowing rate that was in effect as of the lease commencement or transition date. The Company will adjust the right-of-use assets for changes in the lease liability, the remaining balance of any lease incentives received, and any cumulative prepaid or accrued rent.

The Company has elected to combine lease components with non-lease components, which consist primarily of common-area maintenance costs for the real estate leases. Variable lease payments include amounts relating to common area maintenance and real estate taxes, which are based on the actual costs to the lessor. These amounts are reflected in variable lease expenses.

The Company has elected not to recognize right-of-use assets and lease liabilities for qualifying short-term leases with an initial lease term of 12 months or less at lease commencement. Such leases are expensed on a straight-line basis over the lease term. The lease term includes the non-cancellable period of the lease and any additional periods covered by either options to renew or not to terminate when the Company is reasonably certain to exercise.

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life and the remaining lease term.

Non-controlling Interests

Non-controlling interests are recorded for the entities that the Company consolidates but are not wholly owned by the Company. Non-controlling interests are classified as a separate component of equity on the consolidated balance sheets and consolidated statements of stockholders' deficit. Additionally, net loss attributable to non-controlling interests is reflected separately from consolidated net loss on the consolidated statements of operations and comprehensive loss and the consolidated statements of stockholders' deficit. The Company records the non-controlling interests' share of loss based on the percentage of ownership interest retained by the respective noncontrolling interest holders. Non-controlling interests recorded in the consolidated financial statements result from ImmunityBio's share of GlobeImmune, Inc., or GlobeImmune, of which the Company controls 69.1%, and Immunotherapy NANTibody, LLC, or NANTibody, of which the Company controls 60% at December 31, 2020 and 2019. Non-controlling interest stockholders are common stockholders.

GlobeImmune was determined to be a VIE as it does not have sufficient equity investment at risk to finance its operations without additional subordinated financial support and the Company is deemed the primary beneficiary of GlobeImmune and, accordingly, consolidates GlobeImmune into the consolidated financial statements under the VIE model. The Company also supports GlobeImmune through a promissory note agreement, in which the Company provides advances to GlobeImmune from time to time up to $6.0 million with a per annum interest rate of five percent (5%). As of December 31, 2020 and 2019, the Company had advanced $0 and $1.2 million to GlobeImmune to support its operations.

GlobeImmune recognized $0 and $0.2 million of revenues for the years ended December 31, 2020 and 2019 respectively, and $2.0 million and $7.7 million of related operating expenses for the years ended December 31, 2020 and 2019 respectively. Consolidated balance sheets include approximately $0.5 million and $2.3 million of total assets and $0.3 million and $1.5 million of total liabilities as of December 31, 2020 and 2019 related to the GlobeImmune, respectively.

In addition, the Company held a 68.5% ownership of Precision Biologics, Inc., or Precision Biologics, arising from its preferred stock investment. The Company ended its investment in Precision Biologics pursuant to a final settlement agreement approved by the Court in June 2019, and accordingly, the Company deconsolidated the related assets, liabilities and noncontrolling interests of Precision Biologics. The disposition of investment resulted in the Company adjusting $18.4 million of non-controlling interests during 2019. See Note 10 for additional information.

Foreign Currencies

The Company has operations and holds assets in Italy as a result of a business combination. The functional currency of this subsidiary is the euro, based on the nature of the transactions occurring within this entity, and accordingly, assets and liabilities of this subsidiary are translated to U.S. dollars at exchange rates prevailing as of the balance sheet dates, while the operating results are translated into U.S. dollars using the average exchange rates for the period correlating with those operating results. Adjustments resulting from translating the financial statements of the foreign subsidiary into the U.S. dollar are recorded as a component of other comprehensive income (loss). Transaction gains and losses are recorded in "Other income (expense), net" on the consolidated statements of operations and comprehensive loss.

Segment and Geographic Information

Operating segments are defined as components of an enterprise for which discrete financial information is available and regularly reviewed by the chief operating decision-maker, or CODM, in deciding how to allocate resources and in assessing performance. The Company's CODM is its chief executive officer. The Company's CODM views its operations and manages its business in one operating segment and reportable segment.

The Company generates a portion of its revenues from outside of the United States. Information about the Company's revenues from the different geographic regions for the years ended December 31, 2020, and 2019 is as follows (in thousands):

	December 31,	
	2020	2019
United States	$1,603	$2,789
Europe	92	205
Total revenues	$1,695	$2,994

Recent Accounting Pronouncements

Application of New or Revised Accounting Standards – Adopted

In February 2016, the FASB issued Accounting Standards Update, or ASU, 2016-02, Leases (Topic 842), which requires lessees to recognize assets and liabilities for operating leases with lease terms greater than twelve months in the balance sheet. In July 2018, the FASB further amended this standard to allow for a new transition method that offers the option to use the effective date as of January 1, 2020.

The adoption of ASC 842 had a substantial impact on the balance sheet. The most significant impacts were (i) the recognition of approximately $8.4 million of operating lease right-of-use assets, and approximately $9.5 million of operating lease liabilities, and (ii) the derecognition of assets and liabilities associated with the build-to-suit leases under ASC 840 (resulting in the derecognition of property, plant and equipment, net, of $3.2 million and net adjustments to related liabilities of $3.5 million). The difference between the operating lease assets and liabilities of $1.1 million was primarily attributable to the change in classification of lease incentives from current liabilities and other non-current liabilities prior to the adoption reflected as a reduction in the net lease assets after the adoption. The build-to-suit leases were recorded as operating leases under ASC 842. The difference between the excess of build-to-suit related liabilities and assets of approximately $0.2 million was recorded as an increase to our accumulated deficit. The cumulative-effect adjustment had no tax impact due to the valuation allowance against the gross deferred tax asset less reversing deferred tax liabilities. Adoption of this standard had no material impact on our results of operations and cash flows.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation* (Topic 718): *Improvements to Nonemployee Share-Based Payment Accounting*. The existing guidance on nonemployee share-based payments is significantly different from the current guidance for employee share-based payments. This new guidance expands the scope of the employee share-based payments guidance to include share-based payments issued to nonemployees, including measuring equity awards to nonemployees at grant-date fair value, aligning the accounting for share-based awards with performance conditions, and eliminating the requirement to reassess the classification of nonemployee share-based awards upon vesting. The Company adopted the new standard on January 1, 2020 and the adoption did not have a material effect on the Company's financial statement presentation or disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The new standard makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement amongst or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. The Company adopted the new standard on January 1, 2020 and the adoption did not have a material effect on the Company's financial statement presentation or disclosures.

Recently Issued Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This standard requires capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The new standard will be effective for the Company beginning on January 1, 2021 and early adoption is permitted. The adoption of ASU 2018-15 is not expected to have a significant impact on the Company's financial position and results of operations.

In October 2018, the FASB issued ASU No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, or ASU 2018-17. The update is intended to improve general purpose financial reporting by considering indirect interests held through related parties in common control arrangements on a proportional basis for determining whether fees paid to decision-makers and service providers are variable interests. The amendments in ASU 2018-17 will be effective for fiscal years beginning after December 15, 2020, including interim periods within those annual reporting periods, with early adoption permitted. The adoption of ASU 2018-17 is not expected to have a significant impact on the Company's financial position and results of operations.

In November 2018, the FASB issued ASU 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606, or ASU 2018-18. The amendments in this update clarify that certain transactions between collaborative arrangement participants should be accounted for as revenue when the collaborative arrangement participant is a customer in the context of a unit of account and precludes recognizing as revenue consideration received from a collaborative arrangement participant if the participant is not a customer. The new standard will be effective beginning January 1, 2021 and early adoption is permitted. The adoption of ASU 2018-18 is not expected to have a significant impact on the Company's financial position and results of operations.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments, or ASU 2016-13. ASU 2016-13 requires measurement and recognition of expected credit losses for financial assets. In April 2019, the FASB issued a clarification to ASU 2016-13 within ASU 2019-04 "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." The guidance will become effective for the Company beginning in the first quarter of 2023 and must be adopted using a modified retrospective approach, with certain exceptions. The Company is evaluating the impact if any, that this pronouncement will have on our consolidated financial statements.

Other recent authoritative guidance issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission during the year ended December 31, 2020 did not, or are not expected to, have a material effect on our consolidated financial statements.

3. Marketable Securities

Available-for-sale investments

The amortized cost, gross unrealized gains, gross unrealized losses and fair values of marketable securities which were considered as available-for-sale, by type of security were as follows (in thousands):

	Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Types of securities as of December 31, 2020					
Mutual funds		$ 35	$ 2	$ —	$ 37
Foreign bonds	More than 2 years	861	89	—	950
Total		$ 896	$ 91	$ —	$ 987

	Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Types of securities as of December 31, 2019					
Mutual funds		$ 36	$ —	$ —	$ 36
Foreign bonds	More than 2 years	664	—	—	664
Total		$ 700	$ —	$ —	$ 700

Upon adoption of ASU 2016-01 in 2019, the Company reclassified $4.1 million unrealized losses generated from the equity securities, net of taxes from other comprehensive income to accumulated deficit.

For the years ended December 31, 2020 and 2019, realized gains and losses on available for sale securities were not material. The cost of securities sold is based on the specific identification method.

As of December 31, 2020, none of the securities was in an unrealized loss position over 12 months. The Company reviews its available-for-sale investments for other-than-temporary declines in fair value below its cost basis each quarter and whenever events or changes in circumstances indicate that the cost basis of an asset may not be recoverable. The evaluation is based on a number of factors, including the length of time and the extent to which the fair value has been below the Company's cost basis as well as adverse conditions related specifically to the security, such as any changes to the credit rating of the security and the intent to sell or whether the Company will more likely than not be required to sell the security before recovery of its amortized cost basis. As of December 31, 2020 and 2019, the Company believes the cost bases for its available-for-sale investments were recoverable in all material respects. As of December 31, 2020 and 2019, aggregate gross unrealized loss of available-for-sale investments was immaterial.

The primary objective of the Company's investment portfolio is to maintain the safety of principal, prudent levels of liquidity and acceptable levels of risk.

Equity securities

We held investments in equity securities with readily determinable fair values of $6.3 million and $3.4 million as of December 31, 2020 and 2019, respectively, which are included in marketable securities in the consolidated balance sheets. Gains and losses recognized on equity securities with readily determinable fair values, including gains and losses recognized on sales, were not material for the year ended December 31, 2020 and 2019.

4. Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019 consisted of the following (in thousands):

	Fair Value Measurements at December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Current:				
Cash and cash equivalents	$ 23,474	$ 23,474	$ —	$ —
Mutual funds	37	37	—	—
Equity securities	6,337	6,337	—	—
Foreign bonds	950	950	—	—
Total assets measured at fair value	$ 30,798	$ 30,798	$ —	$ —
Liabilities:				
Contingent consideration obligation (1)	$ (972)	$ —	$ —	$ (972)

	Fair Value Measurements at December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Current:				
Cash and cash equivalents	$ 60,293	$ 60,293	$ —	$ —
Mutual funds	36	36	—	—
Equity securities	3,355	3,355	—	—
Foreign bonds	664	664	—	—
Total assets measured at fair value	$ 64,348	$ 64,348	$ —	$ —
Liabilities:				
Contingent consideration obligation (1)	$ (1,725)	$ —	$ —	$ (1,725)

(1) The contingent consideration obligations related to the acquisitions of VivaBioCell, S.p.A., or VivaBioCell, and Receptome, LLC, or Receptome. The contingent consideration obligations are recorded at their estimated fair values and are revalued each reporting period until the related contingencies are resolved. The fair value measurements of these obligations are based on significant inputs not observable in the market (a Level 3 measurement within the fair value hierarchy) and are reviewed periodically by management. These inputs include the estimated probabilities and timing of achieving specified development and sales milestones, as well as the discount rate used to determine the present value of these milestones. Contingent considerations may change significantly as development progresses and additional data are obtained. Significant changes that would increase or decrease the probabilities or timing of achieving the development and sales milestones would result in a corresponding increase or decrease in the fair value of the contingent consideration obligations, which would be recognized in the consolidated statements of operations and comprehensive loss. During the year ended December 31, 2019, a contingent milestone had been reached which resulted in a total of $0.8 million contingent consideration being adjusted to fair value and recorded under “Accrued expenses and other current liabilities” in the consolidated balance sheets. See Note 9 for additional information.

Changes in the carrying amount of contingent consideration obligations were as follows (in thousands):

	Year ended December 31,	
	2020	2019
Fair value, beginning of year	$ (1,725)	$ (1,004)
Consideration payable	—	(786)
Net changes in fair value	753	65
Ending balance	$ (972)	$ (1,725)

5. Prepaid Expenses and Other Current Assets

Prepaid expense and other current assets as of December 31, 2020 and 2019 consisted of the following (in thousands):

	As of December 31, 2020	2019
Insurance claim receivable	$2,518	$ 6,350
Prepaid insurance	708	421
Prepaid manufacturing services	—	1,919
Prepaid R&D	568	536
Prepaid services	687	130
Grant receivable	—	402
Other	603	653
Prepaid expenses and other current assets	$5,084	$10,411

The Company agreed to and then received a total of $2.5 million related to insurance reimbursements from a third-party insurance carrier during 2021, for a portion of the legal fees incurred by the Company prior to the end of 2020 for outstanding legal cases. The Company recorded a total of $6.4 million insurance receivable as of December 31, 2019 and then received from the third-party insurance carrier for a portion of the legal fees incurred by the Company prior to the end of 2019. Since the related legal losses have been recorded in the period they are incurred, this resulted in a receivable offset of $2.5 million and $6.4 million for the insurance recovery of those costs, which have been recorded in general and administrative for the years ended December 31, 2020 and 2019, respectively.

6. Property and Equipment, Net

Property and equipment as of December 31, 2020 and 2019 consisted of the following (in thousands):

	As of December 31, 2020	2019
Building	$ —	$ 3,414
Furniture & fixture	600	565
Equipment and other	14,133	13,027
Computer equipment and software	1,186	1,087
Leasehold improvements	18,571	17,908
Construction in progress	1,333	1,333
Subtotal	35,823	37,334
Less: accumulated depreciation	(14,745)	(9,558)
Property and equipment, net	$ 21,078	$27,776

During the year ended December 31, 2019, as a result of laboratory relocation, assets with a cost of $1.5 million and accumulated depreciation of $0.6 million were disposed of for proceeds of $0.2 million, resulting in a loss on disposal of $0.7 million, which was included in “Other income (expense), net.” Depreciation expense was $4.7 million and $5.0 million for the years ended December 31, 2020 and 2019, respectively.

7. Intangible Assets, Net

Intangible assets consist of acquired in-process research and development not subject to amortization, and other intangible assets subject to amortization. As of December 31, 2020 and 2019, the Company only had indefinite-lived in-process research and development, or IPR&D, intangible assets, which were obtained from business acquisitions. During October 2020, the Company determined to discontinue the LMP1 and LMP/IPS programs based on the results gathered from the preclinical data during the third quarter of 2020. As a result, the carrying value of the IPR&D relating to the LMP1 and LMP/IPS program was written down to zero and the Company recorded an impairment charge of $10.7 million within Research and development expenses on the Consolidated Statements of Operations and Comprehensive Loss. No such charges were recorded during the year ended December 31, 2019.

8. Convertible Note Receivable

On June 27, 2016, ImmunityBio executed a convertible promissory note with Riptide Bioscience, Inc., or Riptide, and advanced Riptide for a principal amount of $5.0 million with interest on the outstanding principal amount at the rate of five percent per annum. The original term of the promissory note is that the entire unpaid principal amount and all unpaid accrued interest shall become fully due and payable on the earlier of (i) the three (3) year anniversary of the issuance date, and (ii) when the Company accelerates the maturity of the note upon the occurrence of an event of default. In the event of qualified financing, the outstanding principal amount and unpaid accrued interest automatically convert into the most senior class of preferred stock sold in such qualified financing at a 25% discount to the price per share paid for such preferred stock. In addition, in the event of a change in control, the Company will have the option to be paid in cash or convert, immediately prior to the closing of such transaction, the outstanding indebtedness into Riptide's most senior class of equity securities at a 25% discount to the price per share paid for such equity securities in such transaction.

Concurrent with the transaction, the Company entered into an exclusive license agreement with Riptide to obtain worldwide exclusive rights, with the right to sublicense, certain know-how related to RP-182, RP-233 and RP-183. The Company is required to pay a single-digit royalty on net sales of licensed products on a country-by-country basis. Pursuant to the license agreement, the Company is also required to make cash milestone payments upon successful completion of certain clinical, regulatory and commercial milestones up to an aggregated amount of $47.0 million for the first three indications of the licensed product with a maximum payment amount of $100.0 million.

On March 25, 2019, the Company and Riptide entered into a first amendment to the convertible promissory note. Under the agreement, the Company extended the maturity of the promissory note to the earlier of, a) the later of, i) the completion of non-clinical IND enabling studies by ImmunityBio, or ii) December 31, 2020; and b) when the Company accelerates the maturity of the note upon the occurrence of an event of default. No other terms and contentions of the promissory note have been modified. Concurrently, the Company also entered into a first amendment to the exclusive license agreement with Riptide and extended the achievement dates for certain clinical trial milestones related to the Riptide licensed products. This option for receiving a 25% discount was determined to have an immaterial value at inception and life to date of the note, as the probability of a future qualifying event is remote. All other terms and conditions of the license agreement continued in full force and effect. The Company is still in the process of completion of non-clinical IND enabling studies as of December 31, 2020, so this promissory note is still outstanding. The convertible note receivable balance was $6.1 million and $5.9 million, which included the accrued interest of $1.1 million and $0.9 million at December 31, 2020 and 2019, respectively.

9. Accrued Liabilities and Other Current Liabilities

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

	As of December 31, 2020	2019
Accrued dissenting shares (1)	$ 6,769	$ 6,335
Accrued compensation	5,575	3,832
Accrued professional and consulting services	4,748	2,968
Accrued research and development costs	4,002	392
Accrued clinical	3,701	2,163
Deferred revenue	698	495
Accrued contingent consideration payable	856	786
Deferred rent, current	—	526
Built-to-suit liability, current	—	151
Accrued other	1,069	907
Total Accrued liabilities and other current liabilities	$27,418	$18,555

(1) See Note 10 for additional information.

10. Commitments and Contingencies

Funding Commitments

The Company is a party to various agreements, principally relating to licensed technology that requires future payments relating to milestones that may be met in subsequent periods or royalties on future sales of specific licensed products. The Company may be obligated to make future development, regulatory and commercial milestone payments and royalty payments on future sales of specific products associated with the Company's collaboration and license agreements. Payments under these agreements generally become due and payable upon achievement of such milestones or sales. When the achievement of these milestones or sales has not occurred, such contingencies are not recorded in the Company's consolidated financial statements. Refer to Note 11 for further information.

Lease Arrangements:

The Company adopted ASC 842, as of January 1, 2020, using the modified retrospective transition approach discussed in further detail in Note 2. As a result, prior periods were not recast. The following disclosures relate to the lease balances as of January 1, 2020 and December 31, 2020, under ASC 842 (in thousands):

	Balance January 1, 2020	Balance December 31, 2020
Assets		
Operating lease right-of-use assets	$ 8,402	$ 7,881
Total lease assets	8,402	7,881
Liabilities		
Operating lease liability, current	(1,602)	(1,487)
Operating lease liability, non-current	(7,946)	(7,601)
Total lease liabilities	$ (9,548)	$ (9,088)
Other information		
Weighted average remaining lease term	5.6 years	4.9 years
Weighted average discount rate	9%	9%

All of the operating right-of-use assets and operating lease liabilities relate to facilities leases. The Company has leases in multiple facilities across the United States and Italy including in El Segundo, California (general corporate and administrative activities, research and development and regulatory), Seattle, Washington (research and development), Louisville, Colorado (research and development and manufacturing), Miramar, Florida (clinical development), Morrisville, and Udine and Tavangnacco, Italy (GMP-in-a-Box). The typical leases include an initial term ranging from three to seven years with a three to ten years renewal option. The initial terms of these leases expire at various dates through March 2026. None of the lease terms used to calculate the future lease payments include periods covered by the renewal options, as the Company is not reasonably certain to exercise these options at lease commencement dates.

Operating lease costs of $4.5 million, including $2.0 million variable lease costs for the year ended December 31, 2020, were recorded in research and development expense and selling, general and administrative expense on the consolidated statements of operations. The total short-term lease expense was immaterial for the year ending December 31, 2020. For the year ended December 31, 2020, cash outflows from operating leases were $3.6 million.

As an effort of restructuring clinical laboratories, the Company vacated two facilities in Miramar, Florida and subleased the space to third parties under two separate sublease agreements, which both expire in February 2021. The operating sublease incomes for these two subleases were $0.4 million for the year ended December 31, 2020.

In September 2020, the Company entered into a Sublease Agreement with NantKwest, and agreed to sublease a manufacturing and research and development facility located in El Segundo to NantKwest. The total premises of the building comprises approximately 11,980 rentable square feet, and the sublease premises comprises approximately 6,901 rental square feet. The sublease commenced in August 2020, and expires in July 2022, with an option to extend the initial term for an additional one year. The security deposit from NantKwest for the subleased facility is $0.4 million. The base rent increase by 3% in November 2020 and November 2021. In addition to the monthly base rent, the Company passes through the operating expenses and variable lease costs in proportion to the subleased square feet, and depreciation costs for equipment that is used by NantKwest in the subleased facility. The operating sublease income was $0.1 million and the reimbursements of operating expenses, property taxes, variable costs and depreciation costs were $0.8 million for the year ended December 31, 2020.

The following is a schedule of the future minimum lease payments required under these leases as of December 31, 2020 (in thousands). Common area maintenance costs and taxes are not included in these payments.

Years ending December 31:	Operating Leases
2021	$ 2,231
2022	2,266
2023	2,331
2024	2,273
2025	1,793
Thereafter	373
Total future lease payments	11,267
Less: imputed interest	(2,179)
The present value of operating lease liabilities	$ 9,088

Contingent Consideration related to Business Combination

On April 10, 2015, NantWorks, a related party, acquired 100% interest in VivaBioCell via its wholly-owned subsidiary, VBC Holdings, LLC, or VBC Holdings, for $0.7 million less working capital adjustments. On June 15, 2015, NantWorks contributed its equity interest in VBC Holdings to the Company, in exchange for cash consideration equal to its cost basis in the investment. VivaBioCell develops bioreactors and products based on cell culture and tissue engineering in Italy. In connection with this transaction, the Company is obligated to pay the former owners up to $3.7 million upon the achievement of certain sales milestones relating to scaffold technology and certain clinical and regulatory milestones relating to the GMP-in-a-Box technology. The estimated fair value of the contingent consideration obligation totaled $1.1 million at the acquisition date. The subsequent change to the contingent consideration obligation is recorded in research and development expense. A contingent payment related to a clinical milestone of $0.8 million became payable as of December 31, 2019. During the years ended December 31, 2020 and 2019, the fair value of the contingent consideration obligation increased $0.1 million and $0.7 million.

On October 4, 2016, in connection with the acquisition of the 50% interest in Receptome, the Company paid $5.0 million in cash and assumed obligations to make contingent milestone payments of up to $4.0 million in cash. In May 2018, the Company issued 500,000 shares of ImmunityBio common stock in exchange for the remaining 50% interest in Receptome, with an assigned value of $5.0 million at $10.00 per share. In addition, the Company assumed an aggregate contingent consideration liability of up to $4.0 million, which is payable in the Company's common stock upon the achievement of the same contingent milestones. The estimated fair value of the contingent consideration obligation totaled $0.3 million at the acquisition date. The subsequent change to the contingent consideration obligation is recorded in research and development expense. During the years ended December 31, 2019, the change in the fair value of this contingent consideration was immaterial. As of December 31, 2020 the fair value of the contingent consideration obligation is deemed as zero, as the research and development of the LMP1 and LMP/IPS programs are discontinued.

In connection with the acquisition of Altor BioScience Corporation, or Altor, the Company issued contingent value rights, or CVRs, under which the Company has agreed to pay the prior stockholders of Altor approximately $304.0 million upon successful approval of the Biologics License Application, or BLA, or foreign equivalent for Anktiva by December 31, 2022 and approximately $304.0 million upon the first calendar year before December 31,

2026 in which worldwide net sales of Anktiva exceed $1.0 billion (with the payments payable in cash or shares of the Company's common stock or a combination of both). Dr. Soon-Shiong and his related party hold approximately $279.5 million in the aggregate of CVRs and they have both irrevocably agreed to receive shares of common stock in satisfaction of their CVRs. As the transaction was recorded as an asset acquisition, the future CVR payments will be recorded when the corresponding events are probable of achievement or the consideration becomes payable.

In connection with the GlobeImmune acquisition, on April 28, 2017, the Company, Celgene Corporation, or Celgene, and Celgene Alpine Investment Co. II, LLC, or, together with Celgene, the Celgene entities, entered into an assignment and assumption agreement, pursuant to which the Celgene entities assigned to the Company all of their rights, obligations, title, and interest under the worldwide exclusive licenses for the GI-6200 and GI-6300 programs that were obtained from GlobeImmune prior to GlobeImmune's acquisition by the Company. In return, for each product licensed pursuant to such licenses, the Company is required to pay the Celgene entities $5.0 million in cash or shares of the Company's common stock, at Celgene's election. In addition, we are required to pay tiered low to mid-single-digit percentage royalties on net sales of the licensed products on a product-by-product and country-by-country basis. Our obligation to pay royalties continues, on a licensed product-by-licensed product and country-by-country basis, until the later of (i) the date on which such licensed product is no longer covered by a valid claim of a patent licensed pursuant to the agreement in such country and (ii) ten years after the first commercial sale of such licensed product in such country. No milestone has been achieved as of December 31, 2020.

Unconditional Purchase Obligations:

In the normal course of business, the Company enters into unconditional purchase obligation arrangements with a contracted manufacturing organization to reserve manufacturing slots in its cGMP manufacturing facility for manufacturing and supply GMP batches per US FDA and EMA regulations for commercial use. The total amount of future non-cancelable purchase commitment related to manufacturing of the GMP batches is $4.7 million and $4.7 million for 2021 and 2022, respectively.

In 2020, NantWorks entered into agreements with various vendors related to an enterprise resource planning ("ERP") implementation project on behalf of its subsidiaries, including the Company. NantWorks bills the Company for its portion of these expenses through the Shared Services Agreement (see Note 15). The Company's estimated unconditional purchase obligations total approximately $1.4 million in 2021, $1.4 million in 2022 and $0.3 million in 2023.

Legal Matters:

Precision Biologics

Feldman v. Soon-Shiong, et al. On October 2, 2015, the Company invested $50.0 million cash in Precision Biologics in exchange for 41.0 million shares of Precision Biologics' Series A Preferred Stock, then representing 68.5% ownership of Precision Biologics, and the option to purchase additional shares of Series A Preferred Stock up to an aggregate purchase price of $25.0 million for the two years following the investment. On July 5, 2017, a Precision Biologics stockholder, filed a complaint (individually and derivatively on behalf of Precision Biologics), and filed an amended complaint on November 6, 2017, against the Company and other defendants, asserting claims for breach of contract (including the implied covenant of good faith and fair dealing), tortious interference with contract, breach of the fiduciary duty of loyalty, the appointment of a custodian, fraud in the inducement, and violation of state "Blue Sky" laws. On November 21, 2017, the defendants moved to dismiss the amended complaint. The court heard oral argument and, in May 2018, the court issued an opinion granting in part, and denying in part, defendants' motion. On December 12, 2018, the plaintiff filed a motion for leave to file a supplement to the amended complaint. In January 2019, the parties completed fact discovery other than depositions (and certain document discovery subsequently ordered by the court on January 22, 2019). On January 22, 2019, the court denied the plaintiff's motion for leave to file a supplement without prejudice to re-filing in accordance with the court's specific directions.

On March 8, 2019, the parties agreed in principle to the terms of a settlement and filed a settlement stipulation with the court on March 28, 2019. The settlement hearing before the court was held on June 20, 2019, and the Court approved the settlement. The court's approval order was finalized on July 20, 2019. Under the terms of the

settlement, the Company ended its investment in Precision Biologics. The Company withdrew $29.3 million in cash from Precision Biologics and transferred $2.5 million to Precision Biologics to facilitate the disposition of the Company's investment. In addition to a total $20.2 million accumulated loss recorded in the prior years, which represented the expected losses associated with giving up its preferred stock ownership and absorption of losses arising from the deconsolidation, a loss of $0.9 million associated with the final settlements for the year ended December 31, 2019, which was included in the "operating expenses" on the consolidated statements of operations and comprehensive loss. The Company held no investment in Precision Biologics as of December 31, 2019.

Altor BioScience, LLC

The first action, Gray v. Soon-Shiong, et al. (Delaware Chancery Court, Case No. 2017-466-JRS), was filed on June 21, 2017, by plaintiffs Clayland Boyden Gray, or Gray, and Adam R. Waldman. The plaintiffs, two minority shareholders, asserted claims against the Company and other defendants for (1) breach of fiduciary duty and (2) aiding and abetting breach of fiduciary duty and filed a motion to enjoin the merger. The court denied the motion on July 25, 2017, and permitted the merger to close. On September 1, 2017, plaintiffs (joined by two additional minority stockholders, Barbara Sturm Waldman and Douglas E. Henderson, or Henderson) filed a second amended complaint, asserting claims for (1) appraisal; (2) quasi-appraisal; (3) breach of fiduciary duty; and (4) aiding and abetting breach of fiduciary duty. On September 18, 2017, defendants moved to dismiss the second amended complaint, raising grounds that included a "standstill" agreement under which defendants maintained that Gray and Adam R. Waldman and Barbara Strum Waldman, or the Waldman's agreed not to bring the lawsuit. In the second action, Dyad Pharmaceutical Corp. v. Altor BioScience, LLC (Delaware Chancery Court, Case No. 2017-848-JRS), commenced November 28, 2017, Dyad Pharmaceutical Corporation, or Dyad, filed a petition for appraisal in connection with the merger. Respondent moved to dismiss the appraisal petition on January 26, 2018, arguing in part that the petition was barred by the same "standstill" agreement.

On April 23, 2018, the court heard oral arguments on the motions to dismiss in both consolidated cases, and on June 26, 2018, the court converted the motions to dismiss into motions for summary judgment with regard to the "standstill" agreement argument, or the Converted Motions. The court permitted discovery into the meaning and intended scope of the "standstill" agreements, which the parties completed on December 19, 2018. The parties completed a briefing on the Converted Motions on March 15, 2019.

The court heard an oral argument on the Converted Motions on May 7, 2019, and issued an oral ruling on May 15, 2019. The court (1) dismissed all claims brought by Gray and the Waldman's except for their appraisal claims; (2) dismissed all plaintiffs' quasi-appraisal claims; (3) dismissed the disclosure-based breach of fiduciary duty claims; and (4) dismissed Altor BioScience from the action. The following claims remain: (a) the appraisal claims by all plaintiffs and Dyad (against Altor BioScience, LLC), and (b) Henderson's claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty.

On June 14, 2019, the defendants answered the second amended complaint, and the respondent answered Dyad's appraisal petition. In their answer, Defendants asserted counterclaims against Gray and the Waldman's for breach of the "standstill" agreements and are seeking as damages the attorneys' fees and costs they were forced to expand as a result of the breach. On June 20, 2019, the court issued a written order implementing its ruling on the Converted Motions, or the Implementing Order. In the Implementing Order, the court confirmed that all fiduciary duty claims brought by Gray, both individually and as trustee of the Gordon Gray Trust f/b/o C. Boyden Gray, were dismissed. On July 11, 2019, Gray and the Waldman's filed answers denying the counterclaims and asserting defenses.

On September 30, 2019, plaintiffs moved for leave to file a third amended complaint. The proposed amendment seeks to add two former Altor stockholders as plaintiffs and to add a fiduciary duty claim on behalf of a purported class of former Altor stockholders. On October 25, 2019, the defendants opposed the motion, and a briefing was completed on February 28, 2020. The court heard an oral argument on March 12, 2020, and granted the motion. The plaintiffs filed the third amended complaint on June 8, 2020.

On June 29, 2020, defendants answered the third amended complaint and asserted counter claims against the plaintiffs. As damages, defendants seek the attorneys' fees and costs incurred as a result of these breaches. On July 14, 2020, the plaintiffs filed an answer denying the counterclaims and asserting defenses. The trial has been set to commence in October 2021.

The shares of these former Altor stockholders met the definition of dissenting shares under the merger agreement and were not entitled to receive any portion of the merger consideration at the closing date. However, these dissenting shares will automatically be converted to receive the portion of the merger consideration they were entitled to, on the later of the closing date, and when the stockholder withdraws or loses the right to demand appraisal rights. Payment for dissenting shares will be on the same terms and conditions originally stated in the merger agreement. As of December 31, 2020 and 2019, the Company has accrued $6.8 million and $6.3 million related to these obligations, respectively. The accrued amount represents the estimated low-end of the range of currently estimated payout amounts in accordance with ASC 450, after considering the reasonable outcomes for settling the dissenting shareholder dispute along with any accrued statutory interest. The Company cannot reasonably estimate a range of loss beyond the amounts recorded on December 31, 2020 and 2019, as the dissenting shareholders have not yet provided a quantified value of their claim and, therefore, an upper end of the range of loss cannot be determined. The Company reassesses the reasonableness of the recorded amount at each reporting period.

The Company believes the claims lack merit and intends to continue defending the case vigorously.

Sorrento Therapeutics, Inc.

Sorrento Therapeutics, Inc. v. NantCell, Inc., et al. Sorrento Therapeutics, Inc., or Sorrento, derivatively on behalf of NANTibody, LLC, or NANTibody, filed an action in the Superior Court of California, Los Angeles County, or the Superior Court, against the Company, Dr. Soon-Shiong, MBBCh, FRCS (C), FACS, and Charles Kim. The action alleges that the defendants improperly caused NANTibody to acquire IgDraSol, Inc. from our affiliate NantPharma and seeks to have the transaction undone, and seeks to have the purchase amount returned to NANTibody. Sorrento filed a related arbitration proceeding, or the Cynviloq arbitration, against Dr. Soon-Shiong and NantPharma, LLC, or NantPharma; the Company is not named in the Cynviloq arbitration. On May 15, 2019, the Company filed a demurrer to several causes of action alleged in the Superior Court action. On July 18, 2019, Sorrento filed an amended complaint, eliminating Charles Kim as a defendant and dropping the causes of action the Company had challenged in its demurrer.

On May 24, 2019, the Company and Dr. Soon-Shiong filed cross-claims in the Superior Court action against Sorrento and its Chief Executive Officer Henry Ji, asserting claims for fraud, breach of contract, breach of the covenant of good faith and fair dealing, tortious interference with contract, unjust enrichment, and declaratory relief. The Company and Dr. Soon-Shiong allege that Dr. Ji and Sorrento breached the terms of an exclusive license agreement between the Company and Sorrento related to Sorrento's antibody library and that Sorrento did not perform its obligations under the exclusive license agreement.

On October 9, 2019, the Superior Court ruled that the Company's claims should be pursued in arbitration and that Dr. Soon-Shiong's claims could be pursued in Superior Court.

On February 13, 2020, after a full briefing, the Superior Court heard oral argument and granted Dr. Soon-Shiong's request for a preliminary injunction barring Sorrento from pursuing claims against him in the Cynviloq arbitration. Sorrento then filed the claims it had previously asserted in arbitration against Dr. Soon-Shiong in the Superior Court on March 3, 2020, and at Sorrento's request, the arbitrator entered an order dismissing Sorrento's claims against Dr. Soon-Shiong in the Cynviloq arbitration on March 6, 2020. The hearing in the Cynviloq arbitration has been scheduled to commence on June 2021.

On October 24, 2019, the Company, along with NANTibody, filed an arbitration against Sorrento and Dr. Ji asserting its claims relating to the exclusive license agreement. Sorrento filed counterclaims against the Company and NANTibody in the arbitration on May 4, 2020, and requested leave to file a dispositive motion on May 1, 2020.

On January 29, 2020, Sorrento sent letters purporting to terminate the exclusive license agreement with the Company, and an exclusive license agreement with NANTibody and demanding the return of its confidential information and transfer of all regulatory filings and related materials. The Company and Sorrento engaged in good-faith negotiations as required under the exclusive license agreements before Sorrento can attempt to invoke any purported termination provision. Notwithstanding such negotiations, Sorrento sent a letter on April 10, 2020,

purporting to terminate the exclusive license agreements, maintaining the negotiations did not reach a successful resolution. The Company believes it has cured any perceived breaches during the 90-day contractual cure period. The Company intends to prosecute its claims, and to defend the claims asserted against it, vigorously. An estimate of the possible loss or range of loss cannot be made at this time. The hearings in the Antibody Arbitration have been scheduled to be held in April 2021 and May 2021.

Shenzhen Beike Biotechnology Corporation

In July 2020, the Company received a Request for Arbitration before the International Chamber of Commerce, International Court of Arbitration, served by Shenzhen Beike Biotechnology Corporation, or Beike. The arbitration relates to a license, development, and commercialization agreement that Altor (succeeded by the Company's wholly-owned subsidiary Altor BioScience, LLC, or Altor) entered into with Beike in September 2014, which agreement was amended and restated in September 2017, and pursuant to which Altor granted to Beike an exclusive license to use, research, develop and commercialize products based on Anktiva in China for human therapeutic uses. In the arbitration, Beike is asserting a claim for breach of contract under the license agreement. Among other things, Beike alleges that the Company failed to use commercially reasonable efforts to deliver to Beike materials and data related to Anktiva. Beike is seeking specific performance, or in the alternative, damages for the alleged breaches. On September 25, 2020, the parties entered into a standstill and tolling agreement under which, among other things, the parties affirmed they will perform certain of their obligations under the license agreement by specified dates and agreed that all deadlines in the arbitration are indefinitely extended. The standstill agreement may be terminated by any party on ten calendar days' notice, and upon termination, the parties will have the right to pursue claims arising from the license agreement in any appropriate tribunal. The parties have been asked to provide an update to the International Chamber of Commerce by May 31, 2021 of any further developments.

Given that this action remains at the pleading stage and no discovery has occurred, it remains too early to evaluate the likely outcome of the case or to estimate any range of potential loss. The Company believes the claims lack merit and intend to defend the case vigorously and that the Company may have counterclaims.

11. License and Collaboration Agreements

A collaborative arrangement is a contractual arrangement that involves a joint operating activity. These arrangements involve two or more parties who are (i) active participants in the activity, and (ii) exposed to significant risks and rewards dependent on the commercial success of the activity.

Cost Allocation Agreement

In January 2020, the Company entered into a Cost Allocation Agreement with NantKwest, or the Cost Allocation Agreement, pursuant to which the Company and NantKwest agreed to conduct a joint study for the clinical research being conducted pursuant to the protocol titled *QUILT 3.063: A phase 2 study of combination therapy with an il-15 superagonist (N-803), off-the-shelf CD16-targeted natural killer cells (haNK), and avelumab without cytotoxic chemotherapy in subjects with Merkel Cell Carcinoma (MCC) that has progressed on or after treatment with a checkpoint inhibitor*. Under the terms of the Cost Allocation Agreement, the parties will split certain joint study costs equally in accordance with the terms of the Cost Allocation Agreement and related work order. Shared joint study costs include costs related to conducting the joint study development activities, such as personnel-related costs, as well as all costs associated with regulatory matters. Costs and expenses incurred in connection with the development, manufacturing, supply, delivery, and pre-patient administration dosing mechanism of each party's study drug are excluded from the shared joint study costs.

Under the Cost Allocation Agreement, the Company and NantKwest will each receive exclusive rights to any new intellectual property developed that relates solely to our and its respective study drug, and will each have joint co-equal rights in any other developed intellectual property. The Cost Allocation Agreement expires upon the second anniversary of the effective date with an option to renew for additional successive one-year terms upon mutual agreement, but work orders for any joint studies still in process at the time of termination will continue until the applicable study is completed.

In July 2020, but effective June 22, 2020, the Company executed Work Order Number Two with NantKwest, pursuant to the Cost Allocation Agreement. Under the second work order, the parties agreed to conduct a joint study for the clinical research trial being conducted pursuant to the protocol titled QUILT 88: Open-label, randomized, comparative phase 2 study of combination immunotherapy with standard-of-care chemotherapy versus standard-of-care chemotherapy for first and second-line treatment of locally or advanced metastatic pancreatic cancer. The study drugs included in the joint study are the Company's proprietary IL-15 superagonist (N-803) and Aldoxorubicin Hydrochloride (Aldoxorubicin), and NantKwest's study drug PD-L1.t-haNK.

The Company will act as the sponsor of this joint study for purposes of regulatory matters, including submissions, correspondence, and communications with the FDA. Additionally, the Company is designated as the contracting party to execute agreements with third and related parties relating to the joint study. The Company and NantKwest will split certain joint study cost equally in accordance with the terms of the Cost Allocation Agreement and related work order. Shared joint study costs include costs related to conducting the joint study development activities, such as personnel-related costs, as well as all costs associated with regulatory matters. Costs and expenses incurred in connection with the development, manufacturing, supply, delivery, and pre-patient administration dosing mechanism of each party's study drug are excluded from the shared joint study costs.

Under the Cost Allocation Agreement, each of NantKwest and the Company will receive exclusive rights to any new intellectual property developed that relates solely to its respective study drug, and the parties will have joint co-equal rights in any other intellectual property. The Cost Allocation Agreement expires on June 22, 2022 with the option to renew for additional successive one-year terms, but work orders for any joint studies still in process at the time of termination will continue until the applicable study is completed. See Note 15 for additional information.

COVID-19 Collaboration Agreement with NantKwest

In August 2020, the Company entered into a collaboration agreement with NantKwest to pursue collaborative joint development, manufacturing, and marketing of certain COVID-19 therapeutics and vaccines. The terms of the collaboration agreement supersede and replace the terms of the binding term sheet executed on May 22, 2020. The Company and NantKwest agreed to jointly develop cytokine-enriched NK, or ceNK, cells, haNK cells, mesenchymal stem cells, adenovirus constructs, and Anktiva for the prevention and treatment of SARS-CoV-2 viral infections and associated conditions in humans, including COVID-19. NantKwest will contribute to the ceNK cells, hank cells, mesenchymal stem cells, and certain of its manufacturing capabilities and the Company will contribute adenovirus constructs and Anktiva. The adenovirus constructs will be developed as a vaccine, and the ceNK, haNK, and mesenchymal stem cells and Anktiva will each be developed as a therapeutic for treating COVID-19 at various stages of infection.

After August 21, 2020, the Company and NantKwest will share equally in all costs relating to the development and manufacturing of the product candidates globally. Except for Anktiva, NantKwest will be primarily responsible for the manufacture of the product candidates. Each party will be responsible for the regulatory affairs and the commercialization relating to its contributed products. The global net profits from the collaboration products will be shared 60% / 40% in favor of the party contributing to the product on which the sales are based except if the parties mutually agree otherwise because of certain circumstances. All net profits from sales of combined collaboration products will be shared equally. The collaboration will be supervised by a joint steering committee, which will be composed of an equal number of the Company and NantKwest's representatives. The Company and NantKwest are required to use commercially reasonable efforts to research, develop, manufacture, and commercialize product candidates under the agreement. The Company and NantKwest agree not to conduct or participate in competing activities with the Joint COVID-19 Collaboration.

The Company granted NantKwest a non-exclusive, worldwide license under the technology that is reasonably necessary for NantKwest to research, develop and manufacture product candidates under the Joint COVID-19 Collaboration and the Company granted NantKwest a co-exclusive, worldwide license under the technology to commercialize such product candidates. NantKwest granted the Company a non-exclusive, worldwide license under its technology that is reasonably necessary for the Company to research, develop, and manufacture product candidates under the Joint COVID-19 Collaboration. NantKwest also granted the Company a co-exclusive, worldwide license under its technology to commercialize such product candidates. NantKwest will have primary control over the commercialization of certain product candidates that the Company contributes and the Company will have primary control over the commercialization of certain product candidates that the Company contributes.

NantKwest will solely own any intellectual property arising under the Joint COVID-19 Collaboration relating to its products and we will solely own any intellectual property arising under the Joint COVID-19 Collaboration relating to our products. All other intellectual property arising under the Joint COVID-19 Collaboration will be jointly owned.

Exclusive License Agreement with GlobeImmune

In January 2020, the Company entered into an exclusive licensing agreement with GlobeImmune, a consolidated entity, pursuant to which the Company obtained worldwide, exclusive licenses under certain patents, know-how, and other intellectual property to use, research, develop and commercialize products with GlobeImmune's COVID-19 vaccine program, other Tarmogen-based programs, and neoepitopes programs in exchange for a license fee for the first two years of the agreement totaling of $1.2 million, up to $345.0 million in milestone payments related to the successful completion of clinical and regulatory milestones and up to $240.0 million in total milestone payments based on licensed product net sales milestones, and a royalty on net sales of licensed products, on a product-by-product basis ranging in percentage from the mid-single digits to the mid-teens. The Company may terminate this agreement, in whole or on a licensed-product-by-licensed-product and/or country-by-country basis, at any time upon 60 days' written notice to GlobeImmune. In addition, either party may terminate the agreement in the event of a material breach by, or bankruptcy of, the other party.

Sorrento Therapeutics

In April 2015, the Company entered into a license agreement with Sorrento, pursuant to which the Company obtained an exclusive license under certain patent rights and antibody materials, including antibody sequences and complementary DNA, or cDNA, and clones and non-exclusive license under certain know-how, in each case to use, research and develop certain antibodies and anti-body drug conjugates, or ADCs, including for neoepitopes, which are epitopes resulting from mutations specific to an individual's cancer cells, and to commercialize the resulting licensed products, in exchange for consideration that includes an upfront cash payment of $10 million, equity consideration with a valuation of $100 million, and a mid-single-digit percentage royalties on net sales of the resulting licensed products. In addition, the agreement provides us with the right to negotiate an exclusive license from Sorrento for two CAR-T/natural killer cell products to be mutually determined on terms substantially similar to the terms of the license agreement. The Company may terminate the agreement, in our sole discretion, in whole or on a product-by-product and country-by-country basis, at any time upon 60 days' prior written notice to Sorrento. In addition, either party may terminate the agreement in the event of a material breach by or bankruptcy of the other party.

In June 2015, NANTibody entered into an exclusive license agreement with Sorrento, pursuant to which NANTibody obtained a royalty-free, exclusive license under certain patent rights and materials, including antibody sequences and cDNA, and clones and non-exclusive license under certain know-how, in each case related to up to 75 immuno-oncology antibodies, immune-check point antibodies, bi-specific antibodies and/or ADCs from Sorrento's G-MAB library to be mutually identified by the parties (21 of which were already identified at the time of the signing of the agreement), to use, research, develop and commercialize the resulting licensed products. NANTibody may terminate the agreement, in its sole discretion, in whole or on a product-by-product and country-by-country basis, at any time upon 90 days' prior written notice to Sorrento. In addition, either party may terminate the agreement in the event of a material breach by or bankruptcy of the other party.

In July 2017, NANTibody purchased IgDraSol, Inc., the entity that owns the rights to Cynviloq in the United States and other jurisdictions from an affiliate, NantPharma. NANTibody owns all of the equity interests in IgDraSol, Inc.

Cancer Therapeutics Laboratories, Inc.

In April 2016, the Company entered into an exclusive license agreement with CTL, pursuant to which the Company obtained a worldwide, exclusive license under CTL's applicable intellectual property to use, research and develop certain of CTL's antibody materials, including cell lines, antibody sequences, cDNA and bacterial and/or

cell clones relating to certain specified CTL antibodies, and to commercialize the resulting licensed products for all applications, in exchange for consideration that includes a $5.0 million upfront cash payment, up to $10.0 million in total milestone payments based on the successful completion of clinical and regulatory milestones (15% of which is payable in cash and the remaining 85% is payable in shares of the Company's common stock) and a low single-digit percentage royalty on net sales of the resulting licensed products. The Company may terminate this agreement, in whole or on a licensed-product-by-licensed-product and/or country-by-country basis, at any time upon 60 days' written notice to CTL. In addition, either party may terminate the agreement in the event of a material bankruptcy of the other party. No payments related to this agreement have become due during the years ended 2020 and 2019.

CytRx Corporation

In July 2017, the Company entered into an exclusive license agreement with CytRx Corporation, or CytRx, pursuant to which the Company obtained a royalty-bearing, exclusive, worldwide license, with the right to sublicense, under CytRx's applicable intellectual property to research, develop and commercialize aldoxorubicin for all indications. Under the terms of the license agreement, CytRx is entitled to receive up to $346.0 million in milestone payments related to regulatory approvals and commercial milestones for aldoxorubicin. In addition, CytRx will receive increasing low double-digit percentage royalties on net sales of aldoxorubicin for the treatment of soft tissue sarcomas and mid-to-high single-digit percentage royalties on net sales of aldoxorubicin for all other indications. The Company may terminate the agreement in its entirety at any time upon 12 months' written notice to CytRx. In addition, either party may terminate the agreement in the event of a material breach by or bankruptcy of the other party. No payments related to this agreement have become due during the years ended 2020 and 2019.

National Cancer Institute

In May 2015, Etubics Corporation, or Etubics, entered into a Cooperative Research and Development Agreement, or CRADA, with the U.S. Department of Health and Human Services, as represented by the National Cancer Institute of the National Institutes of Health, or NCI, to collaborate on the preclinical and clinical development of an adenovirus technology expressing tumor-associated antigens for cancer immunotherapy. In January 2016, the Company acquired all of the outstanding equity interests in Etubics and Etubics became a wholly-owned subsidiary.

Effective January 2018, the Company assumed the CRADA and it was amended to cover a collaboration for the preclinical and clinical development of the Company's proprietary yeast-based tarmogens expressing tumor-associated antigens and proprietary adenovirus technology expressing tumor-associated antigens for cancer immunotherapy. Pursuant to the CRADA, NCI provides scientific staff and other support necessary to conduct research and related activities as described in the CRADA.

During the term of the CRADA, the Company is required to make annual payments of $0.6 million to the NCI for support of research activities. The Company made payments of $0.6 million and $0.6 million for the period ended December 31, 2020 and 2019, respectively.

In February 2018, the Company and NCI entered into an amendment to a CRADA originally executed between NCI and Amgen, Inc., or Amgen, in May 2012 and subsequently assigned by Amgen to the Company effective as of December 17, 2015. The research goal of this CRADA, as amended, is for the non-clinical and clinical development of ganitumab, the Company's licensed monoclonal antibody targeting insulin-like growth factor one receptor, to evaluate its safety and efficacy in patients with hematological malignancies and solid tumors. The CRADA has a five-year term commencing February 20, 2018 and expiring on February 20, 2023.

During the term of the agreement, the Company is required to make minimum annual payments of $0.2 million to NCI for support of research activities and additional payments for the clinical trials based on the scope and phase of the clinical trials. The unpaid research and development expense was estimated at $0.6 million and $0.3 million as of December 31, 2020 and 2019, respectively.

Each CRADA may be terminated at any time upon the mutual written consent of the Company and NCI. The Company or NCI may unilaterally terminate either of the CRADAs at any time by providing written notice to the other party at least 60 days before the desired termination date.

Pursuant to the terms of the CRADAs, the Company has an option to elect to negotiate an exclusive or non-exclusive commercialization license to any inventions discovered in the performance of either of the CRADAs, whether solely by an NCI employee or jointly with a Company employee for which a patent application has been filed. The parties jointly own any inventions and materials that are jointly produced by employees of both parties in the course of performing activities under the CRADAs.

Exclusive License Agreement with iosBio Ltd.

In August 2020, the Company executed an exclusive license agreement with iosBio Ltd., formerly Stabilitech Biopharma Ltd. ("iosBio"), pursuant to which the Company and its affiliates will receive an exclusive, worldwide license to certain of iosBio's intellectual property rights relating to the SARS-CoV-2 and successor vaccine candidates. In return, the Company is required to pay mid to high single-digit royalties on net sales of the resulting licensed products. Concurrently the Company entered into a non-exclusive license agreement with iosBio, which grants to iosBio and its affiliates a non-exclusive, worldwide license under the intellectual property and technology relating to the Company's adenovirus constructs for the prevention and treatment of shingles and other infectious disease targets to be mutually agreed by the parties in good faith. As of December 31, 2020, the Company accrued $0.5 million payable to isoBio for reimbursable costs related to the clinical trial activities initiated by isoBio, which was included in the "accrued expenses and other current liabilities" in the consolidated balance sheets.

12. Income Tax

The amount of loss before taxes and non-controlling interest was (in thousands):

	Year ended December 31,	
	2020	2019
U.S. loss before taxes	$(130,679)	$(93,238)
Foreign loss before taxes	(2,549)	(574)
Loss before income taxes and non-controlling interest	$(133,228)	$(93,812)

Income tax (expense) benefit provision for the year ended December 31, 2020 and 2019 consisted of the following (in thousands):

	Year Ended December 31,	
	2020	2019
Current:		
Federal	$ —	$ —
State	—	—
Foreign	—	—
Total Current	$ —	$ —
Deferred:		
Federal	$ 1,187	$ (2)
State	664	10
Foreign	—	—
Total Deferred	1,851	8
Income tax (expense) benefit	$ 1,851	$ 8

The components that comprise the Company's net deferred tax assets as of December 31, 2020 and 2019 consisted of the following (in thousands):

	As of December 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 117,586	$ 88,074
Amortizable assets	4,634	3,091
Equity compensation	5,034	5,034
Investments	2,033	2,581
Salaries and wages	670	546
Interest expense	4,124	2,256
Other	899	1,499
Depreciation	807	—
Other carryforwards	89	236
Operating lease right-of-use liabilities	1,909	0
Total deferred tax assets	137,785	103,317
Deferred tax liabilities:		
Indefinite lived intangibles	(170)	(3,108)
Depreciation	—	(113)
Operating lease right-of-use asset	(1,655)	—
Total deferred tax liabilities	(1,825)	(3,221)
Net deferred tax assets	135,960	100,096
Valuation allowance	(136,130)	(103,204)
Net deferred tax liability	$ (170)	$ (3,108)

A reconciliation of the federal statutory income tax rate to the Company's effective tax rate for the years ended December 31, 2020 and 2019 is as follows:

	Year ended December 31,	
	2020	2019
Tax computed at federal statutory rate	21.0%	21.0%
State income taxes, net of federal tax benefit	5.2	5.1
Other permanent items	(0.2)	2.7
Other	0.8	4.1
Precision Biologics deconsolidation	—	(12.0)
Valuation Allowance	(25.4)	(20.9)
Effective income tax rate	1.4%	0.0%

At December 31, 2020, the Company has federal NOLs of approximately $ 589.3 million, state NOLs of $497.7 million, and foreign NOLs of $ 5.2 million. As a result of the Tax Act, for U.S. income tax purposes, NOLs generated in tax years beginning before January 01, 2018 can still be carried forward for up to 20 years, but net operating losses generated for tax years beginning after December 31, 2017 carryforward indefinitely and are limited to 80% utilization against taxable income. Of the total federal net operating loss of $ 589.3 million, $ 280.2 million will begin to expire in 2021 and $ 309.2 million will not expire but can only offset 80 percent of future taxable income in any given year.

As many states conform to federal statutes, some of our current state NOLs have become indefinite-lived but are also limited to 80% utilization against future taxable income in any given year. Of the total state NOLs of $497.7 million, $ 448.8 million will begin to expire in 2021 and $ 48.8 million will not expire but will only offset 80 percent of future taxable income in any given year. The foreign NOLs can be carried forward indefinitely.

Pursuant to IRC Sections 382 and 383, annual use of the company's net operating loss (NOLs) and research and development credit carryforwards may be limited in the event a cumulative change in ownership of more than 50% occurs within three years. The Company has not recognized the deferred tax assets for federal and state NOLs of $ 269.1 million from its deferred tax asset schedule as of December 31, 2020. Additionally, the Company has not recognized the deferred tax asset for research and development credit carryforwards as of December 31, 2020 because the Company is a part of a controlled group of affiliated companies with common ownership and cannot complete its calculation of the credit until the time that all members of the controlled group complete their analysis and calculation of qualified research expenditures.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical operating results and the uncertainty of the economic conditions, the Company has recorded a valuation allowance of $ 136.1 million on December 31, 2020. The change in the valuation allowance for the year-end December 31, 2020 was an increase of $ 32.9 million.

As of December 31, 2020 the company has $ 19.6 million interest that is temporarily disallowed pursuant to IRC Sec. 163(j). As of December 31, 2019, the Company had $ 10.7 million interest that is temporarily disallowed pursuant to IRC Sec. 163(j). The interest can be carried forward indefinitely and will deductible when the Company generates sufficient adjusted taxable income.

As of December 31, 2020, there are no unrecognized tax benefits, and there are no significant accruals for interest related to unrecognized tax benefits or tax penalties. The Company's policy is to recognize interest expense and penalties related to uncertain income tax matters as the tax expense. The Company does not expect that the unrecognized tax benefits will change within 12 months of this reporting date. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact the Company's effective tax rate.

The Company is subject to U.S. Federal income tax, Italian income tax as well as income tax in California and other states. The Federal returns for tax years 2017 through 2019 remain open to examination; the state returns remain subject to examination for tax years 2016 through 2019. The Italian returns for tax years 2015 through 2019 remain open to examination. Carryforward attributes that were generated in years where the statute of limitations is closed may still be adjusted upon examination by the Internal Revenue Service or other respective tax authorities.

There are no cumulative earnings in the Italian subsidiary as of December 31, 2020 that would be subject to U.S. income tax or Italian withholding tax. The Company plans to indefinitely reinvestment any future earnings of the Italian subsidiary.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. While the CARES Act provides sweeping tax changes in response to the COVID-19 pandemic, some of the more significant provisions which are expected to impact the Company's financial statements include removal of certain limitations on utilization of net operating losses, increasing the loss carryback period for certain losses to five years, and increasing the ability to deduct interest expense, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. Consistent with prior years, the Company expects to continue to generate net losses for the foreseeable future. The Company currently has significant federal and state deferred tax assets attributed to prior net operating losses. These deferred tax assets are fully reserved. As the Company has never generated taxable income, the CARES Act feature allowing NOLs originating in 2018, 2019 or 2020 to be carried back five years is not expected to have a significant impact. There was no material impact from other provisions of the CARES Act during 2020.

On December 27, 2020, the United States enacted the Consolidated Appropriations Act, 2021 (the "Appropriations Act"). Included in the tax provisions are a number of items directly related to COVID-19 relief such as a provision allowing recipients of Paycheck Protection Program (PPP) loans to deduct associated costs and an extension and significant expansion of the employee retention credit originally enacted in the CARES Act. There was no material impact from the provisions of the Appropriations Act in 2020.

On June 29, 2020, the state of California enacted Assembly Bill No. 85 (“AB 85”) suspending California net operating loss utilization and imposing a cap on the amount of business incentive tax credits companies can utilize, effective for tax years 2020, 2021 and 2022. There was no material impact from the provisions of AB 85 in 2020.

13. Stockholders’ Deficit

The Company is authorized to issue 1,000,000,000 shares of common stock, each with a par value of $0.001 per share.

On March 11, 2019, Kuwait Investment Authority, or KIA, purchased 2,500,000 shares of ImmunityBio common stock, at a purchase price of $12 per share, for an aggregate purchase price of $30 million. The purchase agreement also contains an anti-dilution feature under which, in the event that the Company closes an initial public offering or IPO, and the price per share for the common stock sold to the public is less than $12.00 per share, the Company is required to issue additional shares of common stock to KIA, equal to the difference between the number of shares that KIA received pursuant to its purchase agreement and the number of shares to which KIA would have been entitled had the price per share been equal to the price per share in such IPO. Under the provisions of ASU 2017-11, if the feature is triggered as a result of an IPO, the effect will be reflected as a dividend and will represent an earnings adjustment for purposes of determining earnings per share.

On September 26, 2019, the Company entered a Stock Transfer Agreement and purchased 250,000 shares of the Company’s common stocks from a stockholder at a purchase price of $8.0 per share, for an aggregate purchase price of $2.0 million in cash. All the repurchased shares were treated as retirements and reduced the number of shares issued and outstanding. In addition, the Company recorded the excess of the purchase price over the par value per share as a reduction to the accumulated deficit.

The 2015 Stock Incentive Plan, or the 2015 Plan, authorizes the issuance of common stock pursuant to grants of equity-based awards, including stock options, restricted stock, restricted stock units, stock appreciation rights and dividend equivalent rights. Such awards may be granted to employees, members of the Board of Directors and non-employees of the Company and its subsidiaries. As of December 31, 2020, the 2015 Plan provided for future grants and/or issuances of up to 24 million shares of common stock. The following table summarizes the common shares reserved for issuance on exercise or vesting of various awards at December 31, 2020 and 2019:

	Year ended December 31,	
	2020	2019
Issued and outstanding stock options	1,804,974	1,921,286
Issued and outstanding restricted stock awards	—	20,000
Outstanding related party warrants	2,000,000	2,000,000
Total shares reserved for future issuance	3,804,974	3,941,286

In connection with the Altor acquisition, the Company assumed all outstanding Altor warrants and replaced them with warrants to purchase shares of the Company’s common stock. Warrants to purchase a total of 4,533,333 shares of the Company’s common stock were issued, of which warrants to purchase 2,533,333 shares at an exercise price of $2.65 per share were issued to the Company’s chairman and chief executive officer (all such warrants were vested); and warrants to purchase 2,000,000 shares were issued to NantWorks, a related party, at an exercise price of $2.65 per share and with vesting subject to the achievement of a certain performance condition pertaining to building a manufacturing capacity. The fair value of $18.0 million that was assigned to the 2,000,000 unvested warrants will be recognized upon achievement of the performance-based vesting conditions.

On June 28, 2019, the Company's chairman and the chief executive officer exercised his rights under the warrants to purchase 2,533,333 shares of common stock at an exercise price of $2.65 per share. The Company agreed to offset the net cash proceeds of approximately $6.7 million with reduction of related party notes payables and accrued interests to CalCap and NantCapital and issued all of the shares of common stock. See Note 15 for additional information.

To date, all of the equity-based awards issued pursuant to the 2015 Plan have been for replacement of awards assumed or replaced in connection with the Altor and Etubics business combinations. All outstanding awards were granted in stock options, except for one issuance of restricted stock to an employee. These awards have vesting terms ranging from immediate to four years and contractual expirations of up to ten years. See Note 14 for additional information.

14. Stock-Based Compensation

The following table presents all stock-based compensation as included in the Company's consolidated statements of operations and comprehensive loss (in thousands):

	Year ended December 31,	
	2020	2019
Stock-based compensation expense:		
Employee stock options	$ 38	$ 744
Restricted stock	10	50
Total	$ 48	$ 794
Stock-based compensation expense in operating expense:		
Research and development	$ 41	$ 789
General and administrative	7	5
Total	$ 48	$ 794

Stock Options

The following table summarizes stock option activity under all equity incentive plans:

	Numbers of Shares	Weighted-Average Exercise Price per share	Aggregate Intrinsic Value (in thousands)	Weighted-Average Remaining Contractual Life (in years)
Outstanding at December 31, 2018	2,283,022	$ 3.65	$ 17,868	4.3
Options granted	—	$ —	—	—
Options forfeited	(50,476)	$ 6.25	—	—
Options expired	(302,239)	$ 1.34		
Options exercised	(9,021)	$ 1.73	—	—
Outstanding at December 31, 2019	1,921,286	$ 4.05	$ 14,450	3.7
Vested and exercisable at December 31, 2019	1,904,078	$ 4.10	$ 14,449	3.7
Options granted	—	$ —	—	—
Options forfeited	(116,312)	$ 0.98	—	—
Options expired	—	$ —		
Options exercised	—	$ —	—	—
Outstanding at December 31, 2020	1,804,974	$ 4.31	$ 13,537	2.6
Vested and exercisable at December 31, 2020	1,804,016	$ 4.31	$ 13,532	2.6

The following table provides a summary of options outstanding and vested as of December 31, 2020:

Exercise Prices	Numbers Outstanding	Weighted-Average Remaining Contractual Life (in years)	Numbers Exercisable	Weighted-Average Remaining Contractual Life (in years)
$0.95	60,500	2.6	60,500	2.6
$2.65	2,250	5.5	2,250	5.5
$3.50	1,200	5.7	1,075	6.4
$4.15-4.85	1,420,684	3.0	1,420,684	3.0
$5.54	312,340	0.3	312,340	0.3
$10.00	8,000	5.7	7,167	5.7
	1,804,974	2.6	1,804,016	2.6

The total unrecognized compensation cost related to non-vested stock options as of December 31, 2019 was $0.5 million, which was expected to be recognized over a weighted-average period of 0.3 years. The total unrecognized compensation cost related to non-vested stock options as of December 31, 2020 was immaterial.

Restricted Stock

The following table summarizes the restricted stock activity under the 2015 Plan:

	Number of Restricted Stock Outstanding	Weighted-Average Grant Date Fair Value
Unvested balance at December 31, 2018	9,375	$ 10.0
Granted	—	
Vested	(7,500)	$ 10.0
Unvested balance at December 31, 2019	1,875	$ 10.0
Granted	—	—
Vested	(1,875)	$ 10.0
Unvested balance at December 31, 2020	—	$ —

As of December 31, 2019, there was $0.02 million of unrecognized stock-based compensation expense that is expected to be recognized over a weighted-average period of 0.2 years.

15. Related Party Transactions

The Company conducts business with a number of affiliates under written agreements and informal arrangements. Below is a summary of outstanding balances and a description of significant relationships (in thousands):

	As of December 31, 2020	2019
Related party receivable–NantBio	1,294	1,297
Related party receivable–NantKwest	3,617	—
Related party receivable–NantOmics	591	602
Related party receivable–Various	73	19
Total related party receivable	$ 5,575	$ 1,918
Related party payable–NantWorks	9,407	7,721
Related party payable–Duley Road	2,787	2,053
Related party payable–NantBio	943	945
Related party payable–NantPharma	$ 187	$ 188
Related party payable–Various	78	2
Total related party payable	$ 13,402	$ 10,909
Related party notes payable–NantCapital	$109,246	$ 42,385
Related party notes payable–NantMobile	56,660	55,009
Related party notes payable–NantWorks	51,546	49,088
Related party notes payable–NCSC	36,901	35,139
Total related party notes payable	$254,353	$181,621

Related Party Receivable and Payable

As of December 31, 2020 and 2019, the Company had related party receivables of $5.6 and $1.9 million respectively. As of December 31, 2020 and 2019, the Company had related party payables of $13.4 million and $10.9 million, respectively, primarily related to amounts owed to affiliates pursuant to the shared services agreement.

NantKwest

In June 2015, the Company entered into a supply agreement with NantKwest, a company that is controlled by the Company's chairman and chief executive officer. Pursuant to the supply agreement, NantKwest has the right to purchase VivaBioCell's proprietary GMP-in-a-Box bioreactors and related consumables, made according to specifications mutually agreed to with the Company. The agreement has an initial term of five years and renews automatically for successive one period's term unless terminated earlier. During the years ended December 31, 2020 and 2019, ImmunityBio sold NantKwest $1.3 million and $0.9 million of such equipment and consumables, respectively. As of December 31, 2020 and 2019, the Company recorded $0.1 million and $0.1 million, respectively, in deferred revenue from NantKwest for a bioreactor sale related to this agreement, and is included in "accrued expense and other current liabilities" on the consolidated Balance Sheets.

In August 2016, Altor, which was subsequently acquired by the Company, entered into a co-development agreement with NantKwest, under which Altor and NantKwest agreed to exclusively collaborate on the development of certain therapeutic applications combining NantKwest's proprietary natural killer cells with the Company's N-801 and/or Anktiva product candidates for the purpose of jointly developing therapeutic applications of certain effector cell lines, including by the co-exclusive grants to each other of certain related intellectual property rights. The agreement only covers research and development activities and does not provide any commercialization rights to the other parties for their respective products (and any commercialization arrangement would need to be memorialized in a subsequent separate written agreement). No costs for supplies have been incurred or milestones achieved therefore no billings have been made by Altor for this agreement for the years ended December 31, 2020 and 2019.

In November 2018, the Company via its subsidiary Etubics entered into a sale and assignment agreement with NantKwest, pursuant to which the Company purchased $0.3 million of used laboratory equipment from NantKwest. The Company sold the laboratory equipment in an auction and realized a $0.3 million loss during the year ended December 31, 2019.

In January 2020, the Company entered into a Cost Allocation Agreement with NantKwest, which (together with related work orders) is described further in Note 11, *Collaboration and License Agreements*. In regards to the Cost Allocation Agreement for the joint study related to the clinical research being conducted according to the protocol titled *QUILT 3.063*, the parties agreed to split certain joint study costs equally in accordance with the terms of the Cost Allocation Agreement and related work order. For the year ended December 31, 2020, the total research and development costs incurred by the Company was $0.2 million, and half of the costs were charged to NantKwest. For the year ended December 31, 2020, the total research and development costs charged by NantKwest to the Company was $0.1 million. As of December 31, 2020, the related party receivable from NantKwest related to the joint study was immaterial.

In regards to Work Order Number Two of the Cost Allocation Agreement with NantKwest, the parties agreed to conduct a joint study for the clinical research trial being conducted pursuant to the protocol titled QUILT 88. The Company and NantKwest will split certain joint study cost equally in accordance with the terms of the Cost Allocation Agreement and related work order. For the year ended December 31, 2020, the total research and development costs incurred by the Company was $0.2 million, and half of the costs were charged to NantKwest. For the year ended December 31, 2020, the total research and development costs charged by NantKwest to the Company were immaterial. As of December 31, 2020, the related party receivable from NantKwest related to the joint study was immaterial.

In regards to COVID-19 Collaboration Agreement with NantKwest, the parties agreed to share equally in all costs relating to the development and manufacturing of the product candidates globally. For the year ended December 31, 2020, the total research and development costs incurred by the Company was $16.8 million, of which $8.4 million was charged to NantKwest. For the year ended December 31, 2020, the total research and development costs charged by NantKwest to the Company was $5.3 million. As of December 31, 2020, the related party receivable to NantKwest related to the Collaboration Agreement was $3.2 million. See Note 11 for additional information.

In July 2020, the Company executed a Bill of Sale and Assignment Agreement with NantKwest in relation to the COVID-19 collaboration. Based on the Bill of Sale, NantKwest assigned certain equipment to the Company for a total of $0.3 million. As of December 31, 2020, the Company recorded a $0.3 million related party payable for this equipment purchase.

In August 2020, the Company entered into a Sublease Agreement with NantKwest, pursuant to which, the Company subleased a manufacturing and research and development facility located in El Segundo to NantKwest. As of December 31, 2020, the Company included $0.2 million prepaid rent received from NantKwest in related party payable to NantKwest. The Company also included a $0.4 million security deposit received from NantKwest for this sublease in "other non-current liabilities" on the consolidated balance sheets. See Note 10 for additional information.

In September 2020, the Company executed a Bill of Sale and Assignment Agreement with NantKwest, pursuant to which the Company assigned certain equipment with a carrying value of $0.2 million to NantKwest for a total of $0.5 million. As of December 31, 2020, the Company has recorded $0.5 million related party receivable from NantKwest from this equipment sale.

NantWorks

The consolidated financial statements include significant transactions with NantWorks, involving services provided to the Company pursuant to a shared services agreement dated May 13, 2015. Under this agreement, the Company is charged for services at cost, without mark-up or profit for NantWorks, but including reasonable allocations of employee benefits, facilities and other direct or fairly allocated indirect costs that relate to the employees providing the services. For the years ended December 31, 2020 and 2019, the Company recorded general and administrative expenses under this arrangement of $5.4 million and $5.9 million, respectively. Additionally, the Company recorded research, development expense reimbursement of $1.9 million and $0.7 million during the year ended December 31, 2020 and 2019, respectively. Such charges and allocations are not necessarily indicative of what would have been incurred if the Company had hired a third party to perform these services. As of December 31, 2020 and 2019, the Company recorded $9.4 million and $7.7 million payable to NantWorks, and is included in “related party payable” on the consolidated balance sheets. The Company also recorded $0.6 million and $0.2 million prepaid expenses for services that passed through to the Company from NantWorks as of December 31, 2020 and 2019, respectively, and the amounts are included in the “prepaid expenses and other current assets” on the consolidated balance sheets.

NantBio

On February 16, 2016, the Company via its subsidiary Etubics entered into an exclusive license agreement with NantBio, Inc., or NantBio. Under this agreement, Etubics granted NantBio a worldwide, exclusive rights to research and develop Etubics’ proprietary product ETBX-021 for all indications. Etubics is eligible to receive a single-digit royalty for sales on the licensed products on a country-by-country basis. In addition, as of December 31, 2020 and 2019, no costs incurred in regards to the research and development costs allocation.

In August 2018, the Company entered into a supply agreement with NCSC, a 60% owned subsidiary of NantBio (with the other 40% owned by Sorrento). Under this agreement, the Company agreed to supply VivaBioCell’s proprietary GMP-in-a-Box bioreactors and related consumables, made according to specifications mutually agreed to with the Company to NCSC. The agreement has an initial term of five years and renews automatically for successive one-year term unless terminated by either party in the event of material default upon prior written notice of such default and the failure of the defaulting party to remedy the default within thirty days of the delivery of such notice, or upon ninety days’ prior written notice to the Company by NCSC. The Company recognized $0 and $0.5 million revenue for gas mixers and consumables delivered during the years ended December 31, 2020 and 2019, respectively. The Company recorded $0.4 million and $0.3 million deferred revenue for bioreactors that were delivered but not installed as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Company recorded $0.9 million and $0.9 million related party payable related to this agreement, respectively.

In 2018, the Company entered into a shared service agreement, pursuant to which, the Company is charged for services at cost, without mark-up or profit for NantBio, but including reasonable allocations of employee benefits that relate to the employees providing the services. In April 2019, the Company agreed with NantBio to transfer 67 NantBio employees and associated research and development projects, comprising the majority of NantBio’s business, to ImmunityBio. After the transfer, NantBio continued to make payments on the Company’s behalf for certain employee benefits and vendor costs related to the research and development projects that were transferred to the Company. In addition, the Company settled certain employee bonuses and benefits that were accrued by NantBio for 2018. As of December 31, 2020 and 2019, the Company recorded a net $1.3 million receivable from NantBio, which included $1.0 million receivable for employee bonuses and $0.3 million receivable from NantBio for vendor costs the Company paid on behalf of NantBio.

NantOmics

In June 2019, the Company made a strategic decision and transferred certain employees from NantOmics, LLC, or NantOmics, a related party that is controlled by the Company’s chairman and chief executive officer, to ImmunityBio. After the transfer, the Company settled certain employee bonuses and benefits that were accrued by NantOmics for 2020 and recorded $0.6 million receivable from NantOmics as of December 31, 2020 and 2019.

NantHealth

In June 2018, Altor entered into a service agreement with NantHealth Labs, pursuant to which, NantHealth Labs agreed to perform blood-based mutation detection test services in connection with Altor's clinical trials for cancer treatments and therapies. The agreement has an initial term of two years and renews automatically for successive one-year periods terms unless terminated earlier. During the year ended December 31, 2020 and 2019, Altor incurred $0 and $0.3 million in research and development expense in connection to this service agreement. As of December 31, 2020, the Company recorded $0.1 million related party receivable from NantHealth for certain employee compensation paid on behalf of NantHealth.

NantPharma

In 2018, Altor BioScience, LLC and GlobeImmune purchased a total of $0.2 million in laboratory equipment from NantPharma. As of December 31, 2020 and 2019, the Company recorded a $0.2 million related party payable to NantPharma for the unpaid invoices.

Duley Road, LLC

In February 2017, Altor through its wholly-owned subsidiary entered into a lease agreement with Duley Road, LLC, or Duley Road, a related party that is indirectly controlled by the Company's chairman and chief executive officer, for an office and cGMP manufacturing facility in El Segundo, California. As of December 31, 2020 and 2019, the Company recorded $1.0 million and $0.3 million rent payable to Duley Road, respectively, and is included in "related party payable" on the consolidated balance sheets. For the years ended December 31, 2020 and 2019, the Company recorded $0.5 million and $0.1 million rent expense, respectively, which is reflected in "research and development" expense on the consolidated statements of operations and comprehensive loss. Please see Note 10 for additional information.

Effective in January 2019, the Company entered into two lease agreements with Duley Road for a second building located in El Segundo, California. The first lease is for the first floor of the building with approximately 5,650 square feet. The lease has a 7-year term commencing in September 2019. The second lease is for the second floor of the building with approximately 6,488 square feet. The lease has a seven-year term commencing in July 2019. Both floors of the building are used for research and development and office space. The Company has options to extend the initial terms of both leases for two consecutive five-year periods through 2036. The annual rent of the two leases is $0.4 million, which will increase at a rate of 3% per year. As of December 31, 2020 and 2019, the Company recorded $0.7 million and $1.5 million leasehold improvement payable and $1.1 million and $0.2 million lease-related payables to Duley Road, which were included in "related party payable" on the consolidated balance sheets. For the years ended December 31, 2020 and 2019, the Company recorded $0.3 million and $0.1 million rent expense for the two leases, respectively, which is reflected in "research and development" expense on the consolidated statements of operations and comprehensive loss. The total security deposits for the leases amounted to $0.1 million as of December 31, 2020 and 2019, which are reflected in "other assets" on the consolidated balance sheets.

Related Party Notes Payable

In October 2015, the Company executed a demand promissory note with CalCap, a personal investment vehicle of Dr. Soon-Shiong and a related party. The note bears interest at a per annum rate of 5.0%, compounded annually and computed on the basis of 365 or 366 days. The note also provided that the Company may prepay the outstanding principal amount at any time without premium or penalty and the prior consent of CalCap. The note also contained a provision that all outstanding amounts will become immediately due and payable upon certain bankruptcy and insolvency-related events. The principal amount of advances made by the related party to the Company pursuant to these notes totaled $22.4 million as of January 1, 2019. The total interest outstanding on this note amounted to $3.4 million as of January 1, 2019, and is included in "related party notes payable" on the consolidated balance sheets.

In March 2019, the Company repaid $22.5 million under the promissory note with CalCap, including $18.8 million principal and $3.7 million accrued interests. On June 28, 2019, the Company extinguished the remaining principal amount under the note payable of $3.7 million and accrued interest of $0.04 million by partially offsetting the cash proceeds of approximately $6.7 million from the issuance of 2,533,333 shares of common stock as a result of warrant exercises from the Company's chief executive officer.

In December 2015, the Company executed a demand promissory note with NantCapital. The note bears interest at a per annum rate of 5.0%, compounded annually and computed on the basis of 365 or 366 days. In January 2019, the Company repaid $15.0 million under the promissory note with NantCapital, including $12.1 million of principal and $2.9 million in accrued interest. In May 2019, the Company borrowed $10.5 million from NantCapital. In June 2019, the Company deducted the principal of $2.4 million and accrued interest of $0.6 million to NantCapital, which is to offset the issuance of common stock as a result of warrant exercises from the Company's chief executive officer. In June 2019 and December 2019, the Company borrowed $8.0 million and $5.0 million from NantCapital, respectively. In July 2020 and August 2020, the Company borrowed $10.0 million and $3.7 million from NantCapital, respectively. The principal amount of advances made by the related party to the Company pursuant to these notes totaled $55.2 million and $41.5 million as of December 31, 2020 and 2019. The total interest outstanding on this note amounted to $3.3 million and $0.9 million as of December 31, 2020 and 2019, and was included in "related party notes payable" on the consolidated balance sheets. In July 2020, this note was amended and restated to provide that all outstanding principal and accrued and unpaid interest is due and payable on September 30, 2025, and not on demand.

In June 2017, the Company executed a demand promissory note with NantWorks. The note bears interest at a per annum rate of 5.0%, compounded annually and computed on the basis of 365 or 366 days. The outstanding principal amount, plus accrued and unpaid interest, may be made immediately due and payable on demand by NantWorks. The Company may prepay the outstanding principal amount at any time without premium or penalty and the prior consent of NantWorks. All outstanding amounts under the note will also become immediately due and payable upon certain bankruptcy and insolvency-related events. The principal amount of advances made by the related party to the Company pursuant to these notes totaled $43.4 million as of December 31, 2020 and 2019. The total interest outstanding on this note amounted to $8.1 million and $5.7 million as of December 31, 2020 and 2019, and was included in "related party notes payable" on the consolidated balance sheets. In July 2020, this note was amended and restated to provide that all outstanding principal and accrued and unpaid interest is due and payable on September 30, 2025, and not on demand.

In August 2018, the Company executed a demand promissory note with NCSC. The note bears interest at a per annum rate of 5.0%, compounded annually and computed on the basis of 365 or 366 days. The outstanding principal amount, plus accrued and unpaid interest, may be made immediately due and payable on demand by NCSC. The Company may prepay the outstanding principal amount at any time without premium or penalty and the prior consent of NCSC. All amounts outstanding under the note will also become immediately due and payable upon certain bankruptcy and insolvency-related events. The principal amount of advances made by the related party to the Company pursuant to these notes totaled $33.0 million as of December 31, 2020 and 2019. The total interest outstanding on this note amounted to $3.9 million and $2.1 million as of December 31, 2020 and 2019, and was included in "related party notes payable" on the consolidated balance sheets. In July 2020, this note was amended and restated to provide that all outstanding principal and accrued and unpaid interest is due and payable on September 30, 2025, and not on demand.

In December 2019, the Company executed a demand promissory note with NantMobile. The note bears interest at a per annum rate of 3.0%, compounded annually and computed on the basis of 365 or 366 days. The outstanding principal amount, plus accrued and unpaid interest, maybe made immediately due and payable on demand by NantMobile. The Company may prepay the outstanding principal amount at any time without premium or penalty and the prior consent of NantMobile. All amounts outstanding under the note will also become immediately due and payable upon certain bankruptcy and insolvency-related events. The principal amount of advances made by the related party to the Company pursuant to these notes totaled $55.0 million as of December 31, 2020 and 2019. The total interest outstanding on this note amounted to $1.7 million and $9 thousand as of December 31, 2020 and 2019, respectively, and are included in "related party notes payable" on the consolidated balance sheets. In July 2020, this note was amended and restated to provide that all outstanding principal and accrued and unpaid interest is due and payable on September 30, 2025, and not on demand.

In September 2020, the Company executed a promissory note with NantCapital for an advance of the principal of $50.0 million. The note bears interest at a per annum rate of 6.0%, compounded annually and computed on the basis of 365 or 366 days. The unpaid principal and accrued and unpaid interest are due and payable on September 30, 2025. The total interest outstanding on this note amounted to $0.8 million as of December 31, 2020, and is included in “related party notes payable” on the consolidated balance sheets.

All demand promissory notes have no equity or equity-linked convertible rights.

16. Subsequent Events

In February 2021, the Company executed a promissory note with NantCapital. The outstanding principal amount of each advance made by NantCapital to the Company bears interest at a per annum rate of 6.0%, compounded annually and computed based on 365 or 366 days. On February 26, 2021, the Company received a $40 million advance pursuant to this promissory note. The accrued interest shall be paid quarterly commencing on June 30, 2021. The outstanding principal amount and any accrued and unpaid interest are due on September 30, 2025. The Company may prepay the outstanding principal amount and accrued interest at any time without premium or penalty and the prior consent of NantCapital.

On December 21, 2020, the Company and NantKwest entered into a merger agreement (the “Merger Agreement”) providing for the combination of the two companies to create a leading immunotherapy and cell therapy company focused on oncology and infectious disease. On March 9, 2021, the Company completed the merger pursuant to the terms of the Merger Agreement. Under the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of the Company’s common stock, par value $0.001 per share, that was issued and outstanding immediately prior to the Effective Time (subject to certain exceptions as set forth in the Merger Agreement) was converted into the right to receive 0.8190 (the “Exchange Ratio”) newly issued shares of NantKwest common stock, par value $0.0001 per share, with cash paid in lieu of any fractional shares. At the Effective Time, each outstanding option, warrant or restricted stock unit to purchase the Company’s common stock will be converted using the Exchange Ratio into an option, warrant or restricted stock unit, respectively, on the same terms and conditions immediately prior to the Effective Time, to purchase shares of NantKwest common stock.

In connection with the Merger, the Company changed its name from “ImmunityBio, Inc.” to “NantCell, Inc.” and become a wholly owned subsidiary of NantKwest, which changed its name from “NantKwest, Inc.” to “ImmunityBio, Inc.”. The name change has not been reflected in the accompanying consolidated financial statements and notes as of December 31, 2020.

The Company has evaluated subsequent events through March 30, 2021, the date on which the consolidated financial statements were available to be issued.

Exhibit 99.2

INDEX TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of ImmunityBio, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying combined consolidated balance sheets of ImmunityBio, Inc and Subsidiaries (the Company) as of December 31, 2020 and 2019, the related combined consolidated statements of operations, comprehensive loss, stockholders' (deficit) equity and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "combined consolidated financial statements"). In our opinion, the combined consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the combined consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Related party transactions and disclosures

Description of the Matter	As discussed in Note 9 to the combined consolidated financial statements, the Company's Executive Chairman of the Board of Directors has a controlling interest in certain entities with which the Company has entered into material transactions including shared services agreement with NantWorks and related party notes payable with NantWorks, NantCapital, NantMobile, and NantCancerStemCell. Affiliates of such entities are also affiliates of the Company due to the common control of the Company's Executive Chairman of the Board of Directors. Assessing the sufficiency of procedures performed to identify related parties and related party transactions and determining the identified related party transactions were properly recorded, presented and disclosed was challenging due to the nature, volume and the significance of related party transactions.

How We Addressed the Matter in Our Audit	The audit procedures we performed included, among others, testing the completeness and accuracy of the listing of significant related parties identified and related party transactions provided by management, and testing the manner in which related party transactions were recorded, presented and disclosed. We performed journal entry searches of identified related parties to verify completeness and accuracy of the Company's related party transactions. We also inspected questionnaires received from the Company's directors and officers, read employment and compensation contracts, proxy statements and other relevant filings with the Securities and Exchange Commission and other regulatory agencies that relate to the Company's financial relationships and transactions with the Company's executive officers and with other entities controlled by the Company's Executive Chairman of the Board of Directors. We confirmed the transactions and/or balances, as applicable, with the related parties including amounts payable to NantWorks under the shared service agreement and related party notes payable to NantCapital, NantMobile, NantWorks and NantCancerStemCell. We also obtained the underlying agreements and assessed the associated accounting and disclosures. We designed and executed our tests of account balances and transaction details to assess potential effects on the Company's identified related parties and related party transactions. We inquired of management and members of the Company's audit committee regarding the completeness of the related party transactions identified.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2016.
Los Angeles, California
April 22, 2021

ImmunityBio, Inc. and Subsidiaries
Combined Consolidated Balance Sheets
(in thousands, except for share amounts)

	As of December 31,	
	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,915	$ 75,801
Marketable securities	61,146	39,535
Due from related parties	2,003	1,963
Prepaid expenses and other current assets (including amounts with related parties)	13,649	14,002
Total current assets	111,713	131,301
Marketable securities, noncurrent	950	2,161
Property, plant and equipment, net	72,541	83,469
Non-marketable equity investment (Note 4)	7,849	9,253
Intangible asset, net	1,463	12,074
Convertible note receivable	6,129	5,879
Operating lease right-of-use assets, net (including amounts with related parties)	18,138	20,131
Other assets (including amounts with related parties)	2,598	5,518
Total assets	$ 221,381	$ 269,786
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 11,510	$ 8,800
Accrued expenses and other liabilities	36,771	23,485
Due to related parties	14,838	11,393
Operating lease liabilities (including amounts with related parties)	5,015	4,808
Total current liabilities	68,134	48,486
Related party notes payable	254,353	181,621
Operating lease liabilities, less current portion (including amounts with related parties)	16,179	18,831
Deferred income tax liability	170	3,108
Other liabilities	1,035	1,414
Total liabilities	339,871	253,460
Commitments and contingencies (Note 8)		
Stockholders' (deficit) equity:		
Common stock, $0.0001 par value; 500,000,000 shares authorized; 382,243,142 and 371,976,995 shares issued and outstanding at December 31, 2020 and 2019, respectively; excluding treasury stock, 163,800 shares outstanding at December 31, 2020 and 2019, respectively.	38	37
Additional paid-in capital	1,495,163	1,406,002
Accumulated deficit	(1,615,131)	(1,393,280)
Accumulated other comprehensive income (loss)	122	(87)
Total ImmunityBio stockholders' (deficit) equity	(119,808)	12,672
Noncontrolling interests	1,318	3,654
Total stockholders' (deficit) equity	(118,490)	16,326
Total liabilities and stockholders' (deficit) equity	$ 221,381	$ 269,786

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

ImmunityBio, Inc. and Subsidiaries
Combined Consolidated Statements of Operations
(in thousands, except share and per share amounts)

	For the Year Ended December 31,	
	2020	2019
Revenue	$ 605	$ 2,202
Operating expenses:		
Research and development (including amounts with related parties)	139,507	111,997
Selling, general and administrative (including amounts with related parties)	71,318	46,456
Impairment of intangible assets	10,660	—
Total operating expenses	221,485	158,453
Loss from operations	(220,880)	(156,251)
Other income (expense):		
Interest and investment income, net	2,435	2,442
Interest expense (including amounts with related parties)	(9,074)	(5,920)
Other income (expense), net (including amounts with related parties)	1,486	(534)
Total other expense	(5,153)	(4,012)
Loss before income taxes and noncontrolling interest	(226,033)	(160,263)
Income tax benefit	1,846	105
Net loss	(224,187)	(160,158)
Net loss attributable to noncontrolling interests, net of tax	(2,336)	(2,381)
Net loss attributable to ImmunityBio common stockholders	$ (221,851)	$ (157,777)
Net loss per ImmunityBio common share - basic and diluted:	$ (0.59)	$ (0.43)
Weighted-average number of common shares used in computing net loss per share - basic and diluted	377,067,527	366,324,859

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

ImmunityBio, Inc. and Subsidiaries
Combined Consolidated Statements of Comprehensive Loss
(in thousands)

	For the Year Ended December 31,	
	2020	2019
Net loss	$ (224,187)	$ (160,158)
Other comprehensive income, net of income taxes:		
Net unrealized gains on available-for-sale securities	140	158
Foreign currency translation adjustment	60	(35)
Reclassification of net realized losses on available-for-sale securities included in net loss	9	4
Total other comprehensive income	209	127
Comprehensive loss	(223,978)	(160,031)
Less: comprehensive loss attributable to noncontrolling interests	(2,336)	(2,381)
Comprehensive loss attributable to ImmunityBio common stockholders	$ (221,642)	$ (157,650)

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

ImmunityBio, Inc. and Subsidiaries
Combined Consolidated Statements of Stockholders' (Deficit) Equity
(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total ImmunityBio Stockholders' (Deficit) Equity	Noncontrolling Interests	Total Stockholders' (Deficit) Equity
	Shares	Amount						
Balance as of December 31, 2018	**348,677,955**	**$ 35**	**$1,326,760**	**$(1,232,320)**	**$ (214)**	**$ 94,261**	**$ (12,318)**	**$ 81,943**
Issuance of common stock for equity investment	2,047,500	—	30,000	—	—	30,000	—	30,000
Stock-based compensation expense	—	—	3,421	—	—	3,421	—	3,421
Exercise of warrants	19,664,050	2	41,862	—	—	41,864	—	41,864
Exercise of stock options	1,995,120	—	4,086	—	—	4,086	—	4,086
Vesting of restricted stock units (RSUs)	395,051	—	—	—	—	—	—	—
Net share settlement for RSUs vesting and warrant exercises	(124,345)	—	(127)	—	—	(127)	—	(127)
Repurchase of common stock	(678,336)	—	—	(2,501)	—	(2,501)	—	(2,501)
Cumulative effect of the adoption of the new lease standard	—	—	—	(682)	—	(682)	—	(682)
Deconsolidation of Precision Biologics	—	—	—	—	—	—	18,353	18,353
Other comprehensive income, net	—	—	—	—	127	127	—	127
Net loss	—	—	—	(157,777)	—	(157,777)	(2,381)	(160,158)
Balance as of December 31, 2019	**371,976,995**	**37**	**1,406,002**	**(1,393,280)**	**(87)**	**12,672**	**3,654**	**16,326**
Issuance of common stock, net of $4,373 in offering costs	8,521,500	1	86,301	—	—	86,302	—	86,302
Stock-based compensation expense	—	—	2,187	—	—	2,187	—	2,187
Exercise of stock options	1,272,273	—	1,176	—	—	1,176	—	1,176
Vesting of RSUs	648,336	—	—	—	—	—	—	—
Net share settlement for RSU vesting and option exercises	(175,962)	—	(503)	—	—	(503)	—	(503)
Other comprehensive income	—	—	—	—	209	209	—	209
Net loss	—	—	—	(221,851)	—	(221,851)	(2,336)	(224,187)
Balance as of December 31, 2020	**382,243,142**	**$ 38**	**$1,495,163**	**$(1,615,131)**	**$ 122**	**$ (119,808)**	**$ 1,318**	**$ (118,490)**

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

ImmunityBio, Inc. and Subsidiaries
Combined Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31, 2020	2019
Operating activities:		
Net loss	$ (224,187)	$ (160,158)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,739	14,042
Loss on impairment of intangible assets	10,660	—
Non-cash interest items, net, including related parties	8,531	(704)
Non-cash lease expense related to operating lease right-of-use assets	5,155	4,131
Stock-based compensation expense	2,187	3,421
Unrealized loss on non-marketable equity investment	1,405	—
Amortization of net premiums and discounts on marketable debt securities	794	—
Unrealized (gain) loss on marketable equity securities	(2,876)	320
Deferred tax	(2,938)	(8)
Loss on impairment of fixed assets	—	1,593
Other	446	890
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	4,208	5,837
Other assets	(684)	(4,009)
Accounts payable	2,570	1,188
Accrued expenses and other liabilities	12,495	(11,796)
Due to related parties	3,378	(2,380)
Operating lease liabilities	(5,607)	(4,476)
Net cash used in operating activities	(171,724)	(152,109)
Investing activities:		
Purchases of property, plant and equipment	(1,669)	(4,287)
Proceeds from sales of property and equipment	—	200
Purchase of non-marketable equity security	—	(3)
Payment to Precision to facilitate deconsolidation	—	(2,500)
Purchases of marketable debt securities, available-for-sale	(91,765)	(87,189)
Maturities of marketable debt securities	65,350	109,730
Proceeds from sales of marketable debt securities	8,272	2,601
Net cash (used in) provided by investing activities	(19,812)	18,552
Financing activities:		
Proceeds from equity offerings, net of issuance costs	86,302	30,000
Proceeds from issuance of related party promissory notes	63,700	47,670
Proceeds from exercises of stock options	1,176	4,086
Proceeds from exercises of warrants	—	35,151
Repurchase of common stock	—	(2,500)
Net share settlement for RSUs vesting and option exercises	(503)	(127)
Net cash provided by financing activities	150,675	114,280
Effect of exchange rate changes on cash and cash equivalents	(25)	(22)
Net change in cash, cash equivalents and restricted cash	(40,886)	(19,299)
Cash, cash equivalents, and restricted cash, beginning of the period	75,980	95,279
Cash, cash equivalents, and restricted cash, end of the period	$ 35,094	$ 75,980

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

ImmunityBio, Inc. and Subsidiaries
Combined Consolidated Statements of Cash Flows (Continued)
(in thousands)

	For the Year Ended December 31,	
	2020	2019
Reconciliation of cash, cash equivalents, and restricted cash, end of the period:		
Cash and cash equivalents	$ 34,915	$ 75,801
Restricted cash	179	179
Cash, cash equivalents, and restricted cash, end of the period	$ 35,094	$ 75,980
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 40	$ 19
Income taxes	$ 8	$ 3
Supplemental disclosure of non-cash activities:		
Issuance of equity for warrant exercises via reduction of related party promissory notes	$ —	$ 6,713
Property and equipment purchases included in accounts payable, accrued expenses, and due to related parties	$ 220	$ 662
Cashless exercise of stock options	$ 1,233	$ 29
Right-of-use assets obtained in exchange for operating lease liabilities	$ 2,394	$ 1,968
Conversion of convertible notes and accrued interest into investment in non-marketable equity security (Note 4)	$ —	$ 751
Unrealized (losses) gains on marketable debt securities	$ (17)	$ 258

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

1. Description of Business

Organization

ImmunityBio, Inc., including its subsidiaries (formerly known as NantKwest, Inc.), was incorporated in Illinois on October 7, 2002 under the name ZelleRx Corporation. On January 22, 2010, the company changed its name to Conkwest, Inc., and on July 10, 2015, the company changed its name to NantKwest, Inc. In March 2014, the company redomesticated from the State of Illinois to the State of Delaware and the Illinois company ceased to exist. On March 9, 2021, its name was changed to ImmunityBio, Inc. We are a leading late-stage immunotherapy biotechnology company headquartered in Culver City, California with certain operations in San Diego and El Segundo, California, Louisville, Colorado, Seattle, Washington, Woburn, Massachusetts, Morrisville, North Carolina, Miramar, Florida, and Udine and Tavangnacco, Italy. In these notes, the terms “we,” “our,” “the company” and “us” refer to ImmunityBio and subsidiaries.

We have developed a next-generation immunotherapy platform based on our four key modalities: (1) activating NK and T cells using antibody cytokine fusion proteins, (2) activating tumoricidal macrophages using low-dose synthetic immunomodulators, (3) generating memory T cells using vaccine candidates developed with our second-generation adenovirus, or hAd5, technology, and (4) off-the-shelf natural killer cells from the NK-92 cell line and memory-like cytokine-enhanced natural killer cells (m-ceNK) from allogenic and autologous donors.

We own a broad, clinical-stage immunotherapy pipeline, including an antibody cytokine fusion protein (an IL-15 superagonist (N-803) known as Anktiva), an albumin-associated anthracycline synthetic immunomodulator (aldoxorubicin), second-generation adenovirus (hAd5) and yeast vaccine technologies (targeting tumor-associated antigens and neoepitopes), off-the-shelf genetically engineered natural killer cell lines inducing cancer and virally infected cell death through a variety of concurrent mechanisms including innate killing, antibody-mediated killing, and CAR-directed killing, macrophage polarizing peptides, and bi-specific fusion proteins targeting CD20, PD-L1, TGF-ß and IL-12. Our immunotherapy clinical pipeline consists of over 40 clinical trials in Phase 1, 2, or 3 development across 19 indications in solid and liquid cancers and infectious diseases. We have an expansive clinical-stage pipeline and intellectual property portfolio with 17 first-in-human assets in 25 Phase II to III clinical trials.

In December 2019, the United States, or U.S. Food and Drug Administration, or FDA, granted Breakthrough Therapy designation to Anktiva for bacillus Calmette-Guérin, or BCG, unresponsive carcinoma in situ non-muscle invasive bladder cancer. Other indications currently with registration-potential studies include BCG unresponsive papillary bladder cancer, first- and second-line lung cancer, and metastatic pancreatic cancer.

The Merger

On December 21, 2020, we and NantCell, Inc. (formerly known as ImmunityBio, Inc.) (“NantCell”) entered into an Agreement and Plan of Merger (the Merger Agreement), pursuant to which we and NantCell agreed to combine our businesses. The Merger Agreement provided that a wholly-owned subsidiary of the company will merge with and into NantCell (the Merger), with NantCell surviving the Merger as a wholly-owned subsidiary of the company.

On March 9, 2021, we completed the Merger pursuant to the terms of the Merger Agreement. Under the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of NantCell common stock, par value $0.001 per share, issued and outstanding immediately prior to the Effective Time, subject to certain exceptions as set forth in the Merger Agreement, was converted automatically into a right to receive 0.8190 (the “Exchange Ratio”) newly issued shares of common stock, par value $0.0001 per share, of the company (“Company Common Stock”), with cash paid in lieu of any fractional shares. At the Effective Time, each share of the company’s common stock issued and outstanding immediately prior to the Effective Time, remains an issued and outstanding share of the combined company. At the Effective Time, each outstanding option, warrant or restricted stock unit to purchase NantCell common stock was converted using the Exchange Ratio into an option, warrant or restricted stock unit, respectively, on the same terms and conditions immediately prior to the Effective Time, to purchase shares of the company’s Common Stock.

Immediately following the Effective Time, the former stockholders of NantCell held approximately 72% of the outstanding shares of Company Common Stock and the stockholders of the company as of immediately prior to the Merger held approximately 28% of the outstanding shares of Company Common Stock. As a result of the Merger and immediately following the Effective Time, Dr. Patrick Soon-Shiong, our Executive Chairman, and his affiliates beneficially own, in the aggregate, approximately 82% of the outstanding shares of Company Common Stock.

Accounting Treatment of the Merger

The Merger represents a business combination pursuant to Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 805-50, Mergers, which is accounted for as a transaction between entities under common control as Dr. Patrick Soon-Shiong and his affiliates are the controlling stockholders of each of the company and NantCell. All the assets and liabilities of NantCell were combined with ours at their historical carrying amounts on the closing date of the Merger. We have recast our prior period financial statements to reflect the conveyance of NantCell's common shares as if the Merger had occurred as of the earliest date of the financial statements presented. All material intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The combined consolidated financial statements include the accounts of the company are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

The combined consolidated financial statements are derived from the company's and NantCell's respective historical consolidated financial statements for each period presented. Since the entities have been under common control for all periods presented, the combined consolidated financial statements assume that the merger took place at the beginning of the earliest year for which the combined consolidated financial statements are presented.

As of December 31, 2020, we had an accumulated deficit of $1,615 million. We also had negative cash flows from operations of $171.7 million during the year ended December 31, 2020. We will likely need additional capital to further fund the development of, and seek regulatory approvals for, our product candidates, and to begin to commercialize any approved products.

The combined consolidated financial statements have been prepared assuming the company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of the uncertainty. As a result of continuing anticipated operating cash outflows, we believe that substantial doubt exists regarding our ability to continue as a going concern without additional funding or financial support. However, we believe our existing cash, cash equivalents, and investments in marketable securities, and our ability to borrow from affiliated entities, will be sufficient to fund operations through at least the next 12 months following the issuance date of the financial statements based primarily upon our Executive Chairman's intent and ability to support our operations with additional funds, including loans from affiliated entities, as required, which we believe alleviates such doubt. We may also seek to sell additional equity, through one or more follow-on public offerings, or in separate financings, or obtain a credit facility. However, we may not be able to secure such financing in a timely manner or on favorable terms. Without additional funds, we may choose to delay or reduce our operating or investment expenditures. Further, because of the risk and uncertainties associated with the commercialization of our product candidates in development, we may need additional funds to meet our needs sooner than planned.

Principles of Consolidation

The combined consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany amounts have been eliminated.

We apply the variable interest model under ASC Topic 810, *Consolidation*, to any entity in which we hold an equity investment or to which we have the power to direct the entity's most significant economic activities and the ability to participate in the entity's economics. If the entity is within the scope of the variable interest model and meets the definition of a variable interest entity, or VIE, we consider whether we must consolidate the VIE or provide additional disclosures regarding our involvement with the VIE. If we determine that we are the primary beneficiary of the VIE, we will consolidate the VIE. This analysis is performed at the initial investment in the entity or upon any reconsideration event.

For entities we hold as an equity investment that are not consolidated under the VIE model, we consider whether our investment constitutes ownership of a majority of the voting interests in the entity and therefore should be considered for consolidation under the voting interest model.

Unconsolidated equity investments in the common stock or in-substance common stock of an entity under which we are able to exercise significant influence, but not control, are accounted for using the equity method. Our ability to exercise significant influence is generally indicated by ownership of 20% to 50% interest in the voting securities of the entity.

All other unconsolidated equity investments on which we are not able to exercise significant influence will be subsequently measured at fair value with unrealized holding gains and losses included in o*ther income (expense), net*, on the combined consolidated statements of operations. In the instance the equity investment does not have a readily determinable fair value and does not qualify for the practical expedient to estimate fair value in accordance with ASC Topic 820, *Fair Value Measurement*, or ASC Topic 820, we will apply the measurement alternative under ASC Topic 321, *Investments—Equity Securities*, or ASC 321, pursuant to which we will measure the investment at its cost, less impairment, adjusted for observable price changes in an orderly market for an identical or similar investment of the same issuer.

We own non-marketable equity securities that are accounted for using the measurement alternative under ASC 321 because the preferred stock held by us is not considered in-substance common stock and such preferred stock does not have a readily determinable fair value. All investments are reviewed for possible impairment on a regular basis. If an investment's fair value is determined to be less than its net carrying value, the investment is written down to its fair value. Such an evaluation is judgmental and dependent on specific facts and circumstances. Factors considered in determining whether an impairment indicator is present include: the investees' earnings performance and clinical trial performance, change in the investees' industry and geographic area in which it operates, offers to purchase or sell the security for a price less than the cost of the investment, issues that raise concerns about the investee's ability to continue as a going concern, and any other information that we may be aware of related to the investment. Factors considered in determining whether an observable price change has occurred include: the price at which the investee issues equity instruments similar to those of our investment and the rights and preferences of those equity instruments compared to ours.

Use of Estimates

The preparation of combined consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to the valuation of equity-based awards, deferred income taxes and related valuation allowances, preclinical and clinical trial accruals, impairment assessments, the measurement of right-of-use assets and lease liabilities, useful lives of long-lived assets, loss contingencies, fair value measurements, and the assessment of our ability to fund our operations for at least the next twelve months from the date of issuance of these financial statements. We base our estimates on historical experience and on various other market-specific and relevant assumptions that we believe to be reasonable under the circumstances. Estimates are assessed each period and updated to reflect current information, such as the economic considerations related to the impact that the ongoing coronavirus pandemic could have on our significant accounting estimates. Actual results could differ from those estimates.

Risks and Uncertainties

In March 2020, the World Health Organization declared the novel strain of coronavirus disease (SARS-CoV-2) outbreak a pandemic. To date, our operations have not been significantly impacted by the pandemic. However, we cannot at this time predict the specific extent, duration, or full impact that this pandemic may have on our financial condition and results of operations, including ongoing and planned clinical trials. More specifically, the pandemic may result in prolonged impacts that we cannot predict at this time and we expect that such uncertainties will continue to exist until such time a vaccine is broadly available and in use. The impact of the pandemic on our financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental advisories and restrictions. These developments and the impact of the ongoing pandemic on the financial markets and the overall economy are highly uncertain. If the financial markets and/or the overall economy are impacted for an extended period, our results may be adversely affected.

Contingencies

We record accruals for loss contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the related loss can be reasonably estimated. We evaluate, on a quarterly basis, developments in legal proceedings and other matters that could cause a change in the potential amount of the liability recorded or of the range of potential losses disclosed. Moreover, we record gain contingencies only when they are realizable, and the amount is known. Additionally, we record our rights to insurance recoveries, limited to the extent of incurred or probable losses, as a receivable when such recoveries have been agreed to with our third-party insurers and when receipt is deemed probable. This includes instances when our third-party insurers have agreed to pay, on our behalf, certain legal defense costs and settlement amounts directly to applicable law firms and a settlement fund.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject us to concentrations of risk consist principally of cash and cash equivalents, marketable securities, and convertible note receivable.

Our cash and cash equivalents are held by one major financial institution in the U.S., one in South Korea and one in Italy. We minimize credit risk associated with our cash and cash equivalents by periodically evaluating the credit quality of our primary financial institutions. While we maintain cash deposits in FDIC insured financial institutions in excess of federally insured limits, we do not believe that we are exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. We have not experienced any losses on such accounts. We also monitor the creditworthiness of the borrower of the convertible promissory note. We believe that any concentration of credit risk in its convertible note receivable was mitigated in part by our ability to convert, if necessary, at the qualifying financing event or upon a payment default into shares of the senior class of equity securities of the borrower.

Product candidates developed by us will require approvals or clearances from the FDA, or international regulatory agencies prior to commercial sales. There can be no assurance that any of our product candidates will receive any of the required approvals or clearances. If we were to be denied approval or clearance or any such approval or clearance was to be delayed, it would have a material adverse impact on us.

Cash, Cash Equivalents and Restricted Cash

Cash equivalents include highly liquid investments with an original maturity of three months or less from the date of purchase.

Restricted cash includes a certificate of deposit held as a substitute letter of credit for one of our leased properties. This certificate of deposit is included in o*ther assets* on the combined consolidated balance sheets as the landlord is the beneficiary of the account and we are not able to access the funds during the term of the lease.

A reconciliation of cash, cash equivalents, and restricted cash is included on the combined consolidated statements of cash flows as of December 31, 2020 and 2019.

Marketable Securities

We invest our excess funds in investment grade short- to intermediate-term corporate debt securities, government-sponsored securities, and foreign government bonds and classify these investments as available-for-sale. Marketable debt securities with remaining maturities of 12 months or less are classified as short-term and marketable securities with remaining maturities greater than 12 months are classified as long-term. All marketable debt securities are reported at fair value and any unrealized gains and losses are reported as a component of *accumulated other comprehensive loss* on the combined consolidated statements of stockholders' (deficit) equity, with the exception of unrealized losses believed to be other-than-temporary, which are recorded in *interest and investment income, net*, on the combined consolidated statements of operations. Realized gains and losses from sales of securities and the amounts, net of tax, reclassified out of accumulated other comprehensive loss, if any, are determined on a specific identification basis.

Investments in mutual funds and equity securities, other than equity method investments, are recorded at fair market value, if fair value is readily determinable and any unrealized gains and losses are included in *other income (expense), net* on the combined consolidated statements of operations. Realized gains and losses from the sale of the securities are determined on a specific identification basis and the amounts are included in *other income (expense), net*.

We periodically evaluate whether declines in fair values of our investments below their book value are other-than-temporary. This evaluation consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss, as well as our ability and intent to hold the investment until a forecasted recovery occurs. Additionally, we assess whether we have plans to sell the security or whether it is more likely than not we will be required to sell any investment before recovery of its amortized cost basis. Factors considered include quoted market prices, recent financial results and operating trends, implied values from any recent transactions or offers of investee securities, credit quality of debt instrument issuers, other publicly available information that may affect the value of our investments, duration and severity of the decline in value, and our strategy and intentions for holding the investment. There were no other-than-temporary impairments recorded in the years ended December 31, 2020 and 2019.

Property, Plant and Equipment, Net

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. All repairs and maintenance are charged to net loss during the financial

period in which they are incurred. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	39 years
Software	3 years
Laboratory equipment	5 to 7 years
Furniture & fixtures	5 years
IT equipment	3 years
Leasehold improvements	The lesser of the lease term or the life of the asset

Upon disposal of property, plant and equipment, the cost and related accumulated depreciation are removed from the combined consolidated financial statements and the net amount, less any proceeds, is included in the *other income (expense), net*, on the combined consolidated statements of operations.

We review impairment of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net cash flows that the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected undiscounted future cash flows arising from the assets using a discount rate determined by management to be commensurate with the risk inherent to our current business model.

During the year ended December 31, 2019, we determined that certain bioreactor laboratory equipment could no longer be utilized in the production process. As a result, we recorded an impairment charge totaling $0.9 million, which was included in r*esearch and development expense* on the combined consolidated statements of operations. There were no impairment losses recognized during the year ended December 31, 2020.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*, or ASC 805. These standards require that the total cost of acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition, with the excess purchase price recorded as goodwill. The allocation of the purchase price is dependent upon certain valuations and other studies. Acquisition costs are expensed as incurred.

Contingent consideration obligations incurred in connection with a business combination are recorded at their fair values on the acquisition date and re-measured at their fair values each subsequent reporting period until the related contingencies are resolved. The resulting changes in fair values are recorded as r*esearch and development expenses* on the combined consolidated statements of operations and comprehensive loss. Changes in fair values reflect changes to our assumptions regarding probabilities of successful achievement of related milestones, the timing in which the milestones are expected to be achieved, and the discount rate used to estimate the fair value of the obligation.

Intangible Assets

Intangible assets acquired in a business combination are initially recognized at their fair value on the acquisition date. The in-process research and development, or IPR&D, assets are required to be classified as indefinite-lived assets and are not amortized until they become definite lived assets, upon the successful completion of the associated research and development effort. At that time, we will evaluate whether recorded amounts are impaired and make any necessary adjustments, and then determine the useful life of the asset and begin amortization. If the associated research and development effort is abandoned, the related IPR&D assets will be written-off and an impairment charge recorded. Intangible assets are tested for impairment at least annually or more frequently if indicators of potential impairment exist.

Acquired definite life intangible assets are amortized using the straight-line method over their respective estimated useful lives. Intangible assets, which consisted of the cost of reacquiring a technology license during 2015, were amortized using the straight-line method over an estimated useful life of 4 years. As of December 31, 2019, our definite-lived intangible assets were fully amortized.

Patents

Patent costs, including related legal costs, are expensed as incurred and recorded in *selling, general and administrative expenses* on the combined consolidated statements of operations.

Fair Value of Financial Instruments

The accounting standard for fair value measurements provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on our principal or, in absence of a principal, most advantageous market for the specific asset or liability.

We use a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires us to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value.

The three tiers are defined as follows:

- Level 1— Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets at the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, the valuation of these products does not entail a significant degree of judgment. Our Level 1 assets consist of bank deposits and money market funds.
- Level 2— Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities. Our Level 2 assets consist of corporate debt securities including commercial paper, government-sponsored securities and corporate bonds, as well as foreign municipal securities.
- Level 3— Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

During the years ended December 31, 2020 and 2019, no transfers were made into or out of the Level 1, 2 or 3 categories. We will continue to review the fair value inputs on a quarterly basis.

We utilize a third-party pricing service to assist in obtaining fair value pricing for our investments in marketable securities. Inputs are documented in accordance with the fair value disclosure hierarchy. The fair values of financial instruments other than marketable securities and cash and cash equivalents are determined through a combination of management estimates and third-party valuations.

Collaboration Arrangements

We analyze our collaboration arrangements to assess whether they are within the scope of ASC Topic 808, *Collaborative Arrangements*, or ASC 808. A collaborative arrangement is a contractual arrangement that involves a joint operating activity. These arrangements involve two or more parties who are active participants in the activity, and are exposed to significant risks and rewards dependent on the commercial success of the activity. This assessment is performed throughout the life of the arrangement based on changes in the responsibilities of all parties in the arrangement. To the extent the collaboration agreement is within the scope of ASC 808, we also assess whether the arrangement contains multiple elements that are within the scope of other accounting literature. If we conclude that some or all aspects of the agreement are distinct and represent a transaction with a customer, we account for those aspects of the arrangement within the scope of ASC Topic 606, *Revenue from Contracts with Customers*, or ASC 606. Amounts that are owed by collaboration partners within the scope of ASC 808 are recognized as an offset to research and development expenses as such amounts are incurred by the collaboration partner. The amounts owed to a collaboration partner are classified as research and development expenses.

Our collaboration arrangements require us to acquire certain equipment for exclusive use in the joint operating activities. These equipment purchases do not have an alternative use and are therefore expensed as incurred within research and development expenses.

Our collaboration arrangements are further discussed in Note 7, *Collaboration and License Agreements*.

Preclinical and Clinical Trial Accruals

As part of the process of preparing the financial statements, we are required to estimate expenses resulting from obligations under contracts with vendors, clinical research organizations and consultants. The financial terms of these contracts vary and may result in payment flows that do not match the periods over which materials or services are provided under such contracts.

We estimate clinical trial and research agreement-related expenses based on the services performed, pursuant to contracts with research institutions and clinical research organizations and other vendors that conduct clinical trials and research on our behalf. In accruing clinical and research-related fees, we estimate the time period over which services will be performed and activity expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, we will adjust the accrual accordingly. Payments made under these arrangements in advance of the receipt of the related services are recorded as prepaid expenses until the services are rendered.

Transactions with Related Parties

As outlined in Note 9, *Related Party Agreements*, we have various agreements with related parties. Some are billed and settled in cash monthly. Others are billed quarterly and settled in cash the following month. Monthly accruals are made for all quarterly billing arrangements.

Lease Obligations

On January 1, 2019, we adopted ASC Topic 842, *Leases*, or ASC 842. We elected the following practical expedients, which must be elected as a package and applied consistently to all of its leases at the transition date (including those for which the entity is a lessee or a lessor): i) we did not reassess whether any expired or existing contracts are or contain leases; ii) we did not reassess the lease classification for any expired or existing leases (that is, all existing leases that were classified as operating leases in accordance with ASC 840 are classified as operating leases, and all existing leases that were classified as capital leases in accordance with ASC 840 are classified as finance leases); and iii) we did not reassess initial direct costs for any existing leases.

For contracts entered into on or after the effective date, we determine if an arrangement is, or contains, a lease at lease inception. Our assessment is based on: (1) whether the contract involves the use of a distinct identified asset; (2) whether we obtain the right to substantially all of the economic benefit from the use of the asset throughout the period; and (3) whether we have the right to direct the use of the asset. Leases entered into prior to January 1, 2019, which were accounted for under ASC 840, *Leases*, were not reassessed as we elected the package of practical expedients permitted under the transition guidance within ASC 842, which among other things, allowed us to carry forward the historical lease classification. We determine the lease term by assuming the exercise of renewal options that are reasonably assured. The exercise of lease renewal options is at our sole discretion. Several of our leases have renewal options, however, the exercise of renewal is only assured for two of our current Good Manufacturing Practices, or cGMP, facilities, where we have made significant improvements or extended the lease.

For all leases other than short-term leases, at the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset represents the right to use the leased asset for the lease term. At lease commencement, leases are classified as either finance leases or operating leases. A lease is classified as a finance lease if any one of the following criteria are met: (1) the lease transfers ownership of the underlying asset by the end of the lease term; (2) the lease contains an option to purchase the underlying asset that is reasonably certain to be exercised; (3) the lease term is for a major part of the remaining economic life of the underlying asset; (4) the present value of the sum of the lease payments and any guaranteed residual value that is not already included in the lease payments equals or exceeds substantially all of the fair value of the underlying asset; or (5) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. A lease is classified as an operating lease if it does not meet any one of these criteria.

We do not currently have any leases classified as finance leases. Our operating lease assets and liabilities are included in *operating lease right-of-use assets, net*, and current and non-current o*perating lease liabilities*, respectively, on the combined consolidated balance sheets. At the commencement date, operating lease right-of-use assets and operating lease liabilities are determined based on the present value of lease payments to be made over the lease term. As the rate implicit in lease contracts are not readily determinable, we utilize its incremental borrowing rate as a discount rate for purposes of determining the present value of lease payments, which is based on the estimated interest rate at which we could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. To estimate its incremental borrowing rate, a credit rating applicable to the company is estimated using a synthetic credit rating analysis since we do not currently have a rating agency-based credit rating. Prospectively, we will remeasure the lease liability at the net present value of the remaining lease payments using the same incremental borrowing rate that was in effect as of the lease commencement or transition date. Operating lease right-of-use assets also include any rent paid prior to the commencement date, less any lease incentives received, and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have elected to combine our lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) with non-lease components (e.g., common-area maintenance costs and equipment maintenance costs) and as such, we account for lease and non-lease components as a single component. Lease expense also includes amounts relating to variable lease payments. Variable lease payments include amounts relating to common area maintenance and real estate taxes.

We also elected not to recognize right-of-use assets and lease liabilities for qualifying short-term leases with an initial lease term of 12 months or less at lease inception. Such leases are expensed on a straight-line basis over the lease term. The lease term includes the non-cancellable period of the lease and any additional periods covered by either options to renew or not to terminate when the company is reasonably certain to exercise.

The depreciable life of operating right-of-use-assets and leasehold improvements is limited by the expected lease term.

Income Taxes

We recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record valuation allowances to reduce deferred tax assets to the amount we believe is more likely than not to be realized.

We recognize uncertain tax positions when the position will be more likely than not upheld on examination by the taxing authorities based solely upon the technical merits of the positions. We recognize interest and penalties, if any, related to unrecognized income tax uncertainties in income tax expense. We did not have any accrued interest or penalties associated with uncertain tax positions as of December 31, 2020 and 2019.

We are subject to U.S. federal income tax, as well as income tax in Italy, South Korea, California and other states. To date, we have not been required to pay U.S. federal and state income taxes because of current and accumulated net operating losses. The federal returns for tax years 2017 through 2020 remain open to examination and the state returns remain subject to examination for tax years 2016 through 2020. Carryforward attributes that were generated in years where the statute of limitations is closed may still be adjusted upon examination by the Internal Revenue Service, or IRS, or other respective tax authorities. All other state jurisdictions remain open to examination. No income tax returns are currently under examination by taxing authorities.

Stock Repurchases

In November 2015, the board of directors approved a share repurchase program, or the 2015 Share Repurchase Program allowing the Chief Executive Officer, or CEO or Chief Financial Officer, on behalf of the company, to repurchase from time to time, in the open market or in privately negotiated transactions, up to $50.0 million of our outstanding shares of common stock, exclusive of any commissions, markups or expenses. The timing and amounts of any purchases were and will continue to be based on market conditions and other factors, including price, regulatory requirements and other corporate considerations. The 2015 Share Repurchase Program does not require the purchase of a minimum number of shares and may be suspended, modified or discontinued at any time without prior notice. We have financed, and expect to continue to finance, share repurchases with cash on hand. The shares are formally retired, through board approval upon repurchase. We have elected to account for the shares repurchased using the constructive retirement method. For shares repurchased in excess of par, we allocate the purchase price in excess of par value to *accumulated deficit*, on the combined consolidated balance sheets. Our stock repurchase activity is discussed in Note 10, Stockholders' (Deficit) Equity.

Revenue Recognition

On January 1, 2018, we adopted the provisions of ASC Topic 606, *Revenue from Contracts with Customers*, or ASC 606. This guidance requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted ASC 606 on January 1, 2018 by recording the cumulative effect of the adoption on the accumulated deficit. We applied the new guidance to contracts that were not complete as of January 1, 2018. Implementation of ASC 606 did not have a material impact on our combined consolidated financial statements.

We have primarily generated revenues from non-exclusive license agreements related to our cell lines, the sale of our bioreactors and related consumables and grant programs. The nonexclusive license agreements with a limited number of pharmaceutical and biotechnology companies grant them the right to use our cell lines and intellectual property for non-clinical use. These agreements generally include upfront fees and annual research license fees for such use, as well as commercial license fees for sales of the licensee products developed or manufactured using our intellectual property and cell lines. We have generated revenues from product sales of our proprietary GMP-in-a-Box bioreactors and related consumables to related parties. Additionally, we also generated revenues from grant programs with governmental agencies and other research institutions for the research and development provided.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation based on relative standalone selling price and recognized as revenue when, or as, the performance obligation is satisfied.

Under our license agreements with customers, we typically promise to provide a license to use certain cell lines and related patents, the related know-how, and future research and development data that affect the license. We have concluded that these promises represent one performance obligation due to the highly interrelated nature of the promises. We provide the cell lines and know-how immediately upon entering into the contracts. Research and development data are provided throughout the term of the contract when and if available.

As discussed in Note 7, *Collaboration and License Agreements*, our license agreement with Precigen included a nonrefundable upfront payment of $0.4 million, received when we entered into the contract in 2010. In this instance, we determined that under ASC 606 it would be appropriate to recognize the initial milestone payment at a point in time, when we transferred the license. In this case, the intellectual property provided under the contract is functional intellectual property under ASC 606 and was determined to be a distinct performance obligation in the context of the arrangement. Prior to adoption, the upfront payment had been initially recorded as deferred revenue and was being recognized into revenue on a straight-line basis. As a result, upon adoption of ASC 606, we adjusted our accumulated deficit for the effects of recognizing revenue upfront for the initial milestone. The adjustment to accumulated deficit upon adoption was not material.

The license agreements may include non-refundable upfront payments, event-based milestone payments, sales-based royalty payments, or some combination of these. The event-based milestone payments represent variable consideration and we use the most likely amount method to estimate this variable consideration. Given the high degree of uncertainly around the achievement of these milestones, we do not recognize revenue from these milestone payments until the uncertainty associated with these payments is resolved. We currently estimate variable consideration related to milestone payments to be zero and, as such, no revenue has been recognized for milestone payments. We recognize revenue from sales-based royalty payments when or as the sales occur. On a quarterly basis, we re-evaluate our estimate of milestone variable consideration to determine whether any amount should be included in the transaction price and recorded in revenue prospectively.

We also have sold our proprietary GMP-in-a-Box bioreactors and related consumables to affiliated companies. The arrangements typically include delivery of bioreactors, consumables, and providing installation service and perpetual software licenses for using the equipment. We recognize revenue when customers obtain control and can benefit from the promised goods or services, generally upon installation of the bioreactors, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. Upfront payments and fees are recorded as deferred revenue upon receipt and recognized as revenue when we satisfy our performance obligations under these arrangements.

Grant revenue is typically paid for reimbursable costs incurred over the duration of the associated research project or clinical trial and is recognized when expenses reimbursable under the grants have been incurred and payments under the grants become contractually due.

Upon adoption, we changed our accounting policy from accounting for milestone payments under the milestone method to accounting for variable consideration as discussed above. The change in accounting policy did not change any amounts in the financial statements because of the significant uncertainty surrounding the estimate of variable consideration for milestone payments.

To date, we have generated minimal revenue related to the non-clinical use of our cell lines and intellectual property. We have no products approved for commercial sale and we have not generated any revenue from product sales. If we fail to complete the development of our product candidates in a timely manner or fail to obtain regulatory approval for them, we may never be able to generate substantial future revenue.

Research and Development Costs

Major components of research and development costs include cash compensation and other personnel-related expenses, stock-based compensation, depreciation and amortization expense on research and development property and equipment and intangible assets, costs of preclinical studies, clinical trials costs, including contract research organizations, or CROs and related clinical manufacturing, including contract manufacturing organizations, or CMOs, costs of drug development, costs of materials and supplies, facilities cost, overhead costs, regulatory and compliance costs, and fees paid to consultants and other entities that conduct certain research and development activities on our behalf. Costs incurred in research and development are expensed as incurred.

Included in *Research and development* costs are clinical trial and research expenses based on the services performed pursuant to contracts with research institutions and clinical research organizations and other vendors that conduct clinical trials and research on our behalf. We record accruals for estimated costs under these contracts. When evaluating the adequacy of the accrued liabilities, we analyze the progress of the studies or clinical trials, including the phase or completion of events, invoices received, contracted costs and purchase orders. Significant judgments and estimates are made in determining the accrued balances at the end of any reporting period based on the facts and circumstances known at that time. Although we do not expect the estimates to be materially different from the amounts actually incurred, if the estimates of the status and timing of services performed differ from the actual status and timing of services performed, we may report amounts that are too high or too low in any particular period. Actual results could differ from our estimates. We adjust the accruals in the period when actual costs become known.

Stock-Based Compensation

We account for stock-based compensation under the provisions of FASB ASC Topic 718, *Compensation—Stock Compensation*, or ASC 718, which applies to share-based payments issued to employees and nonemployees in exchange for goods or services. Under ASC 718, the fair value of an equity-classified award is estimated on the grant date without regard to service or performance conditions. The grant date fair values for options and warrants are estimated using the Black-Scholes-Merton option pricing model, and the grant date fair values for restricted stock units, or RSUs, are based upon the closing market price of our common stock on the date of grant.

We use the straight-line method to recognize stock-based compensation expense for our outstanding share awards that do not contain a performance condition. For awards subject to performance-based vesting conditions, we assess the probability of the individual milestones under the award being achieved and stock-based compensation expense is recognized over the service period commencing once management believes the performance criteria is probable of being met. For awards with service or performance conditions, we recognize the effect of forfeitures in compensation cost in the period that the award was forfeited.

Litigation Costs

We expense legal fees as they are incurred.

Comprehensive Income (Loss)

Comprehensive income or loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income or loss is composed of net income (loss) and other comprehensive income (loss). Our other comprehensive income or loss consists of unrealized gains and losses on marketable debt securities classified as available-for-sale, net of income taxes and foreign currency translation adjustment.

Noncontrolling Interests

Noncontrolling interests are recorded for the entities that we consolidate but are not wholly-owned by the company. Noncontrolling interests are classified as a separate component of equity on the combined consolidated balance sheets and combined consolidated statements of stockholders' (deficit) equity. Additionally, net loss attributable to noncontrolling interests is reflected separately from consolidated net loss on the combined consolidated statements of operations and the combined consolidated statements of stockholders' (deficit) equity. We record the noncontrolling interests' share of loss based on the percentage of ownership interest retained by the respective noncontrolling interest holders. Noncontrolling interests recorded on the combined consolidated financial statements result from NantCell's share of GlobeImmune, Inc., or GlobeImmune, of which we control 69.1%, and Immunotherapy NANTibody, LLC, or NANTibody, of which we control 60% as of December 31, 2020 and 2019. Noncontrolling interest stockholders are common stockholders.

GlobeImmune was determined to be a VIE as it does not have sufficient equity investment at risk to finance its operations without additional subordinated financial support and we are deemed the primary beneficiary of GlobeImmune and, accordingly, consolidates GlobeImmune into the combined consolidated financial statements under the VIE model. NantCell also supports GlobeImmune through a promissory note agreement, in which NantCell provides advances to GlobeImmune from time to time up to $6.0 million with a per annum interest rate of five percent (5%). As of December 31, 2020 and 2019, respectively, NantCell had advanced $0 and $1.2 million, respectively, to GlobeImmune to support its operations.

GlobeImmune recognized $0 and $0.2 million of revenues for the years ended December 31, 2020 and 2019 respectively, and $2.0 million and $7.7 million of related operating expenses for the years ended December 31, 2020 and 2019 respectively. Combined consolidated balance sheets include approximately $0.5 million and $2.3 million of total assets and $0.3 million and $1.5 million of total liabilities as of December 31, 2020 and 2019, respectively, related to the GlobeImmune.

In addition, NantCell held a 68.5% ownership of Precision Biologics, Inc., or Precision Biologics, arising from its preferred stock investment. NantCell ended its investment in Precision Biologics pursuant to a final settlement agreement approved by the court in June 2019, and accordingly, NantCell deconsolidated the related assets, liabilities and noncontrolling interests of Precision Biologics. The disposition of this investment resulted in a reduction of $18.4 million in noncontrolling interests during the year ended December 31, 2019. See Note 8 *Commitments and Contingencies* for additional information.

Foreign Currencies

We have operations and holds assets in Italy and South Korea. The functional currency of the subsidiary in Italy is the Euro, based on the nature of the transactions occurring within this entity, and accordingly, assets and liabilities of this subsidiary are translated into U.S. dollar at exchange rates prevailing as of the balance sheet dates, while the operating results are translated into U.S. dollars using the average exchange rates for the period correlating with those operating results. Adjustments resulting from translating the financial statements of the foreign subsidiary into the U.S. dollar are recorded as a component of o*ther comprehensive income (loss),* on the combined consolidated statements of comprehensive loss. Transaction gains and losses are recorded in o*ther income (expense), net* on the combined consolidated statements of operations.

Basic and Diluted Net Loss per Share of Common Stock

Basic net loss per share is calculated by dividing the net loss attributable to ImmunityBio common stockholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share is computed by dividing net loss attributable to ImmunityBio common stockholders by the weighted-average number of common shares, including the number of additional shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

For all periods presented, potentially dilutive securities are excluded from the computation of fully diluted loss per share as their effect is anti-dilutive. The following table details those securities that have been excluded from the computation of potentially dilutive securities:

	As of December 31,	
	2020	2019
Outstanding options	4,996,284	6,080,483
Outstanding RSUs	466,842	1,155,808
Outstanding related party warrants	1,638,000	1,638,000
Total	7,101,126	8,874,291

Amounts in the table above reflect the common stock equivalents of the noted instruments.

Segment and Geographic Information

Operating segments are defined as components of an enterprise (business activity from which it earns revenue and incurs expenses) for which discrete financial information is available and regularly reviewed by the chief operating decision-maker, or CODM, in deciding how to allocate resources and in assessing performance. Our CODM is our Chief Executive Officer, or CEO. We view our operations and manage our business as two operating segments. We have concluded that our two operating segments meet all three criteria required by ASC Topic 280, *Segment Reporting*, to be aggregated into one reportable segment. The aggregation of our two operating segments into one reportable segment is consistent with the objectives and basic principles of ASC 280. Our two operating segments have similar economic characteristics and are both similar with respect to the five qualitative characteristics specified in ASC 280. Accordingly, we do not have separately reportable segments as defined by ASC 280.

We generate a portion of its revenues from outside of the U.S. Information about our revenues from the different geographic regions for the years ended December 31, 2020, and 2019 is as follows (in thousands):

	For the Year Ended December 31,	
	2020	2019
United States	$ 513	$ 1,997
Europe	92	205
Total	$ 605	$ 2,202

Recent Accounting Pronouncements

Application of New or Revised Accounting Standards – Adopted

In November 2018, the FASB issued Accounting Standards Update, or ASU, No. 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606* (ASU 2018-18). ASU 2018-18 clarifies when certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC Topic 606. It also specifically addresses when the participant should be considered a customer in the context of a unit of account; adds a unit of account guidance in ASC 808 to align with guidance in ASC 606; and precludes presenting revenue from a collaborative arrangement together with revenue recognized under ASC 606 if the collaborative arrangement participant is not a customer. This standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years with early adoption permitted. We adopted ASU 2018-18, as required, in the quarter ended March 31, 2020. We are a party to several collaboration arrangements as further discussed in Note 7, *Collaboration and License Agreements*, however, adoption of ASU 2018-18 did not have an impact on our combined consolidated financial statements because the counterparties to our collaboration agreements do not meet the definition of a customer.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, or ASU 2019-12. The amendments in ASU 2019-12 include removing the exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (e.g., discontinued operations or other comprehensive income), and the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. ASU 2019-12 also amends other aspects of accounting for income taxes to help simplify and promote consistent application of U.S. GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. We early adopted ASU 2019-12 effective January 1, 2020, and it did not have a material impact on our combined consolidated financial statements. Although our adoption of ASU 2019-12 did not have a material impact on our combined consolidated financial statements during the year ended December 31, 2020, it may have a material impact on our combined consolidated financial statements in future periods due to the removal of the exceptions discussed above. The amendments related to intraperiod tax allocation and the amendment related to calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year were applied prospectively.

Application of New or Revised Accounting Standards – Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The FASB subsequently issued amendments to ASU 2016-13, which have the same effective date and transition dates as described below. The new guidance supersedes existing U.S. GAAP for measuring and recording of credit losses on financial assets measured at amortized cost by replacing the incurred-loss model with an expected-loss model. Accordingly, these financial assets will be presented at the net amount expected to be collected. This new standard also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income rather than reducing the carrying amount under the current, other-than-temporary-impairment model. For public business entities that meet the definition of a Securities and Exchange Commission, or SEC, filer, except entities that are eligible to be a smaller reporting company as defined by the SEC, the standard is effective for annual periods beginning after December 15, 2019, and interim periods therein. For all other entities, the standard is effective for annual periods beginning after December 15, 2022, and interim periods therein. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018. With certain exceptions, adjustments are to be applied using a modified-retrospective approach by reflecting adjustments through a cumulative-effect impact on retained earnings as of the beginning of the fiscal year of adoption. We continue to evaluate the impact that this new standard and its related amendments will have on our combined consolidated financial statements and we do not intend to early adopt this new standard.

Other recent authoritative guidance issued by the FASB (including technical corrections to the ASC), the American Institute of Certified Public Accountants, and the SEC during the three months ended December 31, 2020 did not, or are not expected to, have a material effect on our combined consolidated financial statements.

3. Financial Statement Details

Prepaid expenses and other current assets

As of December 31, 2020 and 2019, prepaid expenses and other current assets consist of the following (in thousands):

	As of December 31,	
	2020	2019
Prepaid preclinical and clinical trial services - with related party (Note 9)	$ 4,626	$ 1,021
Insurance claim receivable	2,518	6,384
Insurance premium financing asset	1,421	757
Prepaid manufacturing services	—	1,919
Prepaid insurance	1,365	793
Prepaid services	1,294	570
Prepaid license fees	801	614
Interest receivable - marketable debt securities	473	222
Grant receivable	—	402
Prepaid equipment maintenance	243	251
Prepaid supplies - with related party (Note 9)	143	—
Laboratory equipment deposit	66	—
Prepaid rent	52	392
Other	647	677
Prepaid expenses and other current assets	$13,649	$14,002

We have reflected our right to insurance recoveries, limited to the extent of incurred or probable losses, as a receivable when such recoveries have been agreed to with our third-party insurers and receipt is deemed probable. This includes instances where our third-party insurers have agreed to pay, on our behalf, certain legal defense costs and settlement amounts directly to applicable law firms and a settlement fund. Our insurance claims receivable as of December 31, 2020 and 2019 were $2.5 million and $6.4 million, respectively, for the insurance recovery of legal costs, which were included in s*elling, general and administrative expense* on the combined consolidated statements of operations.

Property, plant and equipment, net

As of December 31, 2020 and 2019, property, plant and equipment, net, consist of the following (in thousands):

	As of December 31,	
	2020	2019
Leasehold improvements	$ 52,251	$ 51,314
Equipment	34,738	32,885
Buildings	22,690	22,872
Software	2,376	2,282
Furniture & fixtures	1,015	948
Construction in progress	1,333	1,333
Subtotal	114,403	111,634
Less: accumulated depreciation	(41,862)	(28,165)
Property and equipment, net	$ 72,541	$ 83,469

During the year ended December 31, 2019, as a result of laboratory relocation, assets with a cost of $1.5 million and accumulated depreciation of $0.6 million were disposed of for proceeds of $0.2 million, resulting in a loss on disposal of $0.7 million, which was included in o*ther income (expense), net* on the combined consolidated statement of operations. Depreciation expense totaled $13.1 million and $13.2 million for the years ended December 31, 2020 and 2019, respectively.

Intangible assets, net

Our intangible assets consist of acquired in-process research and development not subject to amortization, and other intangible assets subject to amortization.

Our indefinite-lived in-process research and development, or IPR&D, intangible assets were obtained from business acquisitions. In October 2020, we determined to discontinue the LMP1 and LMP/IPS programs based on the results gathered from

preclinical data during the third quarter of 2020. As a result, the carrying value of the IPR&D relating to the LMP1 and LMP/IPS program was written down to zero and we recorded an impairment charge of $10.7 million within r*esearch and development expenses* on the combined consolidated statements of operations during the year ended December 31, 2020. No such charges were recorded during the year ended December 31, 2019.

Our amortizable intangible asset was related to a technology license acquired during 2015, which was fully amortized as of March 31, 2019. Amortization expense of $0.6 million during the year ended December 31, 2019 was included in r*esearch and* development expense on the combined consolidated statements of operations.

Convertible note receivable

On June 27, 2016, we executed a convertible promissory note with Riptide Bioscience, Inc., or Riptide, and advanced Riptide a principal amount of $5.0 million. The note bears interest at a per annum rate of five percent (5%). The original term of the promissory note requires that the entire unpaid principal amount and all unpaid accrued interest shall become fully due and payable upon the earlier of (i) the three (3) year anniversary of the issuance date, and (ii) when we accelerate the maturity of the note upon the occurrence of an event of default. In the event of qualified financing, the outstanding principal amount and unpaid accrued interest automatically convert into the most senior class of preferred stock sold in such qualified financing at a 25% discount to the price per share paid for such preferred stock. In addition, in the event of a change in control, we have the option to be paid in cash or to convert, immediately prior to the closing of such transaction, the outstanding indebtedness into Riptide's most senior class of equity securities at a 25% discount to the price per share paid for such equity securities in such transaction.

Concurrent with the transaction, we entered into an exclusive license agreement with Riptide to obtain worldwide exclusive rights, with the right to sublicense, certain know-how related to RP-182, RP-233 and RP-183. We are required to pay a single-digit royalty on net sales of the licensed products on a country-by-country basis. Pursuant to the license agreement, we are also required to make cash milestone payments upon successful completion of certain clinical, regulatory and commercial milestones up to an aggregated amount of $47.0 million for the first three indications of the licensed product with a maximum payment amount of $100.0 million.

On March 25, 2019, we and Riptide entered into a first amendment to the convertible promissory note. Under the agreement, we extended the maturity of the promissory note to the earlier of, a) the later of, i) the completion of non-clinical IND enabling studies by the company, or ii) December 31, 2020; and b) when we accelerate the maturity of the note upon the occurrence of an event of default. No other terms and conditions of the promissory note were modified. Concurrently, we also entered into a first amendment to the exclusive license agreement with Riptide and extended the achievement dates for certain clinical trial milestones related to the licensed products. This option for receiving a 25% discount was determined to have an immaterial value at inception and life to date of the note, as the probability of a future qualifying event is remote. All other terms and conditions of the license agreement continued in full force and effect. We are still in the process of completing non-clinical IND enabling studies as of December 31, 2020, and as such, this promissory note is still outstanding. The convertible note receivable balance was $6.1 million and $5.9 million, which included accrued interest of $1.1 million and $0.9 million as of December 31, 2020 and 2019, respectively.

Other assets

As of December 31, 2020 and 2019, other assets consist of the following (in thousands):

	As of December 31,	
	2020	2019
VAT receivable	$ 864	$ 697
Security deposits	634	240
Prepaid software license fees	455	—
Restricted cash	179	179
Prepaid preclinical and clinical trial services - with related party (Note 9)	92	4,075
Due from related party	51	19
Others	323	308
Other assets	$2,598	$5,518

Restricted cash is comprised of a certificate of deposit that serves as collateral for a letter of credit required by our landlord as a security deposit related to our facility in San Diego, California.

Accrued expenses and other liabilities

As of December 31, 2020 and 2019, accrued expenses and other liabilities consist of the following (in thousands):

	As of December 31,	
	2020	2019
Accrued professional and service fees	$ 7,668	$ 3,943
Accrued dissenting shares (Note 8)	6,769	6,335
Accrued bonus	5,288	4,121
Accrued preclinical and clinical trial costs	4,339	2,444
Accrued research and development costs	4,002	392
Accrued compensation	3,891	2,777
Financing obligation - current portion	1,421	757
Accrued contingent consideration payable	856	786
Accrued laboratory equipment and supplies	641	640
Accrued capital expenditures	337	—
Deferred revenue	270	162
Accrued franchise, sales, use and property taxes	103	200
Accrued other	1,186	928
Accrued expenses and other liabilities	$36,771	$23,485

Interest and Interest and Investment income, net

Net investment income included the following for the years ended December 31, 2020 and 2019 (in thousands):

	For the Year Ended December 31,	
	2020	2019
Interest income	$ 1,725	$ 2,764
Unrealized gain (loss) from equity securities	$ 1,577	$ (321)
Investment (amortization expense) accretion income, net	(858)	3
Net realized (losses) on investments	(9)	(4)
	$ 2,435	$ 2,442

Interest income includes interest from marketable securities, notes receivable, other assets, and interest from bank deposits. We did not recognize an impairment loss on any investments during the years ended December 31, 2020 and 2019.

4. Non-marketable Equity Investment

In March 2017, we participated in a Series B convertible preferred stock financing and invested $8.5 million in Viracta Therapeutics, Inc., or Viracta, a clinical stage drug development company, which was initially recorded at cost. In May 2017, we executed an exclusive worldwide license with Viracta to develop and commercialize Viracta's proprietary histone deacetylase inhibitor drug candidate for use in combination with natural killer cell therapy and possibly additional therapies. See Note 7, *Collaboration and License Agreements – Royalties and In-licensing Agreements – Viracta License Agreement*, for further information.

In June 2018, Viracta executed a 2018 Note and Warrant Purchase Agreement with existing and new investors, including us. The initial closing under the Purchase Agreement occurred in June 2018, at which point we purchased a convertible note for $0.4 million, which under certain circumstances was convertible into preferred stock of Viracta, and a warrant to purchase Viracta's common shares. The convertible note accrued interest at 8% and had a one-year maturity date. In September 2018, a milestone closing under the Purchase Agreement occurred, at which point we purchased an additional convertible note for $0.4 million, which under certain circumstances was convertible into preferred stock of Viracta, and a warrant to purchase Viracta's common shares. The convertible note accrued interest at 8% and had a one-year maturity date. We classified the convertible notes as held-to-maturity notes receivable on the combined consolidated balance sheets. Effective January 31, 2019, the notes, together with accrued interest then outstanding, were converted to Series B preferred stock resulting in an increase to our investment in Viracta's Series B convertible preferred stock of $0.8 million. In May 2019, we exercised warrants to acquire 253,120 shares of Viracta common stock.

Based on the level of equity investment at risk, Viracta is not a VIE and therefore is not consolidated under the VIE model. In addition, we do not hold a controlling financial interest in Viracta, and therefore we do not consolidate Viracta under the voting interest model. As the preferred stock is not considered in-substance common stock, the investment is not within the scope of accounting for the investment under the equity method. As the preferred stock does not have a readily determinable fair value and

does not qualify for the practical expedient to estimate fair value in accordance with ASC 820, we have elected to apply the measurement alternative under ASC 321, pursuant to which we measure our investment in Viracta at cost, less impairment, adjusted for observable price changes in an orderly market for an identical or similar investment of the same issuer, with such changes recognized on the combined consolidated statements of operations. Some factors we may consider in the impairment analysis include the extent to which the security has been in an unrealized loss position, the change in the financial condition and near-term prospects of the issuer, as well as security and industry-specific economic conditions.

As of December 31, 2020, our fair value assessment indicated that the recent offering of Viracta's Series E preferred shares, at a lower offering price per share than the per share carrying amount of our investment in Viracta, is a directional indicator representing an observable price change in an orderly transaction for a similar investment. On December 31, 2020, we reduced the carrying value by $1.4 million due to the observable price change, which was included in *other income (expenses), net*, on the combined consolidated statements of operations. On a cumulative basis, we have recognized a reduction in carrying value of $1.4 million. As of December 31, 2020, the carrying value of our investment in Viracta, which is reflected in equity investment on the combined consolidated balance sheets, totaled $7.8 million.

5. Financial Instruments

Investments in Marketable Debt Securities

As of December 31, 2020, the amortized cost, gross unrealized gains, gross unrealized losses and fair values of marketable debt securities which were considered as available-for-sale, by type of security were as follows (in thousands):

	December 31, 2020				
	Weighted-Average Remaining Contractual Life (in years)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Current:					
Corporate debt securities	0.3	$ 54,789	$ 2	$ (19)	$54,772
Mutual funds		35	2	—	37
Current portion		54,824	4	(19)	54,809
Noncurrent:					
Foreign bonds	5.7	861	89	—	950
Noncurrent portion		861	89	—	950
Total		$ 55,685	$ 93	$ (19)	$55,759

On December 31, 2019, the amortized cost, gross unrealized gains, gross unrealized losses and fair values of marketable debt securities which were considered as available-for-sale, by type of security were as follows (in thousands):

	December 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Current:				
Corporate debt securities	$ 32,382	$ 10	$ (3)	$32,389
Foreign government bonds	1,007	—	—	1,007
Government-sponsored securities	2,752	—	(4)	2,748
Mutual funds	36	—	—	36
Current portion	36,177	10	(7)	36,180
Noncurrent:				
Corporate debt securities	1,501	—	(4)	1,497
Foreign bonds	664	—	—	664
Noncurrent portion	2,165	—	(4)	2,161
Total	$ 38,342	$ 10	$ (11)	$38,341

Accumulated unrealized losses on debt securities classified as available-for-sale that have been in a continuous loss position for less than 12months and for more than 12months as of December 31, 2020 and 2019, were as follows (in thousands):

	December 31, 2020			
	Less than 12 months		More than 12 months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 42,762	$ (19)	$ —	$ —
Total	$ 42,762	$ (19)	$ —	$ —

	December 31, 2019			
	Less than 12 months		More than 12 months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 11,021	$ (3)	$ 1,497	$ (4)
Government-sponsored securities	—	—	2,748	(4)
Total	$ 11,021	$ (3)	$ 4,245	$ (8)

We review all available-for-sale investments for other-than-temporary declines in fair value below its cost basis each quarter and whenever events or changes in circumstances indicate that the cost basis of an asset may not be recoverable. The evaluation is based on a number of factors, including the length of time and the extent to which the fair value has been below their cost basis as well as adverse conditions related specifically to the security, such as any changes to the credit rating of the security and the intent to sell or whether we will more likely than not be required to sell the security before recovery of its amortized cost basis. As of December 31, 2020, a total of 34 of the securities were in an unrealized loss position. We evaluated our securities for other-than-temporary impairment and concluded that the decline in value was primarily caused by current economic and market conditions. We do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost bases. Therefore, we did not recognize any other-than-temporary impairment losses during the years ended December 31, 2020 and 2019.

We recognized realized gains and losses on sales of available-for-sale debt securities as follows (in thousands):

	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
2020	$ 4	$ (13)	$ (9)
2019	$ 4	$ (8)	$ (4)

Marketable Equity Securities

We held investments in marketable equity securities with readily determinable fair values of $6.3 million and $3.4 million as of December 31, 2020 and 2019, respectively, which were included in *marketable securities* on the combined consolidated balance sheets. For the years ended December 31, 2020 and 2019, we recognized net unrealized gains of $3.0 million and losses of $0.3 million, respectively which were included in the *interest and investment income, net* on the combined consolidated statements of operations. Gains and losses recognized on equity securities with readily determinable fair values, including gains and losses recognized on sales, were not material for the years ended December 31, 2020 and 2019.

6. Fair Value Measurements

Fair value is defined as an exit price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Authoritative guidance establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

Recurring Valuations

Financial assets and liabilities measured at fair value on a recurring basis are summarized below as of December 31, 2020 and 2019 (in thousands):

	Fair Value Measurements as of December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Current:				
Cash and cash equivalents	$ 34,915	$ 34,915	$ —	$ —
Mutual funds	37	37	—	—
Equity securities	6,337	6,337	—	—
Corporate debt securities	54,772	—	54,772	—
Noncurrent:				
Foreign bonds	950	950	—	—
Total assets measured at fair value	$ 97,011	$ 42,239	$ 54,772	$ —
Liabilities:				
Contingent consideration obligation (1)	$ (972)	$ —	$ —	$ (972)

	Fair Value Measurements as of December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Current:				
Cash and cash equivalents	$ 75,801	$75,801	$ —	$ —
Corporate debt securities	32,389	—	32,389	—
Foreign government bonds	1,007	—	1,007	—
Government-sponsored securities	2,748	—	2,748	—
Mutual funds	36	36	—	—
Equity securities	3,355	3,355	—	—
Noncurrent:				
Corporate debt securities	2,161	664	1,497	—
Total assets measured at fair value	$117,497	$79,856	$37,641	$ —
Liabilities:				
Contingent consideration obligation (1)	$ (1,725)	$ —	$ —	$(1,725)

(1) The contingent consideration obligations were related to the acquisitions of VivaBioCell, S.p.A., or VivaBioCell, and Receptome, LLC, or Receptome. The contingent consideration obligations are recorded at their estimated fair values and are revalued each reporting period until the related contingencies are resolved. The fair value measurements of these obligations are based on significant inputs not observable in the market (a Level 3 measurement within the fair value hierarchy) and are reviewed periodically by management. These inputs include the estimated probabilities and timing of achieving specified development and sales milestones, as well as the discount rate used to determine the present value of these milestones. Contingent considerations may change significantly as development progresses and additional data are obtained. Significant changes that would increase or decrease the probabilities or timing of achieving the development and sales milestones would result in a corresponding increase or decrease in the fair value of the contingent consideration obligations, which would be recognized on the combined consolidated statements of operations. During the year ended December 31, 2019, a contingent milestone had been reached which resulted in the recognition of a $0.8 million contingent consideration fair value adjustment which was included in *accrued expenses and other current liabilities* on the combined consolidated balance sheets. See Note 8 *Commitments and Contingencies* for additional information.

Changes in the carrying amount of contingent consideration obligations were as follows (in thousands):

	Year ended December 31,	
	2020	2019
Fair value, beginning of the year	$ (1,725)	$ (1,004)
Consideration payable	—	(786)
Net changes in fair value	753	65
Fair value, end of the year	$ (972)	$ (1,725)

7. Collaboration and License Agreements

National Cancer Institute

In May 2015, Etubics Corporation, or Etubics, entered into a Cooperative Research and Development Agreement, or CRADA, with the U.S. Department of Health and Human Services, as represented by the National Cancer Institute of the National Institutes of Health, or NCI, to collaborate on the preclinical and clinical development of an adenovirus technology expressing tumor-associated antigens for cancer immunotherapy. In January 2016, we acquired all of the outstanding equity interests in Etubics and Etubics became a wholly-owned subsidiary.

Effective January 2018, we assumed the CRADA and it was amended to cover a collaboration for the preclinical and clinical development of our proprietary yeast-based tarmogens expressing tumor-associated antigens and proprietary adenovirus technology expressing tumor-associated antigens for cancer immunotherapy. Pursuant to the CRADA, NCI provides scientific staff and other support necessary to conduct research and related activities as described in the CRADA.

During the term of the CRADA, we are required to make annual payments of $0.6 million to the NCI for support of research activities. We made payments of $0.6 million and $0.6 million for the years ended December 31, 2020 and 2019, respectively.

In February 2018, we entered into an amendment to a CRADA with NCI that was originally executed between NCI and Amgen, Inc., or Amgen, in May 2012 and subsequently assigned by Amgen to the company effective as of December 17, 2015. The research goal of this CRADA, as amended, is for the non-clinical and clinical development of ganitumab, our licensed monoclonal antibody targeting insulin-like growth factor one receptor, to evaluate its safety and efficacy in patients with hematological malignancies and solid tumors. The CRADA has a five-year term commencing February 20, 2018 and expiring on February 20, 2023.

During the term of the agreement, we are required to make minimum annual payments of $0.2 million to NCI for support of research activities and additional payments for the clinical trials based on the scope and phase of the clinical trials. The unpaid research and development expense was estimated at $0.6 million and $0.3 million as of December 31, 2020 and 2019, respectively.

Each CRADA may be terminated at any time upon the mutual written consent of the company and NCI. Either party may unilaterally terminate either of the CRADAs at any time by providing written notice to the other party at least 60 days before the desired termination date.

Pursuant to the terms of the CRADAs, we have an option to elect to negotiate an exclusive or non-exclusive commercialization license to any inventions discovered in the performance of either of the CRADAs, whether solely by an NCI employee or jointly with a Company employee for which a patent application has been filed. The parties jointly own any inventions and materials that are jointly produced by employees of both parties in the course of performing activities under the CRADAs.

Royalties and In-licensing Agreements

Viracta License Agreement

In May 2017, we entered into an agreement with Viracta under which we were granted exclusive worldwide rights to Viracta's phase II drug candidate, VRx-3996, for use in combination with our platform of NK cell therapies. In consideration for the license, we are obligated to pay to Viracta (i) mid-single digit percentage royalties of net sales of licensed products for therapeutic use; and (ii) milestone payments ranging from $10.0 million to $25.0 million for various regulatory approvals and cumulative net sales levels. We may terminate the agreement, at our sole discretion, in whole or on a product by product and/or country by country basis, at any time upon 90 days' prior written notice. In addition, either party may terminate the agreement in the event of a material breach or for bankruptcy of the other party. To date, we have not had incurred any royalty or milestone payment obligations under this agreement, including during the years ended December 31, 2020 and 2019.

Fox Chase Cancer Center License Agreement

In 2004 and amended in 2008, we entered into an exclusive license agreement with Fox Chase Cancer Center, or Fox Chase, for the exclusive, worldwide right to certain patents and know-how pertaining to CD16 receptor-bearing NK-92 cell lines. In consideration for this exclusive license, we agreed to pay Fox Chase (i) low single-digit percentage royalties on net sales of licensed products for therapeutic and diagnostic use; and (ii) mid-twenties percentage royalties on any compensation we receive from sublicensees. To date, we have not incurred any royalty obligations under this agreement, including during the years ended December 31, 2020 and 2019.

Rush University Medical Center License Agreement

In 2004, we entered into a 12-year licensing agreement with Rush University Medical Center for the exclusive rights to license and grant sublicenses of certain intellectual property related to the clinical use of NK-92. We are required to pay low to mid-single digit percentage royalties on net sales depending upon the various fields of studies and other factors. We were required to pay a minimum annual royalty of $25,000. The Rush University Medical Center License Agreement also provides for payments in the aggregate amount of $2.5 million upon we achieving various milestones, including upon (i) the completion of phase II clinical trial associated with the licensed intellectual property; (ii) the approval by the FDA of a new drug application for a licensed product; and (iii) the first year that sales of the licensed product equal or exceeds $0.3 million. The license had a term of 12 years from 2006, the year in which royalty payments were first made, and included customary termination rights for both parties. Beginning in 2018, this license converted to a perpetual, irrevocable, fully-paid, royalty-free, exclusive license. No milestones were met during the years ended December 31, 2020 and 2019.

GlobeImmune Exclusive License Agreement

In January 2020, we entered into an exclusive licensing agreement with GlobeImmune, a consolidated entity, pursuant to which we obtained worldwide, exclusive licenses under certain patents, know-how, and other intellectual property to use, research, develop and commercialize products with GlobeImmune's COVID-19 vaccine program, other tarmogen-based programs, and neoepitopes programs in exchange for a license fee for the first two years of the agreement totaling $1.2 million, up to $345.0 million in milestone payments related to the successful completion of clinical and regulatory milestones and up to $240.0 million in total milestone payments based on licensed product net sales milestones, and a royalty on net sales of licensed products, on a product-by-product basis ranging in percentage from the mid-single digits to the mid-teens. We may terminate this agreement, in whole or on a licensed-product-by-licensed-product and/or country-by-country basis, at any time upon 60 days' written notice to GlobeImmune. In addition, either party may terminate the agreement in the event of a material breach by, or bankruptcy of, the other party.

Cancer Therapeutics Laboratories, Inc. Exclusive License Agreement

In April 2016, we entered into an exclusive license agreement with Cancer Therapeutics Laboratories, Inc., or CTL, pursuant to which we obtained a worldwide, exclusive license under CTL's applicable intellectual property to use, research and develop certain of CTL's antibody materials, including cell lines, antibody sequences, cDNA and bacterial and/or cell clones relating to certain specified CTL antibodies, and to commercialize the resulting licensed products for all applications, in exchange for consideration that includes a $5.0 million upfront cash payment, up to $10.0 million in total milestone payments based on the successful completion of clinical and regulatory milestones (15% of which is payable in cash and the remaining 85% is payable in shares of our common stock) and a low single-digit percentage royalty on net sales of the resulting licensed products. We may terminate this agreement, in whole or on a licensed-product-by-licensed-product and/or country-by-country basis, at any time upon 60 days' written notice to CTL. In addition, either party may terminate the agreement in the event of a material bankruptcy of the other party. No payments related to this agreement became due during the years ended December 31, 2020 and 2019.

CytRx Corporation Exclusive License Agreement

In July 2017, we entered into an exclusive license agreement with CytRx Corporation, or CytRx, pursuant to which we obtained a royalty-bearing, exclusive, worldwide license, with the right to sublicense, CytRx's applicable intellectual property to research, develop and commercialize aldoxorubicin for all indications. Under the terms of the license agreement, CytRx is entitled to receive up to $346.0 million in milestone payments related to regulatory approvals and commercial milestones for aldoxorubicin. In addition, CytRx will receive increasing low double-digit percentage royalties on net sales of aldoxorubicin for the treatment of soft tissue sarcomas and mid-to-high single-digit percentage royalties on net sales of aldoxorubicin for all other indications. We may terminate the agreement in its entirety at any time upon 12 months' written notice to CytRx. In addition, either party may terminate the agreement in the event of a material breach by or bankruptcy of the other party. No payments related to this agreement became due during the years ended December 31, 2020 and 2019.

iosBio Ltd. Exclusive License Agreement

In August 2020, we executed an exclusive license agreement with iosBio Ltd., formerly Stabilitech Biopharma Ltd. ("iosBio"), pursuant to which we and our affiliates will receive an exclusive, worldwide license to certain of iosBio's intellectual property rights relating to the SARS-CoV-2 and successor vaccine candidates. In return, we are required to pay mid-to-high single-digit royalties on net sales of the resulting licensed products. Concurrently we entered into a non-exclusive license agreement with iosBio, which grants to iosBio and its affiliates a non-exclusive, worldwide license under the intellectual property and technology relating to our adenovirus constructs for the prevention and treatment of shingles and other infectious disease targets to be mutually agreed by the parties in good faith. As of December 31, 2020, we accrued $0.5 million payable to iosBio for reimbursable costs related to the clinical trial activities initiated by iosBio, which was included in the a*ccrued expenses and other liabilities* on the combined consolidated balance sheets.

Out-Licensing Agreement

Precigen (formerly known as Intrexon) License Agreement

In February 2010, we entered into a 17-year license agreement with Precigen Corporation, Inc., or Precigen, pursuant to which we granted to Precigen a non-exclusive, worldwide, sublicensable license to research and sell products under certain patents relating to modified NK-92 cells that express Precigen's proprietary gene sequences for use as a therapeutic and prophylactic agent in humans in specified therapeutic areas. In consideration for the license agreement, Precigen paid us a one-time fee of $0.4 million. Prior to our adoption of ASC 606 at the beginning of 2018, this upfront payment had initially been recorded as deferred revenue and was being recognized into revenue on a straight-line basis. Upon our adoption of ASC 606, we adjusted our accumulated deficit in an amount equal to the then remaining deferred revenue after concluding that under ASC 606 the upfront payment would have been recognized when the license was transferred in 2010. Precigen will pay the following milestone payments: $0.1 million upon the first IND filing; $0.1 million upon the commencement of the first phase II clinical trial; $0.4 million upon the commencement of the first phase III clinical trial; and $0.5 million upon the first commercial sale relating to the licensed products. Precigen is obligated to pay us a low single digit percentage royalty based on net sales of the licensed products by Precigen and a mid-teen percentage royalty based on revenues received by Precigen in connection with sublicenses of the licensed products. No milestone payments were due or received in the years ended December 31, 2020 and 2019, and, therefore, we did not record any milestone revenue for any of those years on the combined consolidated statements of operations.

8. Commitments and Contingencies

Funding Commitments

We are a party to various agreements, principally relating to licensed technology that requires future payments relating to milestones that may be met in subsequent periods or royalties on future sales of specific licensed products. We may be obligated to make future development, regulatory and commercial milestone payments and royalty payments on future sales of specific products associated with our collaboration and license agreements. Payments under these agreements generally become due and payable upon achievement of such milestones or sales. When the achievement of these milestones or sales has not occurred, such contingencies are not recorded on our combined consolidated financial statements. See Note 7 *Collaboration and License Agreements* for further information.

Contractual Obligations - Leases

On January 1, 2019, we adopted the new lease accounting guidance as discussed in further detail in Note 2, *Summary of Significant Accounting Policies-Lease Obligations*. The most significant change requires us to record the present value of operating lease payments as right-of-use assets and lease liabilities on our balance sheets. We adopted the new guidance using the simplified transition approach. As a result, reporting periods beginning on January 1, 2019 are presented under the new guidance.

The adoption of the new lease accounting guidance had a substantial impact on our combined consolidated balance sheets. The most significant impacts were (1) the recognition of $23.4 million of operating lease right-of-use assets, net, and $27.3 million of operating lease liabilities, and (2) the derecognition of assets and liabilities associated with build-to-suit leases under ASC 840, resulting in the derecognition of property, plant and equipment, net, of $9.9 million and net adjustments to related liabilities of $9.2 million. The build-to-suit leases were recorded as normal operating leases under ASC 842. The difference between the excess of build-to-suit related liabilities and assets of $0.7 million was recorded as an increase to our accumulated deficit. The cumulative-effect adjustment had no tax impact due to the valuation allowance against the gross deferred tax asset less reversing deferred tax liabilities. Adoption of this standard had no material impact on our results of operations and cash flows.

Lease Arrangements

Substantially all of our operating lease right-of-use assets and operating lease liabilities relate to facilities leases. We have leases in multiple facilities across the U.S. and Italy, including El Segundo, California (general corporate and administrative activities, research and development and regulatory from related parties); San Diego, California (research facility and office space); Culver City, California (research and manufacturing space from a related party); Torrance, California (a research facility from a related party); Miramar, Florida (clinical development); Seattle, Washington (research and development); Louisville, Colorado (research and development and manufacturing); Woburn, Massachusetts (research facility); and Udine and Tavangnacco, Italy (GMP-in-a-Box, research facility and office space). See Note 9, *Related Party Agreements*, for further information.

Our leases generally have initial terms ranging from two to ten years and often include one or more options to renew. These renewal terms can extend the lease term from one to five years, and are included in the lease term when it is reasonably certain that we will exercise the option. These operating leases are included in *operating lease right-of-use assets, net*, on the combined consolidated balance sheets, and represent the right to use the underlying asset for the lease term. Our obligations to make lease payments are included in current and non-current *operating lease liabilities*, on the combined consolidated balance sheets.

Our operating right-of-use assets and lease liabilities as of December 31, 2020 and 2019, are as follows (in thousands):

	As of December 31,	
	2020	2019
Right-of-use assets:		
Operating lease right-of-use assets, net (including amounts with related parties)	$ 18,138	$ 20,131
Short-term lease liabilities:		
Operating lease liabilities (including amounts with related parties)	$ 5,015	$ 4,808
Long-term lease liabilities:		
Operating lease liabilities (including amounts with related parties)	$ 16,179	$ 18,831
Total lease liabilities:		
Operating lease liabilities (including amounts with related parties)	$ 21,194	$ 23,639
Other information		
Weighted average remaining lease term	3.9years	5.0years
Weighted average discount rate	9%	9%

The components of lease expense for the years ended December 31, 2020 and 2019 consist of (in thousands):

	For the Year Ended December 31,	
	2020	2019
Operating lease costs	$ 9,188	$ 6,419
Variable lease costs	3,577	2,825
Total lease costs	$ 12,765	$ 9,244

Cash paid during the years ended December 31, 2020 and 2019 for amounts included in the measurement of lease liabilities is as follows (in thousands):

	For the Year Ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$ 8,917	$ 7,571

Future minimum lease payments as of December 31, 2020, including $3.9 million related to options to extend lease terms that are reasonably certain of being exercised, are presented in the following table (in thousands). Common area maintenance costs and taxes are not included in these payments.

	Operating Leases (a)
Years ending December 31:	
2021	$ 6,638
2022	6,609
2023	4,876
2024	3,356
2025	2,908
Thereafter	987
Total future minimum lease payments	25,374
Less: Interest	4,180
Present value of operating lease liabilities	$ 21,194

In August 2018, NantBio, Inc., or NantBio, a related party assigned an agreement to us for the use of a third-party research facility, which provides us with the exclusive right to use and access to a portion of the third party's laboratory and vivarium premises. In conjunction with the assignment, we reimbursed NantBio for upfront payments which it had made to the third-party of $0.9 million, and paid $0.5 million directly to the third-party for an aggregate value of $1.4 million. The assigned agreement is for a term of ten years and expires in June 2027. The agreement may be terminated by us at any time, with or without cause. In case of termination of the agreement, the third-party will reimburse us for a pro-rata amount based upon the passage of time. See Note 9, *Related Party Agreements*, for further information.

In September 2016, we entered into a lease agreement with 605 Doug St, LLC, a related party, for approximately 24,250 square feet in El Segundo, California, which has been converted to a research and development laboratory and a cGMP manufacturing facility. The lease runs from July 2016 through July 2023. We have the option to extend the lease for an additional three-year term through July 2026. The monthly rent is $0.1 million with annual increases of 3% beginning in July 2017. See Note 9, *Related Party Agreements*, for further information.

In February 2017, Altor BioScience Corporation (succeeded by our wholly-owned subsidiary Altor BioScience, LLC), or Altor, through its wholly-owned subsidiary, entered into a lease agreement with Duley Road, LLC ("Duley Road"), a related party, for approximately 12,000 square feet in El Segundo, California, which was converted to a laboratory and cGMP manufacturing facility. The lease term is from February 2017 through October 2024. Altor BioScience, LLC has the option to extend the initial term for two consecutive five-year periods through July 2034. The annual rent is $0.5 million with annual increases of 3% beginning from November 2018. We acquired Altor in July 2017. See Note 9, *Related Party Agreements*, for further information.

Effective in January 2019, we entered into two lease agreements with Duley Road for a second building located in El Segundo, California. The first lease is for the first floor of the building with approximately 5,650 square feet. The lease has a 7-year term commencing in September 2019. The second lease is for the second floor of the building with approximately 6,488 square feet. The lease has a seven-year term commencing in July 2019. Both floors of the building are used for research and development and office space. We have options to extend the initial terms of both leases for two consecutive five-year periods through 2036. The annual rent of the two leases is $0.4 million, which will increase at a rate of 3% per year. See Note 9, *Related Party Agreements*, for further information.

In March 2016, we entered into a lease agreement for an approximately 7,893 square foot facility in Woburn, Massachusetts, for a research and development laboratory, related office and other related uses. The initial lease term ran for 48 months from April 29, 2016through May 31, 2020. In June 2016, the lease was amended to add 260 square feet, for a total of 8,153 square feet. Base rent for the initial term of the lease was $19,000 per month with a $1 per square foot annual increase on each anniversary date. In August 2019, we exercised our right pursuant to the lease agreement to extend the term of the lease for an additional two years through May 31, 2022. Consequently, in August 2019 we recognized an increase of $0.6 million in both o*perating lease right-of-use assets* and o*perating lease liabilities* on the combined consolidated balance sheets. Base rent for the extended term of the lease is $25,800 per month with an annual increase of 3% on June 1, 2021.

In November 2015, we entered into a facility license agreement with NantWorks LLC, or NantWorks, a related party for approximately 9,500 square feet of office space in Culver City, California, which has been converted to a research and development laboratory and a cGMP manufacturing facility. The initial license was effective from May 2015 through December 2020. Base monthly rent for the initial lease term was $47,000, with annual increases of 3% beginning in January 2017. In September 2020, we entered into an amendment to extend the term of this lease through December 31, 2021. Commencing on January 1, 2021, the monthly rent will increase by 3% to $54,500. Subsequent to December 31, 2021, the lease term will automatically renew on a month-to-month basis, terminable by either party with at least 30 days' prior written notice to the other party. In addition, we have a one-time option to extend the lease term through December 31, 2022. If we exercise the option to extend the lease through December 31, 2022, or continue on a month-to-month basis, the monthly rent will increase by 3% annually commencing on January 1 of each year. On the date of amendment, we recognized an increase of $1.2 million in both o*perating lease right-of-use assets* and o*perating lease liabilities* on the combined consolidated balance sheets, reflecting our belief that we will extend the term of this lease through December 31, 2022. See Note 9, *Related Party Agreements*, for further information.

In June 2015, we entered into a lease agreement for an approximately 44,700 square foot facility in San Diego, California, for a research and development laboratory, related office and other related uses. The term of the lease extends for seven years commencing on August 1, 2016. The base rent is $0.2 million per month with 3% annual increases on each anniversary date.

As result of the restructuring of our clinical laboratories, we vacated two facilities in Miramar, Florida and subleased the space to third parties under two separate sublease agreements, which both expire in February 2021. The operating sublease income for these subleases totaled $0.4 million for the year ended December 31, 2020.

Contingent Consideration related to Business Combination

On April 10, 2015, NantWorks, a related party, acquired a 100% interest in VivaBioCell via its wholly-owned subsidiary, VBC Holdings, LLC, or VBC Holdings, for $0.7 million less working capital adjustments. On June 15, 2015, NantWorks contributed its equity interest in VBC Holdings to the company, in exchange for cash consideration equal to its cost basis in the investment. VivaBioCell develops bioreactors and products based on cell culture and tissue engineering in Italy. In connection with this transaction, we are obligated to pay the former owners up to $3.7 million upon the achievement of certain sales milestones relating to scaffold technology and certain clinical and regulatory milestones relating to the GMP-in-a-Box technology. The estimated fair value of the contingent consideration obligation totaled $1.1 million at the acquisition date. Subsequent changes to the contingent consideration obligation are recorded in *research and development expenses* on the combined consolidated statements of operations. A contingent payment related to a clinical milestone of $0.8 million became payable as of December 31, 2019. During the years ended December 31, 2020 and 2019, the fair value of the contingent consideration obligation increased $0.1 million and $0.7 million, respectively.

On October 4, 2016, in connection with the acquisition of our 50% interest in Receptome, we paid $5.0 million in cash and assumed obligations to make contingent milestone payments of up to $4.0 million in cash. In May 2018, we issued 409,500 shares of common stock in exchange for the remaining 50% interest in Receptome, with an assigned value of $5.0 million at $12.21 per share. In addition, we assumed an aggregate contingent consideration liability of up to $4.0 million, which is payable in company common stock upon the achievement of the same contingent milestones. The estimated fair value of the contingent consideration obligation totaled $0.3 million at the acquisition date. Subsequent changes to the contingent consideration obligation are recorded in r*esearch and development expenses* on the combined consolidated statements of operations. During the year ended December 31, 2019, the change in the fair value of contingent consideration related to this acquisition was immaterial. As of December 31, 2020 the fair value of the contingent consideration obligation is deemed as zero, as the research and development of the LMP1 and LMP/IPS programs were discontinued.

In connection with the acquisition of Altor BioScience Corporation, or Altor, we issued contingent value rights, or CVRs, under which we have agreed to pay the prior stockholders of Altor approximately $304.0 million upon successful approval of the Biologics License Application, or BLA, or foreign equivalent, for Anktiva by December 31, 2022 and approximately $304.0 million upon the first calendar year before December 31, 2026 in which worldwide net sales of Anktiva exceed $1.0 billion (with the payments payable in cash or shares of our common stock or a combination thereof). Dr. Soon-Shiong and his related party hold approximately $279.5 million in the aggregate of CVRs and they have both irrevocably agreed to receive shares of common stock in satisfaction of their CVRs. As the transaction was recorded as an asset acquisition, the future CVR payments will be recorded when the corresponding events are probable of achievement or the consideration becomes payable.

In connection with the GlobeImmune acquisition, on April 28, 2017, we, Celgene Corporation, or Celgene, and Celgene Alpine Investment Co. II, LLC, or, together with Celgene, the Celgene entities, entered into an assignment and assumption agreement, pursuant to which the Celgene entities assigned to the company all of their rights, obligations, title, and interest under the worldwide exclusive licenses for the GI-6200 and GI-6300 programs that were obtained from GlobeImmune prior to our GlobeImmune's acquisition. In return, for each product licensed pursuant to such licenses, we are required to pay the Celgene entities $5.0 million in cash or shares of our company common stock, at Celgene's election. In addition, we are required to pay tiered low to mid-single-digit percentage royalties on net sales of the licensed products on a product-by-product and country-by-country basis. Our obligation to pay royalties continues, on a licensed product-by-licensed product and country-by-country basis, until the later of (i) the date on which such licensed product is no longer covered by a valid claim of a patent licensed pursuant to the agreement in such country and (ii) ten years after the first commercial sale of such licensed product in such country. No milestone has been achieved as of December 31, 2020.

Unconditional Purchase Obligations

Unconditional purchase obligations are defined as an agreement to purchase goods or services that are enforceable and legally binding (non-cancelable, or cancelable only in certain circumstances). In the normal course of business, we enter into unconditional purchase obligation arrangements with a contracted manufacturing organization to reserve manufacturing slots in its cGMP manufacturing facility for manufacturing and supply of cGMP batches per US FDA and European Medicines Agency, or EMA, regulations for commercial use. The total amount of future non-cancelable purchase commitments related to the manufacturing of cGMP batches is $4.7 million and $4.7 million for the years ending December 31, 2021 and 2022, respectively.

We estimate our total unconditional purchase obligation commitment (for those contracts with terms in excess of one year) as of December 31, 2020, at $5.8 million. Payments by year are estimated as follows: 2021 ($2.6 million), 2022 ($2.6 million) and 2023 ($0.6 million). These commitments relate primarily to hosted software license subscription fees and related implementation costs and our pro-rata share is passed-through to us without any markup under the shared services agreement with NantWorks, as further discussed in Note 9, *Related Party Agreements*. The purchase obligation amounts do not represent the entire anticipated purchases in

the future, but represent only those items for which we are contractually obligated. The majority of our goods and services are purchased as needed, with no unconditional commitment. For this reason, these amounts do not provide an indication of our expected future cash outflows related to purchases.

Contingencies

We record accruals for loss contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the related loss can be reasonably estimated. We evaluate, on a quarterly basis, developments in legal proceedings and other matters that could cause a change in the potential amount of the liability recorded or of the range of potential losses disclosed. Moreover, we record gain contingencies only when they are realizable, and the amount is known. Additionally, we record our rights to insurance recoveries, limited to the extent of incurred or probable losses, as a receivable when such recoveries have been agreed to with our third-party insurers and when receipt is deemed probable. This includes instances where our third-party insurers have agreed to pay, on our behalf, certain legal defense costs and settlement amounts directly to applicable law firms and a settlement fund.

Securities Litigation

In March 2016, a putative securities class action complaint captioned *Sudunagunta v. NantKwest, Inc., et al.*, No. 16-cv-01947 was filed in federal district court for the Central District of California related to our restatement of certain interim financial statements for the periods ended June 30, 2015 and September 30, 2015. A number of similar putative class actions were filed in federal and state courts in California. The actions originally filed in state court were removed to federal court, and the various related actions were consolidated. Plaintiffs asserted causes of action for alleged violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, or the Exchange Act, and Rule 10b-5 promulgated thereunder. Plaintiffs sought unspecified damages, costs and attorneys' fees, and equitable/injunctive or other relief on behalf of putative classes of persons who purchased or acquired our securities during various time periods from July 28, 2015 through March 11, 2016. In September 2017, the court denied the defendants' motion to dismiss the third amended consolidated complaint. On August 13, 2018, the district court granted the plaintiffs' motions for class certification and to strike plaintiffs' claims under the Exchange Act and Rule 10b-5. On August 24, 2018, at the district court's direction, plaintiffs filed a fourth amended consolidated complaint. On August 27, 2018, defendants petitioned the U.S. Court of Appeals for the Ninth Circuit to authorize an interlocutory appeal of the class certification order. On September 7, 2018, the defendants answered the fourth amended consolidated complaint. On September 21, 2018, the parties informed the Ninth Circuit that they had reached a settlement in principle, and the parties moved to stay in appellate proceedings. On September 24, 2018, the parties notified the district court that they had reached a settlement in principle. On November 9, 2018, the plaintiffs filed an unopposed motion for preliminary approval of the settlement and notice to class members. On January 9, 2019, the district court granted the motion for preliminary approval. A final approval hearing was held on April 29, 2019, and the district court granted final approval and entered judgment on May 31, 2019.

Under the terms of the settlement, we paid $12.0 million to the plaintiffs as a full and complete settlement of the litigation. We were responsible for $1.2 million of the settlement amount, which was recognized in *selling, general and administrative expenses* on the combined consolidated statement of operations during the year ended December 31, 2018, while the remaining $10.8 million was fully funded by our insurance carriers under our directors' and officers' insurance policy. We and the insurance carriers paid the settlement amount into a settlement fund during the year ended December 31, 2019. Subsequent to receiving final approval of the settlement on May 31, 2019, the aforementioned settlement accrual, associated insurance claim receivable and restricted cash were released and are no longer reflected on the combined consolidated balance sheets.

Stipulation of Settlement

In early April 2019, following board approval, we entered into a settlement agreement, or the Stipulation of Settlement, with three stockholders of the company, each of whom had submitted a stockholder demand for the board to take action to remedy purported harm to our resulting from certain alleged wrongful conduct concerning, among other things, disclosures about Dr. Soon-Shiong's compensation and a related-party lease agreement. The Stipulation of Settlement called for us to adopt certain governance changes, and for the three stockholders to file a stockholder derivative action in the Superior Court of the State of California, County of San Diego, followed by an application for court approval of the Stipulation of Settlement. On May 31, 2019, the court entered an order preliminarily approving the Stipulation of Settlement and scheduling the final settlement hearing for August 9, 2019. Pursuant to the Stipulation of Settlement, we provided stockholders with notice of the settlement and the final settlement hearing.

Under the terms of the Stipulation of Settlement, which received final approval by the court on August 9, 2019, we paid attorney fees of $0.5 million to the plaintiffs as part of the settlement. Of that amount, we were responsible for half, which was recognized in *selling, general and administrative expenses* on the combined consolidated statements of operations during the year ended December 31, 2019, while the other half was funded by our insurance carrier. We and the insurance carrier paid the settlement amount into a settlement fund in June 2019. Subsequent to receiving final approval of the settlement on August 9, 2019, the aforementioned settlement accrual, associated insurance claim receivable and restricted cash were released and are no longer reflected on the combined consolidated balance sheets.

Precision Biologics Settlement

Feldman v. Soon-Shiong, et al. On October 2, 2015, we invested $50.0 million cash in Precision Biologics in exchange for 41.0 million shares of Precision Biologics' Series A Preferred Stock, then representing 68.5% ownership of Precision Biologics, and the option to purchase additional shares of Series A Preferred Stock up to an aggregate purchase price of $25.0 million for the two years following the investment. On July 5, 2017, a Precision Biologics stockholder, filed a complaint (individually and derivatively on behalf of Precision Biologics), and filed an amended complaint on November 6, 2017, against the company and other defendants, asserting claims for breach of contract (including the implied covenant of good faith and fair dealing), tortious interference with contract, breach of the fiduciary duty of loyalty, the appointment of a custodian, fraud in the inducement, and violation of state "Blue Sky" laws. On November 21, 2017, the defendants moved to dismiss the amended complaint. The court heard oral arguments and in May 2018, the court issued an opinion granting in part, and denying in part, defendants' motion. On December 12, 2018, the plaintiff filed a motion for leave to file a supplement to the amended complaint. In January 2019, the parties completed fact discovery other than depositions (and certain document discovery subsequently ordered by the court on January 22, 2019). On January 22, 2019, the court denied the plaintiff's motion for leave to file a supplement without prejudice to re-filing in accordance with the court's specific directions.

On March 8, 2019, the parties agreed in principle to the terms of a settlement and filed a settlement stipulation with the court on March 28, 2019. The settlement hearing before the court was held on June 20, 2019, and the court approved the settlement. The court's approval order was finalized on July 20, 2019. Under the terms of the settlement, we ended our investment in Precision Biologics. We withdrew $29.3 million in cash from Precision Biologics and transferred $2.5 million to Precision Biologics to facilitate the disposition of our investment. In addition to a total of $20.2 million of accumulated losses recorded in prior years, which represented the expected losses associated with giving up our preferred stock ownership and absorption of losses arising from the deconsolidation, we recorded a loss of $0.9 million associated with the final settlements during the year ended December 31, 2019, which was included in the selling, general and administrative expenses on the combined consolidated statements of operations. As of December 31, 2019 we held no investment in Precision Biologics.

Altor BioScience, LLC Litigation

The first action, Gray v. Soon-Shiong, et al. (Delaware Chancery Court, Case No. 2017-466-JRS), was filed on June 21, 2017, by plaintiffs Clayland Boyden Gray, or Gray, and Adam R. Waldman. The plaintiffs, two minority stockholders, asserted claims against the company and other defendants for (1) breach of fiduciary duty and (2) aiding and abetting breach of fiduciary duty and filed a motion to enjoin the merger. The court denied the motion on July 25, 2017, and permitted the merger to close. On September 1, 2017, plaintiffs (joined by two additional minority stockholders, Barbara Sturm Waldman and Douglas E. Henderson, or Henderson) filed a second amended complaint, asserting claims for (1) appraisal; (2) quasi-appraisal; (3) breach of fiduciary duty; and (4) aiding and abetting breach of fiduciary duty. On September 18, 2017, defendants moved to dismiss the second amended complaint, raising grounds that included a "standstill" agreement under which defendants maintained that Gray and Adam R. Waldman and Barbara Strum Waldman, or the Waldman's agreed not to bring the lawsuit. In the second action, Dyad Pharmaceutical Corp. v. Altor BioScience, LLC (Delaware Chancery Court, Case No. 2017-848-JRS), commenced November 28, 2017, Dyad Pharmaceutical Corporation, or Dyad, filed a petition for appraisal in connection with the merger. Respondent moved to dismiss the appraisal petition on January 26, 2018, arguing in part that the petition was barred by the same "standstill" agreement.

On April 23, 2018, the court heard oral arguments on the motions to dismiss in both consolidated cases, and on June 26, 2018, the court converted the motions to dismiss into motions for summary judgment with regard to the "standstill" agreement argument, or the Converted Motions. The court permitted discovery into the meaning and intended scope of the "standstill" agreements, which the parties completed on December 19, 2018. The parties completed a briefing on the Converted Motions on March 15, 2019.

The court heard an oral argument on the Converted Motions on May 7, 2019, and issued an oral ruling on May 15, 2019. The court (1) dismissed all claims brought by Gray and the Waldman's except for their appraisal claims; (2) dismissed all plaintiffs' quasi-appraisal claims; (3) dismissed the disclosure-based breach of fiduciary duty claims; and (4) dismissed Altor BioScience from the action. The following claims remain: (a) the appraisal claims by all plaintiffs and Dyad (against Altor BioScience, LLC), and (b) Henderson's claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty.

On June 14, 2019, the defendants answered the second amended complaint, and the respondent answered Dyad's appraisal petition. In their answer, defendants asserted counterclaims against Gray and the Waldman's for breach of the "standstill" agreements and are seeking as damages the attorneys' fees and costs they were forced to expend as a result of the breach. On June 20, 2019, the court issued a written order implementing its ruling on the Converted Motions, or the Implementing Order. In the Implementing Order, the court confirmed that all fiduciary duty claims brought by Gray, both individually and as trustee of the Gordon Gray Trust f/b/o C. Boyden Gray, were dismissed. On July 11, 2019, Gray and the Waldman's filed answers denying the counterclaims and asserting defenses.

On September 30, 2019, plaintiffs moved for leave to file a third amended complaint. The proposed amendment seeks to add two former Altor stockholders as plaintiffs and to add a fiduciary duty claim on behalf of a purported class of former Altor stockholders. On October 25, 2019, the defendants opposed the motion, and a briefing was completed on February 28, 2020. The court heard an oral argument on March 12, 2020, and granted the motion. The plaintiffs filed the third amended complaint on June 8, 2020.

On June 29, 2020, defendants answered the third amended complaint and asserted counter claims against the plaintiffs. As damages, defendants seek the attorneys' fees and costs incurred as a result of these breaches. On July 14, 2020, the plaintiffs filed an answer denying the counterclaims and asserting defenses. The trial has been set to commence in October 2021.

The shares of these former Altor stockholders met the definition of dissenting shares under the merger agreement and were not entitled to receive any portion of the merger consideration at the closing date. However, these dissenting shares will automatically be converted to receive the portion of the merger consideration they were entitled to, on the later of the closing date, and when the stockholder withdraws or loses the right to demand appraisal rights. Payment for dissenting shares will be on the same terms and conditions originally stated in the merger agreement. As of December 31, 2020 and 2019, we had accrued $6.8 million and $6.3 million related to these obligations, respectively. The accrued amount represents the estimated low-end of the range of currently estimated payout amounts in accordance with ASC Topic 450, *Contingencies*, after considering the reasonable outcomes for settling the dissenting shareholder dispute along with any accrued statutory interest. We cannot reasonably estimate a range of loss beyond the amounts recorded on December 31, 2020 and 2019, as the dissenting stockholders have not yet provided a quantified value of their claim and, therefore, an upper end of the range of loss cannot be determined. We reassess the reasonableness of the recorded amount at each reporting period. We believe the claims lack merit and intends to continue defending the case vigorously.

Sorrento Therapeutics, Inc.

Sorrento Therapeutics, Inc. v. NantCell, Inc., et al. Sorrento Therapeutics, Inc., or Sorrento, derivatively on behalf of NANTibody, LLC, or NANTibody, filed an action in the Superior Court of California, Los Angeles County, or the Superior Court, against the company, Dr. Soon-Shiong, MBBCh, FRCS (C), FACS, and Charles Kim. The action alleges that the defendants improperly caused NANTibody to acquire IgDraSol, Inc. from our affiliate NantPharma and seeks to have the transaction undone, and seeks to have the purchase amount returned to NANTibody. Sorrento filed a related arbitration proceeding, or the Cynviloq arbitration, against Dr. Soon-Shiong and NantPharma, LLC, or NantPharma; the company is not named in the Cynviloq arbitration. On May 15, 2019, we filed a demurrer to several causes of action alleged in the Superior Court action. On July 18, 2019, Sorrento filed an amended complaint, eliminating Charles Kim as a defendant and dropping the causes of action we had challenged in its demurrer.

On May 24, 2019, we and Dr. Soon-Shiong filed cross-claims in the Superior Court action against Sorrento and its Chief Executive Officer Henry Ji, asserting claims for fraud, breach of contract, breach of the covenant of good faith and fair dealing, tortious interference with contract, unjust enrichment, and declaratory relief. We and Dr. Soon-Shiong allege that Dr. Ji and Sorrento breached the terms of an exclusive license agreement between the company and Sorrento related to Sorrento's antibody library and that Sorrento did not perform its obligations under the exclusive license agreement.

On October 9, 2019, the Superior Court ruled that our claims should be pursued in arbitration and that Dr. Soon-Shiong's claims could be pursued in Superior Court.

On February 13, 2020, after a full briefing, the Superior Court heard oral argument and granted Dr. Soon-Shiong's request for a preliminary injunction barring Sorrento from pursuing claims against him in the Cynviloq arbitration. Sorrento then filed the claims it had previously asserted in arbitration against Dr. Soon-Shiong in the Superior Court on March 3, 2020, and at Sorrento's request, the arbitrator entered an order dismissing Sorrento's claims against Dr. Soon-Shiong in the Cynviloq arbitration on March 6, 2020. The hearing in the Cynviloq arbitration has been scheduled to commence in June 2021.

On October 24, 2019, we, along with NANTibody, filed an arbitration against Sorrento and Dr. Ji asserting its claims relating to the exclusive license agreement. Sorrento filed counterclaims against the company and NANTibody in the arbitration on May 4, 2020, and requested leave to file a dispositive motion on May 1, 2020.

On January 29, 2020, Sorrento sent letters purporting to terminate the exclusive license agreement with the company, and an exclusive license agreement with NANTibody and demanding the return of its confidential information and transfer of all regulatory filings and related materials. We and Sorrento engaged in good-faith negotiations as required under the exclusive license agreements before Sorrento can attempt to invoke any purported termination provision. Notwithstanding such negotiations, Sorrento sent a letter on April 10, 2020, purporting to terminate the exclusive license agreements, maintaining the negotiations did not reach a successful resolution. We believe we have cured any perceived breaches during the 90-day contractual cure period. We intend to prosecute its claims, and to defend the claims asserted against it, vigorously. An estimate of the possible loss or range of loss cannot be made at this time. The hearings in the antibody arbitration have been scheduled to be held in April 2021 and May 2021.

Shenzhen Beike Biotechnology Corporation

In July 2020, we received a Request for Arbitration before the International Chamber of Commerce, International Court of Arbitration, served by Shenzhen Beike Biotechnology Corporation, or Beike. The arbitration relates to a license, development, and commercialization agreement that Altor (succeeded by our wholly-owned subsidiary Altor BioScience, LLC, or Altor) entered into with Beike in September 2014, which agreement was amended and restated in September 2017, pursuant to which Altor granted to Beike an exclusive license to use, research, develop and commercialize products based on Anktiva in China for human therapeutic uses. In the arbitration, Beike is asserting a claim for breach of contract under the license agreement. Among other things, Beike alleges that we failed to use commercially reasonable efforts to deliver to Beike materials and data related to Anktiva. Beike is seeking specific performance, or in the alternative, damages for the alleged breaches. On September 25, 2020, the parties entered into a standstill and tolling agreement under which, among other things, the parties affirmed they will perform certain of their obligations under the license agreement by specified dates and agreed that all deadlines in the arbitration are indefinitely extended. The standstill agreement may be terminated by any party on ten calendar days' notice, and upon termination, the parties will have the right to pursue claims arising from the license agreement in any appropriate tribunal. The parties have been asked to provide an update to the International Chamber of Commerce by May 31, 2021 of any further developments.

Given that this action remains at the pleading stage and no discovery has occurred, it remains too early to evaluate the likely outcome of the case or to estimate any range of potential loss. We believe the claims lack merit and intend to defend the case vigorously and that we may have counterclaims.

9. Related Party Agreements

We conduct business with several affiliates under written agreements and informal arrangements. Below is a summary of outstanding balances and a description of significant relationships (in thousands):

	As of December 31, 2020	2019
Due from related party–NantBio	1,294	1,305
Due from related party–NantOmics	591	602
Due from related parties–Various	118	56
Total due from related parties	$ 2,003	$ 1,963
Due to related party–NantWorks	10,650	8,105
Due to related party–Duley Road	2,787	2,053
Due to related party–NantBio	943	945
Due to related party–NantPharma	187	188
Due to related party–Immuno-Oncology Clinic, Inc.	271	102
Total due to related parties	$ 14,838	$ 11,393
Related party notes payable–NantCapital	109,246	42,385
Related party notes payable–NantMobile	56,660	55,009
Related party notes payable–NantWorks	51,546	49,088
Related party notes payable–NCSC	36,901	35,139
Total related party notes payable	$254,353	$181,621

Our Executive Chairman, and principal stockholder, founded and has a controlling interest in NantWorks, which is a collection of multiple companies in the healthcare and technology space. As described below, we have entered into arrangements with NantWorks, and certain affiliates of NantWorks, to facilitate the development of new immunotherapies for our product pipeline. Affiliates of NantWorks are also affiliates of the company due to the common control by and/or common ownership interest of our Executive Chairman.

NantWorks

Under the NantWorks shared services agreement executed in November 2015, but effective August 2015, NantWorks provides corporate, general and administrative, manufacturing strategy, research and development, regulatory and clinical trial strategy, and other support services. We are charged for the services at cost plus reasonable allocations of employee benefits, facilities and other direct or fairly allocated indirect costs that relate to the employees providing the services. During the years ended December 31, 2020 and 2019, we recorded $6.6 million and $7.9 million, respectively, in *selling, general and administrative expense*, and $9.9 million and $3.6 million, respectively, in *research and development expense* under this arrangement on the combined consolidated statements of operations. These amounts exclude certain general and administrative expenses provided by third-party vendors directly for our benefit, which have been reimbursed to NantWorks based on those vendors' invoiced amounts without markup by NantWorks.

In addition, under the existing shared services agreement with NantWorks, we can provide support services to NantWorks and/or any of its affiliates. For the years ended December 31, 2020 and 2019, we recorded expense reimbursements of $0.7 million and $1.1 million, respectively, in *Selling, general and administrative expense* and $11.9 million and $5.1 million, respectively, in r*esearch and development expense*, on the combined consolidated statements of operations.

As of December 31, 2020 and 2019, we owed NantWorks a net amount of $10.7 million and $8.1 million, respectively, for all agreements between the two affiliates, which is included in *due to related parties* on the combined consolidated balance sheets. We also recorded $1.0 million and $0.3 million prepaid expenses for services that passed through to the company from NantWorks as of December 31, 2020 and 2019, respectively, and the amounts are included in the *prepaid expenses and other current assets* on the combined consolidated balance sheets.

In November 2015, we entered into a facility license agreement with NantWorks, which became effective in May 2015, for approximately 9,500 square feet in Culver City, California, which has been converted to a research and development laboratory and a cGMP manufacturing facility. In September 2020, we amended this agreement to extend the term of this lease through December 31, 2021, as further discussed in Note 8, *Commitments and Contingencies*. Lease expense for this facility totaling $0.6 million for the years ended December 31, 2020 and 2019, respectively, was recorded in *research and development expense* on the combined consolidated statements of operations.

Immuno-Oncology Clinic, Inc.

Beginning in 2017, we entered into multiple agreements with Immuno-Oncology Clinic, Inc., or the Clinic (dba Chan Soon-Shiong Institutes for Medicine, in El Segundo, California), to conduct clinical trials related to certain of our product candidates. The Clinic is a related party as it is owned by one officer of the company and NantWorks manages the administrative operations of the Clinic. Prior to June 30, 2019, one of our officers was an investigator or sub-investigator for all of our trials conducted at the Clinic.

In July 2019, we entered into a new agreement with the Clinic (the Clinic Agreement), which became effective on July 1, 2019. The Clinic Agreement, as amended on March 31, 2020, covers clinical trial and research-related activities on a non-exclusive basis relating to our existing clinical trials, commenced prior to July 1, 2019, and prospective clinical trials and research projects. The Clinic Agreement also specifies certain services and related costs that are excluded from the Clinic Agreement. Prior to commencing any work under the Clinic Agreement, the parties have agreed to execute written work orders setting forth the terms and conditions related to specific services to be performed, including financial terms. For clinical trials that commenced prior to July 1, 2019, fees incurred for services performed after July 1, 2019 are covered under the Clinic Agreement and applied towards the below-mentioned prepayments. The Clinic Agreement allows for automatic renewal and additional extensions beyond the initial one-year term.

In consideration of the services to be performed under the Clinic Agreement, as amended on March 31, 2020, we agreed to make payments of up to $7.5 million to the Clinic, of which $3.75 million and $1.88 million were paid in July 2019 and October 2019, respectively. As amended, a conditional payment of $1.88 million shall be due and payable at such time, if any, that the payments made in July 2019 and October 2019 have been earned by the Clinic through the performance of services. On a quarterly basis, our prepayment is increased by an interest credit computed in accordance with terms specified in the Clinic Agreement.

To the extent any portion of the prepayments remain unearned by the Clinic on the third anniversary of the Clinic Agreement, we may elect at our sole discretion either to (i) not extend the term of the Clinic Agreement and have the Clinic reimburse us for the total amount of any remaining unused portion of the prepayments, or (ii) extend the term of the Clinic Agreement for up to three additional one year periods, at which time the Clinic will reimburse us for the total amount of any remaining unused portion of the prepayments plus interest if reimbursement is not made within 60 days of expiration. The Clinic may terminate this agreement upon each anniversary date upon sixty (60) days prior written notice and reimbursement in full to us of any outstanding unearned balance of the prepayments, provided that any such termination by the Clinic will not apply with respect to any work orders still in effect at the time of such termination.

In July 2019, we executed a clinical trial work order under the Clinic Agreement for an open-label, phase I study of PD-L1.t-haNK for infusion in subjects with locally advanced or metastatic solid cancers. In July 2020, but effective on June 22, 2020, we executed a clinical trial work order under our existing master agreement with the Clinic for an open-label, randomized, comparative phase II study of our proprietary IL-15 superagonist (N-803) and Aldoxorubicin Hydrochloride (Aldoxorubicin) and our PD-L1.t-haNK with standard-of-care chemotherapy versus standard-of-care chemotherapy for first and second-line treatment of locally or advanced metastatic pancreatic cancer.

During the years ended December 31, 2020 and 2019, $0.6 million and $1.1 million, respectively, was recognized in *research and development expense* on the combined consolidated statements of operations related to clinical trial and research-related activities conducted for us by the Clinic. As of December 31, 2020 and 2019, we owed the Clinic $0.3 million and $0.1 million, respectively, for services excluded from the Clinic Agreement, which are included in *due to related parties* on the combined consolidated balance sheets. As of December 31, 2020 and 2019, we had prepaid balances related to the Clinic Agreement of $4.7 million and $5.1 million, respectively, which are included in *prepaid expenses and other currents assets*, and *other assets*, on the combined consolidated balance sheets. We anticipate that the remaining prepayment amount as of December 31, 2020 will be utilized in future periods as the Clinic provides additional services pursuant to the Clinic Agreement.

NantBio, Inc.

In August 2018, NantBio assigned an agreement to us for the use of a third-party research facility, which provides us with the exclusive right to use and access to a portion of the third party's laboratory and vivarium premises. NantBio is a related party as it is an affiliate of NantWorks. In conjunction with the assignment, we reimbursed NantBio for upfront payments which it had made to the third-party of $0.9 million and paid $0.5 million directly to the third-party for an aggregate value of $1.4 million. The assigned agreement is for a term of ten years and expires in June 2027. The agreement may be terminated by us at any time, with or without cause. In case of termination of the agreement, the third-party will reimburse us for a pro-rata amount based upon the passage of time.

In March 2016, NantBio and the National Cancer Institute, or the NCI, entered into a cooperative research and development agreement. The initial five-year agreement covers NantBio and its affiliates, including us. Under the agreement, the parties are collaborating on the preclinical and clinical development of proprietary recombinant natural killer cells and monoclonal antibodies in monotherapy and combination immunotherapies. We benefited from the preclinical and clinical research conducted during the first four years under this agreement. In each of the contractual years under the agreement, we paid $0.6 million to the NCI as a prepayment for services under the agreement. We recognize research and development expense related to this agreement ratably over a 12-month period for each funding year and recorded $0.6 million of expense related to this agreement in each of the years ended December 31, 2020 and 2019. As of December 31, 2020 and 2019, we had balances of $0.1 million and $0.1 million, respectively, included in *prepaid expenses and other current assets* related to this agreement on the combined consolidated balance sheets.

On February 16, 2016, we via our subsidiary Etubics entered into an exclusive license agreement with NantBio. Under this agreement, Etubics granted NantBio a worldwide, exclusive rights to research and develop Etubics' proprietary product ETBX-021 for all indications. Etubics is eligible to receive a single-digit royalty for sales on the licensed products on a country-by-country basis. As of December 31, 2020 and 2019, no costs were incurred in regard to the research and development costs allocation.

In August 2018, we entered into a supply agreement with NantCancerStemCell, LLC, or NCSC, a 60% owned subsidiary of NantBio (with the other 40% owned by Sorrento). Under this agreement, we agreed to supply VivaBioCell's proprietary GMP-in-a-Box bioreactors and related consumables, made according to specifications mutually agreed to with both companies. The agreement has an initial term of five years and renews automatically for successive one-year term unless terminated by either party in the event of material default upon prior written notice of such default and the failure of the defaulting party to remedy the default within 30 days of the delivery of such notice, or upon 90 days' prior written notice by NCSC. We recognized $0 and $0.5 million of revenue for gas mixers and consumables delivered during the years ended December 31, 2020 and 2019, respectively. We also recorded $0.4 million and $0.3 million deferred revenue for bioreactors that were delivered but not installed as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, we recorded $0.9 million and $0.9 million, respectively, due to related party related to this agreement.

In 2018, we entered into a shared service agreement, pursuant to which, we are charged for services at cost, without mark-up or profit for NantBio, but including reasonable allocations of employee benefits that relate to the employees providing the services. In

April 2019, we agreed with NantBio to transfer 67 NantBio employees and associated research and development projects, comprising the majority of NantBio's business, to the company. After the transfer, NantBio continued to make payments on our behalf for certain employee benefits and vendor costs related to the research and development projects that were transferred to the company. In addition, we settled certain employee bonuses and benefits that were accrued by NantBio for 2018. As of December 31, 2020 and 2019, we recorded a net $1.3 million receivable from NantBio, which included $1.0 million receivable for employee bonuses and $0.3 million receivable from NantBio for vendor costs we paid on behalf of NantBio.

NantOmics

In June 2019, we made a strategic decision and transferred certain employees from NantOmics, LLC, or NantOmics, a related party that is controlled by our chairman and chief executive officer, to the company. After the transfer, we settled certain employee bonuses and benefits that were accrued by NantOmics for 2020 and recorded $0.6 million receivable from NantOmics as of December 31, 2020 and 2019.

605 Doug St, LLC

In September 2016, we entered into a lease agreement with 605 Doug St, LLC, an entity owned by our Executive Chairman, and principal stockholder, for approximately 24,250 square feet in El Segundo, California, which has been converted to a research and development laboratory and a cGMP manufacturing facility. The lease runs from July 2016 through July 2023. We have the option to extend the lease for an additional three-year term through July 2026. The monthly rent is $0.1 million with annual increases of 3% beginning in July 2017. Lease expense for this facility for the years ended December 31, 2020 and 2019, is recorded in *research and development expense* on the combined consolidated statements of operations and was $0.9 million and $0.9 million, respectively. As of December 31, 2020 and 2019, there were no balances due between the parties.

Duley Road, LLC

In February 2017, Altor through its wholly-owned subsidiary entered into a lease agreement with Duley Road, LLC, or Duley Road, a related party that is indirectly controlled by our Executive Chairman, for an office and cGMP manufacturing facility in El Segundo, California. As of December 31, 2020 and 2019, we recorded rent payable to Duley Road of $1.0 million and $0.3 million, respectively, which is included in *due to related parties* on the combined consolidated balance sheets. For the years ended December 31, 2020 and 2019, we recorded rent expense of $0.7 million and $0.1 million, respectively, which is reflected in *research and development expense* on the combined consolidated statements of operations. See Note 8 *Commitments and Contingencies* for additional information.

Effective in January 2019, we entered into two lease agreements with Duley Road for a second building located in El Segundo, California. The first lease is for the first floor of the building with approximately 5,650 square feet. The lease has a 7-year term commencing in September 2019. The second lease is for the second floor of the building with approximately 6,488 square feet. The lease has a seven-year term commencing in July 2019. Both floors of the building are used for research and development and office space. We have options to extend the initial terms of both leases for two consecutive five-year periods through 2036. The annual rent of the two leases is $0.4 million, which will increase at a rate of 3% per year. As of December 31, 2020 and 2019, we recorded $0.7 million and $1.5 million leasehold improvement payable and $1.1 million and $0.2 million lease-related payables to Duley Road, which were included in *due to related parties* on the combined consolidated balance sheets. For the years ended December 31, 2020 and 2019, we recorded $0.3 million and $0.1 million rent expense for the two leases, respectively, which is included in the *research and development* expense on the combined consolidated statements of operations. The total security deposits for the leases amounted to $0.1 million as of December 31, 2020 and 2019, which are included in *other assets* on the combined consolidated balance sheets.

NantHealth Labs, Inc.

In March 2018, we entered into an agreement with NantHealth Labs, Inc., or NantHealth Labs, to obtain blood-based tumor profiling services. NantHealth Labs is a related party, as it is a wholly-owned subsidiary of NantHealth, Inc., a majority-owned subsidiary of NantWorks. We are obligated to pay NantHealth Labs fixed, per-patient fees. The agreement has an initial term of five years and renews automatically for successive one-year periods, unless terminated earlier. During the years ended December 31, 2019, $10,000 was recognized in *research and development expense* on the combined consolidated statements of operations. There were no expenses associated with this agreement during the year ended December 31, 2020. As of December 31, 2020 and 2019, no balances were due between the parties.

In June 2018, one of our subsidiaries, Altor, entered into a service agreement with NantHealth Labs, pursuant to which, NantHealth Labs agreed to perform blood-based mutation detection test services in connection with Altor's clinical trials for cancer treatments and therapies. The agreement had an initial term of two years and renews automatically for successive one-year periods terms unless terminated earlier. During the year ended December 31, 2020 and 2019, Altor incurred $0 and $0.3 million in research and development expense in connection to this service agreement.

NantPharma

In 2018, Altor BioScience, LLC and GlobeImmune purchased a total of $0.2 million in laboratory equipment from NantPharma. As of December 31, 2020 and 2019, we recorded a $0.2 million related party payable to NantPharma for the unpaid invoices.

Related Party Notes Payable

In October 2015, we executed a demand promissory note with CalCap, a personal investment vehicle of our Executive Chairman and a related party. The note bears interest at a per annum rate of 5.0%, compounded annually and computed on the basis of 365 or 366 days. The note also provided that we may prepay the outstanding principal amount at any time without premium or penalty and the prior consent of CalCap. The note also contained a provision that all outstanding amounts will become immediately due and payable upon certain bankruptcy and insolvency-related events. The principal amount of advances made by the related party pursuant to these notes totaled $22.4 million as of January 1, 2019. The total interest outstanding on this note amounted to $3.4 million as of January 1, 2019, and is included in *related party notes payable* on the combined consolidated balance sheets.

In March 2019, we repaid $22.5 million under the promissory note with CalCap, including $18.8 million principal and $3.7 million accrued interests. On June 28, 2019, we extinguished the remaining principal amount under the note payable of $3.7 million and accrued interest of $40,000 by partially offsetting the cash proceeds of approximately $6.7 million from the issuance of 2,074,799 shares of common stock as a result of warrants exercised by our Executive Chairman.

In December 2015, we executed a demand promissory note with NantCapital. The note bears interest at a per annum rate of 5.0%, compounded annually and computed on the basis of 365 or 366 days. In January 2019, we repaid $15.0 million under the promissory note with NantCapital, including $12.1 million of principal and $2.9 million in accrued interest. In May 2019, we borrowed $10.5 million from NantCapital. In June 2019, we deducted the principal of $2.4 million and accrued interest of $0.6 million to NantCapital, which is to offset the issuance of common stock as a result of warrant exercised by our Executive Chairman. In June 2019 and December 2019, we borrowed $8.0 million and $5.0 million from NantCapital, respectively. In July 2020 and August 2020, we borrowed $10.0 million and $3.7 million from NantCapital, respectively. The principal amount of advances made by the related party pursuant to these notes totaled $55.2 million and $41.5 million as of December 31, 2020 and 2019. The total interest outstanding on this note amounted to $3.3 million and $0.9 million as of December 31, 2020 and 2019, respectively, and was included in *related party notes payable* on the combined consolidated balance sheets. In July 2020, this note was amended and restated to provide that all outstanding principal and accrued and unpaid interest is due and payable on September 30, 2025, and not on demand.

In June 2017, we executed a demand promissory note with NantWorks. The note bears interest at a per annum rate of 5.0%, compounded annually and computed on the basis of 365 or 366 days. The outstanding principal amount, plus accrued and unpaid interest, may be made immediately due and payable on demand by NantWorks. We may prepay the outstanding principal amount at any time without premium or penalty and the prior consent of NantWorks. All outstanding amounts under the note will also become immediately due and payable upon certain bankruptcy and insolvency-related events. The principal amount of advances made by the related party pursuant to these notes totaled $43.4 million as of December 31, 2020 and 2019, respectively. The total interest outstanding on this note amounted to $8.1 million and $5.7 million as of December 31, 2020 and 2019, and was included in *related party notes payable* on the combined consolidated balance sheets. In July 2020, this note was amended and restated to provide that all outstanding principal and accrued and unpaid interest is due and payable on September 30, 2025, and not on demand.

In August 2018, we executed a demand promissory note with NCSC. The note bears interest at a per annum rate of 5.0%, compounded annually and computed on the basis of 365 or 366 days. The outstanding principal amount, plus accrued and unpaid interest, may be made immediately due and payable on demand by NCSC. We may prepay the outstanding principal amount at any time without premium or penalty and the prior consent of NCSC. All amounts outstanding under the note will also become immediately due and payable upon certain bankruptcy and insolvency-related events. The principal amount of advances made by the related party pursuant to these notes totaled $33.0 million as of December 31, 2020 and 2019. The total interest outstanding on this note amounted to $3.9 million and $2.1 million as of December 31, 2020 and 2019, respectively, and was included in *related party notes payable* on the combined consolidated balance sheets. In July 2020, this note was amended and restated to provide that all outstanding principal and accrued and unpaid interest is due and payable on September 30, 2025, and not on demand.

In December 2019, we executed a demand promissory note with NantMobile. The note bears interest at a per annum rate of 3.0%, compounded annually and computed on the basis of 365 or 366 days. The outstanding principal amount, plus accrued and unpaid interest, may be made immediately due and payable on demand by NantMobile. We may prepay the outstanding principal amount at any time without premium or penalty and the prior consent of NantMobile. All amounts outstanding under the note will also become immediately due and payable upon certain bankruptcy and insolvency-related events. The principal amount of advances made by the related party pursuant to these notes totaled $55.0 million as of December 31, 2020 and 2019. The total interest outstanding on this note amounted to $1.7 million and $9,000, respectively, as of December 31, 2020 and 2019, and was included in *related party notes payable* on the combined consolidated balance sheets. In July 2020, this note was amended and restated to provide that all outstanding principal and accrued and unpaid interest is due and payable on September 30, 2025, and not on demand.

In September 2020, we executed a promissory note with NantCapital for an advance of the principal of $50.0 million. The note bears interest at a per annum rate of 6.0%, compounded annually and computed on the basis of 365 or 366 days. The outstanding principal and accrued and unpaid interest are due and payable on September 30, 2025. The total interest outstanding on this note amounted to $0.8 million as of December 31, 2020, and was included in *related party notes payable* on the combined consolidated balance sheets.

All demand promissory notes have no equity or equity-linked convertible rights.

10. Stockholders' (Deficit) Equity

Merger with NantCell

Under the terms of the Merger Agreement, at the Effective Time of the Merger, each share of NantCell common stock, par value $0.001 per share, issued and outstanding immediately prior to the Effective Time, subject to certain exceptions as set forth in the Merger Agreement, was converted automatically into 0.8190 shares of the newly issued Company Common Stock, par value $0.0001 per share, resulting in the issuance of 273.7 million shares of Company Common Stock. From and after the effective time, all of such NantCell shares ceased to be outstanding, were canceled and ceased to exist. At the Effective Time, each share of our Common Stock issued and outstanding immediately prior to the Effective Time, will remain an issued and outstanding share of the combined company.

Since the Merger has been accounted for as a transaction between entities under common control, the outstanding shares presented on the combined consolidated financial statements assume that NantCell outstanding common stock was converted into shares of Company Common Stock for all periods presented, and in connection with the conversion, those shares of common stock have been recorded at the Company's par value, which is $0.0001 per share.

Issuance of Common Stock

On June 29, 2020, we closed an underwritten public offering of an aggregate of 8,521,500 shares of common stock, which included 4,811,500 shares issued to the public at a price of $9.50 per share (which includes 1,111,500 shares sold to the public upon full exercise of the underwriters' option to purchase additional shares at a public offering price of $9.50 per share), less underwriting discounts and commissions, and 3,710,000 shares issued to our Executive Chairman and principal stockholder, Dr. Patrick Soon-Shiong, at a price of $12.12 per share, less underwriting discounts and commissions. All of the shares were offered by the company. Including the underwriters' option exercise, the aggregate gross proceeds from the offering were $90.7 million, before deducting underwriting discounts, commissions and other offering expenses of $4.4 million.

On March 11, 2019, Kuwait Investment Authority, or KIA, purchased 2,047,500 shares of our common stock, at a purchase price of $14.66 per share, for an aggregate purchase price of $30.0 million.

On September 26, 2019, we entered a Stock Transfer Agreement and purchased 204,750 shares of common stocks from a stockholder at a purchase price of $9.77 per share, for an aggregate purchase price of $2.0 million in cash. All the repurchased shares were treated as retirements and reduced the number of shares issued and outstanding. In addition, we recorded the excess of the purchase price over the par value per share as a reduction to the accumulated deficit.

Warrant Exercise

In connection with the Altor acquisition, we assumed all outstanding Altor warrants and replaced them with warrants to purchase shares of our common stock. Warrants to purchase a total of 3,712,800 shares of our common stock were issued, of which warrants to purchase 2,074,800 shares at an exercise price of $3.24 per share were issued to our Executive Chairman (all such warrants were vested); and warrants to purchase 1,638,000 shares were issued to NantWorks, a related party, at an exercise price of $3.24 per share and with vesting subject to the achievement of a certain performance condition pertaining to building a manufacturing capacity. The fair value of $18.0 million that was assigned to the 1,638,000 unvested warrants will be recognized upon achievement of the performance-based vesting conditions.

On June 28, 2019, our Executive Chairman exercised his rights under the warrants to purchase 2,074,800 shares of common stock at an exercise price of $3.24 per share. We agreed to offset the net cash proceeds of approximately $6.7 million with a reduction of related party notes payables and accrued interests to CalCap and NantCapital and issued all of the shares of common stock. See Note 9 *Related Party Agreements* for additional information.

Stock Repurchases

In November 2015, the board of directors approved a share repurchase program, or the 2015 Share Repurchase Program, allowing the CEO or CFO, on behalf of the company, to repurchase from time to time, in the open market or in privately negotiated transactions, up to $50.0 million of our outstanding shares of common stock, exclusive of any commissions, markups or expenses. The timing and amounts of any purchases were and will continue to be based on market conditions and other factors, including price, regulatory requirements and other corporate considerations. The 2015 Share Repurchase Program does not require the purchase of any minimum number of shares and may be suspended, modified or discontinued at any time without prior notice. We have financed, and expect to continue to finance, the purchases with existing cash balances. As it is the intent for the repurchased shares to be retired, we have elected to account for the shares repurchased under the constructive retirement method. For shares repurchased in excess of par, we allocate the purchase price in excess of par value to *accumulated deficit* on the combined consolidated balance sheets.

To date, we have repurchased 6,403,489 shares of our common stock under the 2015 Share Repurchase Program at a total cost of $31.7 million. In addition, we have paid $0.1 million of broker commissions on repurchases. We did not repurchase any shares during the year ended December 31, 2020. During the year ended December 31, 2019, we repurchased 473,586 shares for $0.5 million. As of December 31, 2020, $18.3 million remained authorized for repurchases under the 2015 Share Repurchase Program.

Common Stock Reserved for Future Issuance

We are authorized to issue up to 500,000,000 shares of our common stock, par value $0.0001 per share on December 31, 2020. As of December 31, 2020, there were 382,243,142 shares of our common stock issued and outstanding.

The following table summarizes the common stocks reserved for issuance on exercise or vesting of various awards at December 31, 2020:

	As of December 31,	
	2020	2019
Outstanding stock options	4,996,284	6,080,483
Outstanding RSUs	466,842	1,155,808
Outstanding related party warrants	1,638,000	1,638,000
Total shares reserved for future issuance	7,101,126	8,874,291

At the Effective Time of the Merger, all outstanding stock awards granted under the legacy NantCell Stock Incentive Plan were converted into equivalent awards of Company Common Stock using the Exchange Ratio, on the same terms and conditions as immediately prior to the Effective Time.

11. Stock-Based Compensation

2014 Equity Incentive Plan – In March 2014, our board of directors and stockholders approved the 2014 Equity Incentive Plan, or 2014 Plan, under which 11,109,000 shares of common stock were reserved for the granting of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, or IRS, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock units and performance awards to employees, directors and consultants. The maximum term of awards granted under the 2014 Plan is ten years. Recipients of stock awards are eligible to purchase shares of our common stock at an exercise price equal to no less than the estimated fair market value of such stock on the date of grant. As of December 31, 2020, there were approximately 1.1 million vested and exercisable options outstanding under the 2014 Plan, and there were no additional shares available for future grants.

2015 Equity Incentive Plan – In July 2015, our board of directors adopted and our stockholders approved the 2015 Equity Incentive Plan, or 2015 Plan. The 2015 Plan, as amended, permits the grant of incentive stock options to our employees, and for the grant of non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to our employees, directors and consultants. The 2015 Plan is the only equity plan of the company available for future grant of equity awards to employees, directors and consultants of the company. In April 2019 our board of directors adopted, and in June 2019 our stockholders approved, a first amendment to 2015 Plan to reserve a further 3,000,000 shares of common stock for issuance pursuant to the 2015 Plan. In March 2020, our board of directors adopted, and in June 2020 our stockholders approved, a

second amendment to 2015 Plan to reserve a further 3,000,000 shares of common stock for issuance pursuant to the 2015 Plan. As of December 31, 2020, a total of approximately 10.2 million shares of common stock were reserved for issuance pursuant to the 2015 Plan and a total of approximately 7.2 million shares were available for future grant. In addition, the number of shares reserved for future grant under the 2015 Plan includes shares subject to stock options granted under the 2014 Plan that expire or terminate without having been exercised in full and shares issued pursuant to awards granted under the 2014 Plan that are forfeited to or repurchased by us (provided that the maximum number of shares that may be added to the 2015 Plan pursuant to this provision is approximately 1.1 million shares as of December 31, 2020).

Stock-Based Compensation

The following table presents all stock-based compensation as included on the combined consolidated statements of operations (in thousands):

	For the Year Ended December 31,	
	2020	2019
Stock-based compensation expense:		
Employee stock options	1,426	2,053
Employee and Non-employee RSUs	761	1,368
	$ 2,187	$ 3,421
Stock-based compensation expense in operating expenses:		
Research and development	$ 261	$ 1,288
Selling, general and administrative	1,926	2,133
	$ 2,187	$ 3,421

Stock Options

The following table summarizes stock option activity and related information under all equity incentive plans for the years ended December 31, 2020 and 2019:

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted-Average Remaining Contractual Life (in years)
Outstanding as of December 31, 2018	8,363,045	$ 6.54	$ 11,998	3.9
Options exercised	(1,993,688)	$ 2.06		
Options forfeited	(41,341)	$ 7.64		
Options expired	(247,533)	$ 1.60		
Outstanding as of December 31, 2019	6,080,483	$ 8.24	$ 14,458	5.3
Options granted	400,000	$ 6.21		
Options exercised	(1,272,273)	$ 1.89		
Options forfeited	(211,926)	$ 2.23		
Outstanding as of December 31, 2020	4,996,284	$ 9.96	$ 29,746	4.7
Vested and Exercisable as of December 31, 2020	4,345,497	$ 10.70	$ 24,333	4.1

As of December 31, 2020, the unrecognized compensation cost related to outstanding stock options was $1.3 million, which is expected to be recognized over a remaining weighted-average period of 0.9 years.

The total intrinsic value of stock options exercised during the years ended December 31, 2020 and 2019 was $12.7 million and $0.2 million, respectively.

Cash proceeds received from stock option exercises during the years ended December 31, 2020 and 2019 was $1.2 million and $4.1 million, respectively.

As of December 31, 2019, a total of 3,973,614 vested and exercisable shares were outstanding.

The following table provides a summary of options outstanding and vested as of December 31, 2020:

Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Number Exercisable	Weighted-Average Remaining Contractual Life (in years)
$0.4213	512,036	3.9	512,036	3.9
$0.78	49,549	2.6	49,549	2.6
$1.7554	288,404	4.0	288,404	4.0
$1.9984	262,120	4.1	262,120	4.1
$2.18	1,842	5.5	1,842	5.5
$2.87	982	5.7	880	6.4
$3.07	600,000	7.7	349,998	7.7
$3.4-$3.98	1,163,543	3.0	1,163,543	3.0
$4.54	255,806	0.3	255,806	0.3
$6.21	400,000	9.4	—	—
$8.19	6,552	5.7	5,869	5.7
$25.00	1,455,450	4.6	1,455,450	4.6
	4,996,284	4.7	4,345,497	4.1

We may grant stock options to both employees and directors of the company and to employees of related parties that provide shared services to the company under our shared services agreement with NantWorks, as discussed in Note 9, *Related Party Agreements*. The fair value of each stock option issued was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	For the Year Ended December 31,	
	2020	2019
Expected term (in years)	5.5	N/A
Risk-free interest rate	0.4%	N/A
Expected volatility	96.8%	N/A
Dividend yield	0.0%	N/A
Weighted-average grant date fair value	$ 4.64	N/A

The expected term was estimated using the average of the contractual term and the weighted-average vesting term of the options. The risk-free interest rate was based on the U.S. Treasury's rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. For grants issued during 2020, the expected volatility was estimated based on the historical volatility of our common stock. For grants issued during 2018, the expected volatility was based on a weighted-average calculation of our common stock together with a peer group of comparable companies whose share prices are publicly available. The assumed dividend yield was based on our expectation of not paying dividends in the foreseeable future. There were no grants issued during 2019.

Restricted Stock Units

The following table summarizes the restricted stock units, or RSUs, activity under the 2015 Plan:

	Number of RSUs Outstanding	Weighted-Average Grant Date Fair Value
Unvested balance as of December 31, 2018	875,589	$ 6.70
Granted	749,793	$ 1.12
Vested	(401,193)	$ 8.82
Forfeited/canceled	(83,225)	$ 7.29
Unvested balance as of December 31, 2019	1,140,964	$ 2.24
Granted	33,500	$ 6.43
Vested	(649,872)	$ 2.05
Forfeited/canceled	(57,750)	$ 4.47
Unvested balance as of December 31, 2020	466,842	$ 2.52

We may grant RSUs to both employees and directors of the company and to employees of related parties that provide shared services to the company under our shared services agreement with NantWorks as discussed in Note 9, *Related Party Agreements*. There were no grants made to non-employees during the years ended December 31, 2020 and 2019.

As of December 31, 2020, there was $0.6 million of unrecognized stock-based compensation expense related to RSUs that is expected to be recognized over a weighted-average period of 1.8 years. Of that amount, $0.6 million of unrecognized expense is related to employee grants with a remaining weighted-average period of 1.9 years and $6,400 of unrecognized expense is related to non-employee grants with a remaining weighted-average period of 0.2 years.

Warrants

The following table summarizes our warrant activity:

Outstanding as of December 31, 2018	21,302,049
Warrants exercised	(19,664,049)
Outstanding as of December 31, 2019	1,638,000
Warrants exercised	—
Outstanding as of December 31, 2020	1,638,000

During the three months ended March 31, 2019, we recognized proceeds of $35.2 million upon the exercise of warrants by our Chairman and CEO.

12. Income Taxes

The amount of loss before taxes is as follows (in thousands):

	For the Year Ended December 31,	
	2020	2019
U.S. loss before taxes	$ (223,519)	$ (159,089)
Foreign loss before taxes	(2,514)	(1,174)
Loss before income taxes	$ (226,033)	$ (160,263)

Income tax (expense) benefit for the years ended December 31, 2020 and 2019 consist of the following (in thousands):

	For the Year Ended December 31,	
	2020	2019
Current:		
Federal	$ —	$ —
State	(5)	(3)
Foreign	—	—
Total current	(5)	(3)
Deferred:		
Federal	1,187	77
State	664	31
Foreign	—	—
Total deferred	1,851	108
Income tax benefit	$ 1,846	$ 105

The components that comprise our net deferred tax assets as of December 31, 2020 and 2019 consist of the following (in thousands):

	As of December 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 223,123	$ 166,450
Stock compensation	13,305	14,141
Operating lease liabilities	5,456	6,085
Investments	2,490	3,164
Depreciation and amortization	11,383	6,948
Interest expense	5,055	2,765
Accrued compensation	1,527	1,394
Other accrued liabilities	418	203
Other	3,355	2,062
Total deferred tax assets	266,112	203,212
Deferred tax liabilities:		
Indefinite lived intangibles	(170)	(3,108)
Operating lease right-of-use assets	(4,668)	(5,182)
Total deferred tax liabilities	(4,838)	(8,290)
Net deferred tax assets	261,274	194,922
Valuation allowance	(261,444)	(198,030)
Net deferred tax liability	$ (170)	$ (3,108)

A reconciliation of the federal statutory income tax rate to our effective income tax rate for the years ended December 31, 2020 and 2019 is as follows:

	For the Year Ended December 31,	
	2020	2019
Tax computed at federal statutory rate	21.0%	21.0%
State income taxes, net of federal tax benefit	7.2	(0.8)
Other permanent items	(0.1)	1.6
Tax rate adjustment	(0.3)	0.2
Research and development credits	0.1	0.1
Stock-based compensation	1.3	(33.9)
Other	(0.2)	0.2
Valuation allowance	(28.2)	11.7
Effective income tax rate	0.8%	0.1%

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical operating results and the uncertainty of the economic conditions, we have recorded a valuation allowance of $261.4 and $198.0 million, respectively, on December 31, 2020 and 2019. The change in the valuation allowance for the years ended December 31, 2020 and 2019 was an increase of $63.4 million and a decrease of $18.8 million, respectively, which were mainly driven by losses from which we cannot benefit. The portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be credited directly to contributed capital is $0.2 million.

On December 31, 2020, we have federal net operating losses, or NOLs, of $979.1 million, state NOLs of $841.7 million, and foreign NOLs of $5.4 million. Of the $979.1 million in federal NOLs, $535.6 million will not expire and will be able to offset 80% of taxable income in future years. Of the $841.7 million in state NOLs, $53.2 million will not expire and will be able to offset 80% of taxable income in future years. The remaining federal NOL carryforwards begin to expire in 2021, the remaining state NOL carryforwards begin to expire in 2021, the South Korean NOL carryforwards begin to expire in 2022 and the Italian NOL will not expire.

Pursuant to IRC Sections 382 and 383, annual use of our net operating loss and research and development credit carryforwards may be limited in the event a cumulative change in ownership of more than 50% occurs within a three-year period. We have not recognized the deferred tax assets for federal and state NOLs and credits of $270.0 million from its deferred tax asset schedules as of December 31, 2020 due to Section 382/383 limitation. There is no impact to tax expense for the derecognition of the net operating losses and federal and state research and development credits due to the valuation allowance recorded against the deferred tax assets.

As of December 31, 2020, we also had federal research tax credit carryforwards of $11.1 million and state research tax credits of $7.8 million. The federal research tax credit carryforwards begin to expire in 2034 and certain state research tax credit carryforwards begin to expire in 2031. The California research tax credits can be carried forward indefinitely.

Net operating losses and tax credits also are limited when there is a separate return limitation year (SRLY). These rules generally limit the use of the acquired or departing members' net operating loss and tax credit carryovers to the amount of taxable income such entity contributes to consolidated taxable income. The 80% Limitation also applies to the SRLY NOL carryovers and tax credits. Therefore, any SRLY NOLs and tax credits will be subject to this limitation, as well as, Section 382 and 383

Additionally, we have not recognized the deferred tax asset for research and development credit carryforwards as of December 31, 2020 and 2019 because we are a part of a controlled group of affiliated companies with common ownership and cannot complete our calculation of the credit until the time that all members of the controlled group complete their analysis and calculation of qualified research expenditures.

As of December 31, 2020 and 2019, we have $19.6 million and $10.7 million interest, respectively, that is temporarily disallowed pursuant to IRC Sec. 163(j). The interest can be carried forward indefinitely and will be deductible when the Company generates sufficient adjusted taxable income.

On March 9, 2021, the company completed the Merger with NantCell. The merger is accounted for as a transaction between entities under common control. The Merger is also considered as a nontaxable transaction for U.S. income tax purposes and it is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The Cares Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. The CARES Act provides sweeping tax changes in response to the COVID-19 pandemic. Under the CARES Act, some of the more significant provisions are NOL carrybacks for five years to offset previous years' income, or can be carried forward indefinitely to offset 100% of taxable income for the tax year beginning before 2021 and 80% of taxable income for tax years 2021 and thereafter, increasing the ability to deduct interest expense, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. As of December 31, 2020, the Company has not recorded any income tax provision/(benefit) resulting from the CARES Act mainly due to the Company's history of net operating losses generated and the maintenance of a full valuation allowance against its net deferred tax assets. The Company evaluates the impacts are immaterial.

On June 29, 2020, the state of California enacted Assembly Bill No. 85 (AB 85) suspending California net operating loss utilization and imposing a cap on the amount of business incentive tax credits companies can utilize, effective for tax years 2020, 2021 and 2022. There was no material impact from the provisions of AB 85 in 2020.

The following table summarizes the changes to the amount of unrecognized tax benefits (in thousands):

Unrecognized tax benefits as of December 31, 2018	$11,983
Decrease for prior year tax positions	(7)
Increase for current year tax positions	3,680
Unrecognized tax benefits as of December 31, 2019	15,656
Decrease for prior year tax positions	(6)
Increase for current year tax positions	4,763
Unrecognized tax benefits as of December 31, 2020	$20,413

Included in the balance of unrecognized tax benefits as of December 31, 2020, is $18.3 million that, if recognized, would not impact our income tax benefit or effective tax rate as long as the deferred tax asset remains subject to a full valuation allowance. We do not expect that the unrecognized tax benefits will change within 12 months of this reporting date. Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact our effective tax rate. We have not incurred any material interest or penalties as of the current reporting date with respect to income tax matters.

We are subject to U.S. federal income tax, Italian income tax, South Korean income tax as well as income tax in California and other states. The federal returns for tax years 2017 through 2019 remain open to examination and the state returns remain subject to examination for tax years 2016 through 2019. The Italian and South Korea returns for tax years 2015 through 2019 remain open to examination. Carryforward attributes that were generated in years where the statute of limitations is closed may still be adjusted upon examination by the Internal Revenue Service or other respective tax authorities. There are no cumulative earnings in the Italian and South Korean subsidiaries as of December 31, 2020 that would be subject to U.S. income tax or foreign withholding tax. We plan to indefinitely reinvestment any future earnings of the Italian subsidiary.

Prior to the adoption of ASU 2019-12 in the first quarter of 2020, as discussed in Note 2, *Summary of Significant Accounting Policies —Recent Accounting Announcement—Application of New or Revised Accounting Standards – Adopted*, intraperiod tax allocation rules required us to allocate the provision for income taxes between continuing operations and other categories of earnings, such as other comprehensive income. In periods in which we had a year-to-date pre-tax loss from continuing operations and pre-tax income in other categories of earnings, such as other comprehensive income, we had to allocate the tax provision to the other categories of earnings. We then recorded a related tax benefit in continuing operations. However, with the adoption of ASU 2019-12, we are no longer required to allocate the tax provision to the other categories of earnings and related benefits to continuing operations under these circumstances.

13. Employee Benefits

Defined Contribution Benefit Plan – In December 2015, we adopted a 401(k) retirement and savings plan, the 401(k) Plan, covering all employees. The 401(k) Plan allows employees to make pre-and post-tax contributions up to the maximum allowable amount set by the IRS. We, at its discretion, may make certain contributions to the 401(k) Plan. We made contributions of $1.2 million and $1.0 million during the years ended December 31, 2020 and 2019, respectively.

Compensated Absences – Under our vacation policy, salaried employees are provided unlimited vacation leave. Therefore, we do not record an accrual for paid leave related to these employees since we are unable to reasonably estimate the compensated absences that these employees will take.

14. Subsequent Events

In February 2021, but effective on January 1, 2021, we entered into a lease agreement with 605 Nash, LLC, whereby we leased approximately 6,883 square feet in El Segundo, California. 605 Nash, LLC is a related party, as it is owned by our Executive Chairman, Dr. Patrick Soon-Shiong. This facility will be used primarily for pharmaceutical development and manufacturing purposes. The lease runs from January 2021 through December 2027, and includes an option to extend the lease for an additional three-year term through December 2030. Base rent for the term of the lease is approximately $20,300 per month with an annual increase of 3% on January 1 of each year during the initial term and, if applicable, during the option term. In addition, under the agreement, we are required to pay our share of estimated property taxes and operating expenses, both of which are variable lease expenses.

In February 2021, we executed a promissory note with NantCapital. The outstanding principal amount of each advance made by NantCapital bears interest at a per annum rate of 6.0%, compounded annually and computed based on 365 or 366 days. On February 26, 2021, we received a $40 million advance pursuant to this promissory note. The accrued interest shall be paid quarterly commencing on June 30, 2021. The outstanding principal amount and any accrued and unpaid interest are due on September 30, 2025. We may prepay the outstanding principal amount and accrued interest at any time without premium or penalty and the prior consent of NantCapital.

On March 9, 2021, we completed the Merger pursuant to the terms of the Merger Agreement. Under the terms of the Merger Agreement, at the Effective Time of the Merger, each share of NantCell common stock, par value $0.001 per share, issued and outstanding immediately prior to the Effective Time, subject to certain exceptions as set forth in the Merger Agreement, will be converted automatically into a right to receive 0.8190 (the “Exchange Ratio”) newly issued shares of common stock, par value $0.0001 per share, of the company (“Company Common Stock”), with cash paid in lieu of any fractional shares. At the Effective Time, each share of the company’s common stock issued and outstanding immediately prior to the Effective Time, will remain an issued and outstanding share of the combined company. At the Effective Time, each outstanding option, warrant, or RSU to purchase NantCell common stock were converted using the Exchange Ratio into an option, warrant, or restricted stock unit, respectively, on the same terms and conditions immediately prior to the Effective Time, to purchase shares of Company Common Stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements

The following discussion and analysis should be read together with our combined consolidated financial statements and the notes to those statements included in Exhibit 99.2 in this Current Report on Form 8-K/A. This Current Report on Form 8-K/A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements include, but are not limited to:

- our ability to pioneer immunotherapy, harness the power of the innate immune system, implement precision cancer medicine and change the current paradigm of cancer care;
- our ability to implement and support our COVID-19 vaccine and therapeutic programs;
- any impact of the coronavirus pandemic, or responses to the pandemic, on our business, clinical trials or personnel;
- our expectations regarding the potential benefits of our strategy and technology;
- our expectations regarding the operation of our product candidates and related benefits;
- our ability to utilize multiple modes to induce cell death;
- our beliefs regarding the benefits and perceived limitations of competing approaches, and the future of competing technologies and our industry;
- details regarding our strategic vision and planned product candidate pipeline, including that we eventually plan to advance therapies for virally induced infectious diseases;
- our beliefs regarding the success, cost and timing of our product candidate development activities and current and future clinical trials and studies, including study design;
- our expectations regarding our ability to utilize the phase I and II aNK and haNK clinical trials data to support the development of many of our product candidates, including our haNK, taNK, t-haNK, MSC and ceNK product candidates;
- the timing or likelihood of regulatory filings or other actions and related regulatory authority responses, including any planned investigational new drug, or IND; Biologics License Application, or BLA; or New Drug Application, or NDA, filings or pursuit of accelerated regulatory approval pathways or orphan drug status and breakthrough therapy designations;
- our ability to implement an integrated discovery ecosystem and the operation of that planned ecosystem, including being able to regularly add neoepitopes and subsequently formulate new product candidates;
- any impact of the COVID-19 pandemic, or response to the pandemic, on our business, clinical trials or personnel;
- the ability and willingness of strategic collaborators, including certain affiliates of NantWorks, LLC, or NantWorks, to share our vision and effectively work with us to achieve our goals;
- the ability and willingness of various third parties to engage in research and development activities involving our product candidates, and our ability to leverage those activities;
- our ability to attract additional third party collaborators;
- our expectations regarding the ease of administration associated with our product candidates;
- our expectations regarding the patient compatibility associated with our product candidates;
- our beliefs regarding the potential markets for our product candidates and our ability to serve those markets;
- our ability to produce an "off-the-shelf" therapy;
- our beliefs regarding the potential manufacturing and distribution benefits associated with our product candidates, and our ability to scale up the production of our product candidates;

- our plans regarding our manufacturing facility and our belief that our manufacturing is capable of being conducted in-house;
- our belief in the potential of our aNK cells as a technology platform, and the fact that our business is based upon the success of our aNK cells as a technology platform;
- our aNK platform and other product candidate families, including genetically modified haNK, taNK, t-haNK, MSC and ceNK product candidates, will require significant additional clinical testing;
- even if we successfully develop and commercialize our haNK and t-haNK product candidates, we may not be successful in developing and commercializing our other product candidates either alone or in combination with other therapeutic agents;
- the ability to obtain and maintain regulatory approval of any of our product candidates, and any related restrictions, limitations and/or warnings in the label of any approved product candidate;
- our ability to commercialize any approved products;
- the rate and degree of market acceptance of any approved products;
- our ability to attract and retain key personnel;
- the accuracy of our estimates regarding our future revenue, as well as our future operating expenses, capital requirements and needs for additional financing;
- our ability to obtain funding for our operations, including funding necessary to complete further development and any commercialization of our product candidates;
- our ability to obtain, maintain, protect and enforce intellectual property protection for our product candidates and technology and not infringe upon, misappropriate or otherwise violate the intellectual property of others;
- the terms and conditions of licenses granted to us and our ability to license additional intellectual property relating to our product candidates and technology;
- the impact to us, if any, if the contingent value rights, or CVRs, held by former Altor stockholders become due and payable in accordance with their terms; and
- regulatory developments in the United States, or U.S., and foreign countries.

Forward-looking statements include statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would," or similar expressions and the negatives of those terms. In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Current Report on Form 8-K/A, and although we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted a thorough inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in "Risk Factors" filed as Exhibit 99.3 to our Form 8-K previously filed with the Securities and Exchange Commission, or SEC, on March 10, 2021. Given these uncertainties, you should not place undue reliance on these forward-looking statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Current Report on Form 8-K/A.

Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. You should read this Current Report on Form 8-K/A completely and with the understanding that our actual future results may be materially different from what we expect.

This Report on Form 8-K/A contains references to our trademarks and to trademarks belonging to other entities. Solely for convenience, trademarks and trade names referred to in this Report on Form 8-K/A, including logos, artwork and other visual displays, may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

In this Current Report on Form 8-K/A, "ImmunityBio," "the company," "we," "us" and "our" refer to ImmunityBio, Inc. and its subsidiaries.

Overview

We established ImmunityBio to advance the next-generation of immunotherapies and to address unmet needs within oncology and infectious disease. Our platform is designed to overcome limitations of the current standards of T cell-based immunotherapies, including checkpoint inhibitors and CAR-T cells and is based on our four key modalities: (1) activating NK and T cells using antibody cytokine fusion proteins, (2) activating tumoricidal macrophages using low-dose synthetic immunomodulators, (3) generating memory T cells using vaccine candidates developed with our second-generation adenovirus, or hAd5, technology, and (4) off-the-shelf natural killer cells from the NK-92 cell line and memory-like cytokine-enhanced natural killer cells (m-ceNK) from allogenic and autologous donors.

We own a broad, clinical-stage immunotherapy pipeline, including an antibody cytokine fusion protein (an IL-15 superagonist (N-803) known as Anktiva), an albumin-associated anthracycline synthetic immunomodulator (aldoxorubicin), second-generation adenovirus (hAd5) and yeast vaccine technologies (targeting tumor-associated antigens and neoepitopes), off-the-shelf genetically engineered natural killer cell lines inducing cancer and virally infected cell death through a variety of concurrent mechanisms including innate killing, antibody-mediated killing, and CAR-directed killing, macrophage polarizing peptides, and bi-specific fusion proteins targeting CD20, PD-L1, TGF-ß and IL-12. Our immunotherapy clinical pipeline consists of over 40 clinical trials in Phase 1, 2, or 3 development across 19 indications in solid and liquid cancers and infectious diseases. We have an expansive clinical-stage pipeline and intellectual property portfolio with 17 first-in-human assets in 25 Phase II to III clinical trials.

In December 2019, the U.S. Food and Drug Administration, or FDA granted Breakthrough Therapy designation to Anktiva for bacillus Calmette-Guérin, or BCG, unresponsive carcinoma in situ non-muscle invasive bladder cancer. Other indications currently with registration-potential studies include BCG unresponsive papillary bladder cancer, first- and second-line lung cancer, and metastatic pancreatic cancer.

The Merger

On December 21, 2020, we and NantCell, Inc. (formerly known as ImmunityBio, Inc.) ("NantCell") entered into an Agreement and Plan of Merger (the Merger Agreement), pursuant to which we and NantCell agreed to combine our businesses. The Merger Agreement provided that a wholly-owned subsidiary of the company will merge with and into NantCell (the Merger), with NantCell surviving the Merger as a wholly-owned subsidiary of the company.

On March 9, 2021, we completed the Merger pursuant to the terms of the Merger Agreement. Under the terms of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of NantCell common stock, par value $0.001 per share, issued and outstanding immediately prior to the Effective Time, subject to certain exceptions as set forth in the Merger Agreement, was converted automatically into a right to receive 0.8190 (the "Exchange Ratio") newly issued shares of common stock, par value $0.0001 per share, of the company ("Company Common Stock"), with cash paid in lieu of any fractional shares. At the Effective Time, each share of the company's common stock issued and outstanding immediately prior to the Effective Time, remains an issued and outstanding share of the combined company. At the Effective Time, each outstanding option, warrant or restricted stock unit to purchase NantCell common stock was converted using the Exchange Ratio into an option, warrant or restricted stock unit, respectively, on the same terms and conditions immediately prior to the Effective Time, to purchase shares of the company's Common Stock.

Immediately following the Effective Time, the former stockholders of NantCell held approximately 72% of the outstanding shares of Company Common Stock and the stockholders of the company as of immediately prior to the Merger held approximately 28% of the outstanding shares of Company Common Stock. As a result of the Merger and immediately following the Effective Time, Dr. Patrick Soon-Shiong, our Executive Chairman, and his affiliates beneficially own, in the aggregate, approximately 82% of the outstanding shares of Company Common Stock.

Accounting Treatment of the Merger

The Merger represents a business combination pursuant to Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 805-50, *Mergers*, which is accounted for as a transaction between entities under common control as Dr. Patrick Soon-Shiong and his affiliates are the controlling stockholders of each of the company and NantCell. All the assets and liabilities of NantCell were combined with ours at their historical carrying amounts on the closing date of the Merger. We have recast our prior period financial statements to reflect the conveyance of NantCell's common shares as if the Merger had occurred as of the earliest date of the combined consolidated financial statements presented elsewhere in this Current Report on Form 8-K/A. All material intercompany accounts and transactions have been eliminated in consolidation.

Coronavirus Pandemic

In March 2020, the World Health Organization declared the novel strain of coronavirus disease (SARS-CoV-2) a pandemic. In the same month, the President of the United States declared a State of National Emergency due to the pandemic. Many jurisdictions, particularly in North America, Europe and Asia, as well as U.S. states in which we operate, including California, have adopted or continue to consider laws, rules, regulations or decrees intended to address the pandemic, including travel restrictions, closing or re-opening of non-essential businesses or restricting daily activities. However, due to the pandemic new restrictions might be imposed by various governmental authorities. For example, many communities have limited, and may continue to limit, social mobility and gatherings in response to a rise in coronavirus cases and fatalities in the U.S. Such restrictions and other impacts from the pandemic may continue to have an impact on our business.

Given the unprecedented and continuously evolving nature of the pandemic, the future impact of these changes and potential changes on the company are unknown at this time. To date, we have seen no material adverse impact to our business from the pandemic. We anticipate, however, that enrollment of patients in certain studies will likely take longer than forecasted in prior SEC filings and that our clinical trials may require additional time to complete which would in turn impact the timeline in which we were previously forecasting BLA submissions of our product candidates and subsequent revenue generation. These factors have been accounted for in the company's anticipated upcoming milestones. During any such delays in our clinical trials, we will continue to incur fixed costs such as selling, general and administrative expenses and operating expenses related to our laboratory, GMP manufacturing, and office facilities.

Our office-based employees have been working from home since mid-March 2020, while ensuring essential staffing levels for our research and development operations remain in place, including maintaining key personnel in our laboratory and GMP manufacturing facilities. While we have not previously experienced or been notified of any anticipated impact amongst our third party vendors, it is likely that the pandemic and resulting mitigation efforts could have an impact in the future on our third-party suppliers who manufacture laboratory supplies required for our in-house manufacturing process, which in turn could have an impact on having sufficient clinical product supply available for our clinical trials. We have addressed this in part by ensuring that we have sufficient supplies on hand to weather interruptions in our supply chain.

There is significant uncertainty about the progression and ultimate impact of the pandemic on our business and operations. While the pandemic did not materially impact our results during the year ended December 31, 2020, we anticipate that it could impact our business in the short-term due to factors such as fewer patients accessing treatment for cancer.

Operating Results

To date, we have generated minimal revenue related to grant agreements, product sales and license agreements. We have no clinical products approved for commercial sale and have not generated any revenue from therapeutic and vaccine product candidates that are under development. We have incurred net losses in each year since our inception and, as of December 31, 2020, we had an accumulated deficit of $1.6 billion. Our net losses attributable to ImmunityBio common stockholders were $221.9 million and $157.8 million for the years ended December 31, 2020 and 2019, respectively. Substantially all of our net losses resulted principally from costs incurred in connection with our ongoing clinical trials and operations, our research and development programs, and from selling, general and administrative costs associated with our operations including stock-based compensation expense.

As of December 31, 2020, we had 449 employees of which 278 relate to NantCell and its consolidated subsidiaries. Personnel of related companies who provide corporate, general and administrative, manufacturing strategy, research and development, regulatory and clinical trial strategy and other support services under our shared services agreement with NantWorks are not included in this number. For additional information, see Note 9, *Related Party Agreements*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A. We expect to continue to incur significant expenses and increasing operating losses for the foreseeable future, which may fluctuate significantly from quarter-to-quarter and year-to-year. We anticipate that our expenses will increase substantially as we:

- continue research and development, including preclinical and clinical development of our existing product candidates;
- potentially seek regulatory approval for our product candidates;
- seek to discover and develop additional product candidates;
- establish a commercialization infrastructure and scale up our manufacturing and distribution capabilities to commercialize any of our product candidates for which we may obtain regulatory approval;
- seek to comply with regulatory standards and laws;
- maintain, leverage and expand our intellectual property portfolio;
- hire clinical, manufacturing, scientific and other personnel to support our product candidates' development and future commercialization efforts;
- add operational, financial and management information systems and personnel;
- incur additional legal, accounting and other expenses in operating as a public company; and
- incur additional costs associated with our Merger.

We do not expect to generate any revenue from vaccine and therapeutic product sales unless and until we successfully complete development and obtain marketing approval for one or more of our product candidates, which we do not expect to happen for at least the next several years, if ever. Until such time that we can generate substantial revenue from vaccine and therapeutic product sales, if ever, we expect to finance our operating activities through a combination of equity offerings, debt financings, government or other third-party funding, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all, which would have a negative impact on our financial condition and could force us to delay, limit, reduce or terminate our research and development programs or commercialization efforts. Failure to receive additional funding could cause us to cease operations, in part or in full.

Non-marketable Equity Investment

In March 2017, we participated in a Series B convertible preferred stock financing and invested $8.5 million in Viracta Therapeutics, Inc., or Viracta, a clinical stage drug development company, which was initially recorded at cost. In May 2017, we executed an exclusive worldwide license with Viracta to develop and commercialize Viracta's proprietary histone deacetylase inhibitor drug candidate for use in combination with NK cell therapy and possibly additional therapies.

We measure our equity securities without readily determinable fair values at cost, less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer, with such changes recognized in the combined consolidated statements of operations. Some factors we may consider in the impairment analysis include the extent to which the security has been in an unrealized loss position, the change in the financial condition and near-term prospects of the issuer, as well as security and industry specific economic conditions. At December 31, 2020, our fair value assessment indicated that the recent offering of Viracta's Series E preferred shares, at a lower offering price per share than the per share carrying amount of our investment in Viracta, is a directional indicator representing an observable price change in an orderly transaction for a similar investment. On December 31, 2020, we reduced the carrying value by $1.4 million due to the observable price change, which was included in *interest and investment income, net*, on the combined consolidated statements of operations. On a cumulative basis, we have recognized a reduction in carrying value of $1.4 million. As of December 31, 2020, the carrying value of our investment in Viracta totaled $7.8 million.

For additional information, see Note 4, *Non-marketable Equity Investment*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A.

Collaboration Agreements

We anticipate that strategic collaborations will become an integral part of our operations, providing opportunities to leverage our partners' expertise and capabilities to further expand the potential of our technologies and product candidates. We believe we are well positioned to become a leader in immunotherapy due to our broad and vertically integrated platform and through complementary strategic partnerships. We may also enter into supply arrangements for various investigational agents to be used in our clinical trials. See Note 7, *Collaboration and License Agreements*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A for a more detailed discussion regarding our existing collaboration and license agreements.

Agreements with Related Parties

We conduct business with several affiliates under written agreements and informal arrangements. Our Executive Chairman, and principal stockholder, founded and has a controlling interest in NantWorks, which is a collection of multiple companies in the healthcare and technology space. As described below, we have entered into arrangements with NantWorks, and certain affiliates of NantWorks, to facilitate the development of new immunotherapies for our product pipeline. Affiliates of NantWorks are also affiliates of the company due to the common control by and/or common ownership interest of our Executive Chairman.

NantWorks

Under the NantWorks shared services agreement executed in November 2015, but effective August 2015, NantWorks provides corporate, general and administrative, manufacturing strategy, research and development, regulatory and clinical trial strategy, and other support services. We are charged for the services at cost plus reasonable allocations of employee benefits, facilities and other direct or fairly allocated indirect costs that relate to the employees providing the services. During the years ended December 31, 2020 and 2019, we recorded $6.6 million and $7.9 million, respectively, in *selling, general and administrative expense*, and $9.9 million and $3.6 million, respectively, in *research and development expense* under this arrangement on the combined consolidated statements of operations. These amounts exclude certain general and administrative expenses provided by third-party vendors directly for our benefit, which have been reimbursed to NantWorks based on those vendors' invoiced amounts without markup by NantWorks.

In addition, under the existing shared services agreement with NantWorks, we can provide support services to NantWorks and/or any of its affiliates. For the years ended December 31, 2020 and 2019, we recorded expense reimbursements of $0.7 million and $1.1 million, respectively, in *selling, general and administrative expense* and $11.9 million and $5.1 million, respectively, in *research and development expense*, on the combined consolidated statements of operations.

In November 2015, we entered into a facility license agreement with NantWorks, which became effective in May 2015, for approximately 9,500 square feet in Culver City, California, which has been converted to a research and development laboratory and a cGMP manufacturing facility. In September 2020, we amended this agreement to extend the term of this lease through December 31, 2021, as further discussed in Note 8, *Commitments and Contingencies*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A. Lease expense for this facility totaling $0.6 million for the years ended December 31, 2020 and 2019, respectively, was recorded in *research and development expense* on the combined consolidated statements of operations.

Immuno-Oncology Clinic, Inc.

Beginning in 2017, we entered into multiple agreements with Immuno-Oncology Clinic, Inc., or the Clinic (dba Chan Soon-Shiong Institutes for Medicine, in El Segundo, California), to conduct clinical trials related to certain of our product candidates. The Clinic is a related party as it is owned by one officer of the company and NantWorks manages the administrative operations of the Clinic. Prior to June 30, 2019, one of our officers was an investigator or sub-investigator for all of our trials conducted at the Clinic.

In July 2019, we entered into a new agreement with the Clinic (the Clinic Agreement), which became effective on July 1, 2019. The Clinic Agreement, as amended on March 31, 2020, covers clinical trial and research-related activities on a non-exclusive basis relating to our existing clinical trials, commenced prior to July 1, 2019, and prospective clinical trials and research projects. The Clinic Agreement also specifies certain services and related costs that are excluded from the Clinic Agreement. Prior to commencing any work under the Clinic Agreement, the parties have agreed to execute written work orders setting forth the terms and conditions related to specific services to be performed, including financial terms. For clinical trials that commenced prior to July 1, 2019, fees incurred for services performed after July 1, 2019 are covered under the Clinic Agreement and applied towards the below-mentioned prepayments. The Clinic Agreement allows for automatic renewal and additional extensions beyond the initial one-year term.

In consideration of the services to be performed under the Clinic Agreement, as amended on March 31, 2020, we agreed to make payments of up to $7.5 million to the Clinic, of which $3.75 million and $1.88 million were paid in July 2019 and October 2019, respectively. As amended, a conditional payment of $1.88 million shall be due and payable at such time, if any, that the payments made in July 2019 and October 2019 have been earned by the Clinic through the performance of services. On a quarterly basis, our prepayment is increased by an interest credit computed in accordance with terms specified in the Clinic Agreement.

To the extent any portion of the prepayments remain unearned by the Clinic on the third anniversary of the Clinic Agreement, we may elect at our sole discretion either to (i) not extend the term of the Clinic Agreement and have the Clinic reimburse us for the total amount of any remaining unused portion of the prepayments, or (ii) extend the term of the Clinic Agreement for up to three additional one year periods, at which time the Clinic will reimburse us for the total amount of any remaining unused portion of the prepayments plus interest if reimbursement is not made within 60 days of expiration. The Clinic may terminate this agreement upon each anniversary date upon sixty (60) days prior written notice and reimbursement in full to us of any outstanding unearned balance of the prepayments, provided that any such termination by the Clinic will not apply with respect to any work orders still in effect at the time of such termination.

In July 2019, we executed a clinical trial work order under the Clinic Agreement for an open-label, phase I study of PD-L1.t-haNK for infusion in subjects with locally advanced or metastatic solid cancers. In July 2020, but effective on June 22, 2020, we executed a clinical trial work order under our existing master agreement with the Clinic for an open-label, randomized, comparative phase II study of our proprietary IL-15 superagonist (N-803) and Aldoxorubicin Hydrochloride (Aldoxorubicin) and our PD-L1.t-haNK with standard-of-care chemotherapy versus standard-of-care chemotherapy for first and second-line treatment of locally or advanced metastatic pancreatic cancer.

During the years ended December 31, 2020 and 2019, $0.6 million and $1.1 million, respectively, was recognized in *research and development expense* on the combined consolidated statements of operations related to clinical trial and research-related activities conducted for us by the Clinic.

NantBio, Inc.

In August 2018, NantBio assigned an agreement to us for the use of a third-party research facility, which provides us with the exclusive right to use and access to a portion of the third party's laboratory and vivarium premises. NantBio is a related party as it is an affiliate of NantWorks. In conjunction with the assignment, we reimbursed NantBio for upfront payments which it had made to the third-party of $0.9 million and paid $0.5 million directly to the third-party for an aggregate value of $1.4 million. The assigned agreement is for a term of ten years and expires in June 2027. The agreement may be terminated by us at any time, with or without cause. In case of termination of the agreement, the third-party will reimburse us for a pro-rata amount based upon the passage of time.

In March 2016, NantBio and the National Cancer Institute, or the NCI, entered into a cooperative research and development agreement. The initial five-year agreement covers NantBio and its affiliates, including us. Under the agreement, the parties are collaborating on the preclinical and clinical development of proprietary recombinant natural killer cells and monoclonal antibodies in monotherapy and combination immunotherapies. We benefited from the preclinical and clinical research conducted during the first four years under this agreement. In each of the contractual years under the agreement, we paid $0.6 million to the NCI as a prepayment for services under the agreement. We recognize research and development expense related to this agreement ratably over a 12-month period for each funding year and recorded $0.6 million of expense related to this agreement in each of the years ended December 31, 2020 and 2019.

On February 16, 2016, we, via our subsidiary Etubics, entered into an exclusive license agreement with NantBio. Under this agreement, Etubics granted NantBio a worldwide, exclusive rights to research and develop Etubics' proprietary product ETBX-021 for all indications. Etubics is eligible to receive a single-digit royalty for sales on the licensed products on a country-by-country basis. As of December 31, 2020 and 2019, no costs were incurred in regard to the research and development costs allocation.

In August 2018, we entered into a supply agreement with NantCancerStemCell, LLC, or NCSC, a 60% owned subsidiary of NantBio (with the other 40% owned by Sorrento). Under this agreement, we agreed to supply VivaBioCell's proprietary GMP-in-a-Box bioreactors and related consumables, made according to specifications mutually agreed to with both companies. The agreement has an initial term of five years and renews automatically for successive one-year terms unless terminated by either party in the event of material default upon prior written notice of such default and the failure of the defaulting party to remedy the default within 30 days of the delivery of such notice, or upon 90 days' prior written notice by NCSC. We recognized $0 and $0.5 million of revenue for gas mixers and consumables delivered during the years ended December 31, 2020 and 2019, respectively. We also recorded $0.4 million and $0.3 million of deferred revenue for bioreactors that were delivered but not installed as of December 31, 2020 and 2019, respectively.

In 2018, we entered into a shared service agreement, pursuant to which, we are charged for services at cost, without mark-up or profit for NantBio, but including reasonable allocations of employee benefits that relate to the employees providing the services. In April 2019, we agreed with NantBio to transfer 67 NantBio employees and associated research and development projects, comprising the majority of NantBio's business, to the company. After the transfer, NantBio continued to make payments on our behalf for certain employee benefits and vendor costs related to the research and development projects that were transferred to the company. In addition, we settled certain employee bonuses and benefits that were accrued by NantBio for 2018.

NantOmics

In June 2019, we made a strategic decision and transferred certain employees from NantOmics, LLC, or NantOmics, a related party that is controlled by our Executive Chairman, to the company.

605 Doug St, LLC

In September 2016, we entered into a lease agreement with 605 Doug St, LLC, an entity owned by our Executive Chairman, and principal stockholder, for approximately 24,250 square feet in El Segundo, California, which has been converted to a research and development laboratory and a cGMP manufacturing facility. The lease runs from July 2016 through July 2023. We have the option to extend the lease for an additional three-year term through July 2026. The monthly rent is $0.1 million with annual increases of 3% beginning in July 2017. Lease expense for this facility for the years ended December 31, 2020 and 2019, is recorded in *research and development expense* on the combined consolidated statements of operations and was $0.9 million and $0.9 million, respectively.

Duley Road, LLC

In February 2017, Altor through its wholly-owned subsidiary, entered into a lease agreement with Duley Road, LLC, or Duley Road, a related party that is indirectly controlled by our Executive Chairman, for an office and cGMP manufacturing facility in El Segundo, California. For the years ended December 31, 2020 and 2019, we recorded rent expense of $0.7 million and $0.1 million, respectively, which is reflected in *research and development expense* on the combined consolidated statements of operations. See Note 8, *Commitments and Contingencies*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A, for additional information.

Effective in January 2019, we entered into two lease agreements with Duley Road for a second building located in El Segundo, California. The first lease is for the first floor of the building with approximately 5,650 square feet. The lease has a 7-year term commencing in September 2019. The second lease is for the second floor of the building with approximately 6,488 square feet. The lease has a seven-year term commencing in July 2019. Both floors of the building are used for research and development and office space. We have options to extend the initial terms of both leases for two consecutive five-year periods through 2036. The annual rent of the two leases is $0.4 million, which will increase at a rate of 3% per year. For the years ended December 31, 2020 and 2019, we recorded $0.3 million and $0.1 million of rent expense for the two leases, respectively, which is included in the *research and development* expense on the combined consolidated statements of operations.

NantHealth Labs, Inc.

In March 2018, we entered into an agreement with NantHealth Labs, Inc., or NantHealth Labs, to obtain blood-based tumor profiling services. NantHealth Labs is a related party, as it is a wholly-owned subsidiary of NantHealth, Inc., a majority-owned subsidiary of NantWorks. We are obligated to pay NantHealth Labs fixed, per-patient fees. The agreement has an initial term of five years and renews automatically for successive one-year periods, unless terminated earlier. During the year ended December 31, 2019, $10,000 was recognized in *research and development expense* on the combined consolidated statements of operations. There were no expenses associated with this agreement during the year ended December 31, 2020.

In June 2018, one of our subsidiaries, Altor, entered into a service agreement with NantHealth Labs, pursuant to which, NantHealth Labs agreed to perform blood-based mutation detection test services in connection with Altor's clinical trials for cancer treatments and therapies. The agreement had an initial term of two years and renews automatically for successive one-year periods unless terminated earlier. During the year ended December 31, 2020 and 2019, Altor incurred $0 and $0.3 million in research and development expense in connection to this service agreement.

Related Party Notes Payable

We have outstanding promissory notes with certain entities affiliated with Dr. Patrick Soon-Shiong in an aggregate principal amount of $254.4 million, including accrued interest, as of December 31, 2020. The notes bear interest at a per annum rate ranging from 3.0% to 6.0%, with accrued and unpaid interest compounded annually and computed on the basis of 365 or 366 days. As of December 31, 2020, the notes provide that all outstanding principal is due and payable on September 30, 2025, and accrued and unpaid interest is payable either on the maturity date or, with respect to one of the notes, on a quarterly basis. We may prepay the outstanding amount of any advance under such notes, together with accrued and unpaid interest at any time, either in whole or in part, without premium or penalty. An "Event of Default" would occur under such notes: (a) upon the initiation by us of any voluntary case under any bankruptcy, insolvency or other similar law; (b) if an involuntary case under any bankruptcy, insolvency or other similar law is commenced against us with respect to us or our debt and such involuntary case remains undismissed or unstayed for a period of 90 days; or (c) upon a general assignment of assets by us for the benefit of creditors. Upon the occurrence of any Event of Default, all amounts outstanding thereunder in respect of the principal amount of any advance under such notes and all unpaid interest having accrued thereon, will be accelerated and become immediately due and payable.

See Note 9, *Related Party Agreements*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A, for additional information.

Components of our Results of Operations

Revenue

To date, we have generated minimal revenue related to grant agreements, product sales and license agreements. We have no clinical products approved for commercial sale and have not generated any revenue from therapeutic and vaccine product candidates that are under development. If we fail to complete the development of our product candidates in a timely manner or fail to obtain regulatory approval for them, we may never be able to generate substantial future revenue.

Grant Agreements. Grant revenue is generated from grant programs with governmental agencies and others for research and development services. We typically recognize revenue when expenses reimbursable under the grant programs have been incurred and payments under the grants become contractually due.

Product Sales. We sell our proprietary GMP-in-a-Box bioreactors and related consumables to our affiliated companies and anticipate selling them to third parties in the near future. These arrangements typically include delivery of bioreactors, related consumables, installation services and perpetual software licenses. We recognize revenue when customers obtain control and can benefit from the promised goods or services in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. Upfront payments and fees are recorded as deferred revenue upon receipt and recognized as revenue when we satisfy our performance obligations under these arrangements.

License Agreements. We generate revenue from non-exclusive license agreements with several pharmaceutical and biotechnology companies granting them the right to use our cell lines and intellectual property for non-clinical use. These agreements generally include upfront fees and annual research license fees for such use, as well as commercial license fees for sales of our licensee's products developed or manufactured using our intellectual property and cell lines. Our license agreements may also include milestone payments, although to date, we have not generated any revenue from milestone payments.

Operating Expenses

We generally classify our operating expenses into research and development and selling, general and administrative expenses. Personnel costs, including salaries, benefits, bonuses, and stock-based compensation expense comprise a significant component of our research and development and selling, general and administrative expense categories. We allocate expenses associated with our facilities and information technology costs between these two categories based on the nature of each cost.

Research and Development

Research and development expense consists of expenses incurred while performing research and development activities to discover and develop our technology and product candidates. This includes conducting preclinical studies and clinical trials, manufacturing development efforts and activities related to regulatory filings for product candidates. We recognize research and development expenses as they are incurred. Our research and development expense primarily consists of:

- clinical trial and regulatory-related costs;
- expenses incurred under agreements with investigative sites and consultants that conduct our clinical trials;
- expenses incurred under collaborative agreements;
- manufacturing and testing costs and related supplies and materials;
- employee-related expenses, including salaries, benefits, travel and stock-based compensation; and
- facility expenses dedicated to research and development.

We typically use our employee, consultant and infrastructure resources across our development programs. We track outsourced development costs by product candidate or development program, but we do not allocate personnel costs, other internal costs or external consultant costs to specific product candidates or development programs.

Substantially all of our research and development expenses to date have been incurred in connection with our product candidates. We expect our research and development expenses to continue to increase significantly for the foreseeable future as we advance our product candidates through clinical development, including the conduct of our ongoing and any future clinical trials as well as product candidates pursued as part of our collaboration efforts. The process of conducting clinical trials necessary to obtain regulatory approval is costly and time consuming. The successful development of product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs required to complete the remaining development of any product candidates. This is due to the numerous risks and uncertainties associated with the development of product candidates.

The costs of clinical trials may vary significantly over the life of a project owing to, but not limited to, the following:

- per patient trial costs;
- the number of sites included in the clinical trials;
- the countries in which the clinical trials are conducted;
- the length of time required to enroll eligible patients;
- the number of patients that participate in the clinical trials;
- the number of doses that patients receive;
- the cost of comparative agents used in clinical trials;
- the drop-out or discontinuation rates of patients;
- potential additional safety monitoring or other studies requested by regulatory agencies;
- the duration of patient follow-up; and
- the efficacy and safety profile of the product candidate.

We do not expect any of our product candidates to be commercially available for at least the next several years, if ever.

Selling, General and Administrative

Selling, general and administrative expense consists primarily of salaries and personnel-related costs, including employee benefits and any stock-based compensation, for employees performing functions other than research and development. This includes personnel in executive, finance, human resources, information technology, legal, and administrative support functions. Other selling, general and administrative expenses include facility-related costs not otherwise allocated to research and development expense, professional fees for auditing, tax and legal services, advertising costs, expenses associated with strategic business transactions and business development efforts, obtaining and maintaining patents, consulting costs, royalties and licensing costs, and costs of our information systems.

We expect that our selling, general and administrative expenses will increase for the foreseeable future as we expand operations, and increase our headcount to support continued research activities and development of our programs. We have incurred and expect that we will continue to incur in the future, additional costs associated with operating as a public company, including costs to comply with stock exchange listing and SEC requirements, future funding efforts, corporate governance, internal controls, investor relations, disclosure and similar requirements applicable to public companies. Additionally, if and when we believe that a regulatory approval of a product candidate appears likely, we expect to incur significant increases in our selling, general and administrative expenses relating to the sales and marketing of the approved product candidate.

Other Income and Expense

Other income and expense consists primarily of interest income, interest expense, unrealized gains and losses on investments in equity securities, realized gains and losses on both debt and equity securities, and gains and losses on foreign currency transactions.

Income Taxes

Income taxes consists of U.S. federal and state income taxes and foreign income taxes associated with our subsidiaries. To date, we have not been required to pay U.S. federal income taxes or foreign income taxes because of our or our subsidiaries' current and accumulated net operating losses.

Results of Operations

Comparison of the years ended December 31, 2020 and 2019 (in thousands):

	Year Ended December 31,			
	2020	2019	$ Change	% Change
Revenue	$ 605	$ 2,202	$ (1,597)	(73%)
Operating expenses:				
Research and development (including amounts with related parties)	139,507	111,997	27,510	25%
Selling, general and administrative (including amounts with related parties)	71,318	46,456	24,862	54%
Impairment of intangible assets	10,660	—	10,660	N/A
Total operating expenses	221,485	158,453	63,032	40%
Loss from operations	(220,880)	(156,251)	(64,629)	41%
Other income (expense):				
Interest and investment income, net	2,435	2,442	(7)	(0%)
Interest expense	(9,074)	(5,920)	(3,154)	53%
Other income (expense), net (including amounts with related parties)	1,486	(534)	2,020	(378%)
Total other expense	(5,153)	(4,012)	(1,141)	28%
Loss before income taxes	(226,033)	(160,263)	(65,770)	41%
Income tax benefit	1,846	105	1,741	1,658%
Net loss	$(224,187)	$(160,158)	$(64,029)	40%

Revenue

Revenue decreased $1.6 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019. This decrease was primarily related to a $1.1 million decrease in grant revenue from governmental agencies as the related multi-year projects were completed during the year ended December 31, 2020. The remaining decrease of $0.5 million was driven primarily by lower sales of equipment and consumables to related parties.

Research and Development

Research and development expense increased $27.5 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019. The increase in research and development expense was primarily driven by additional expenditures associated with our COVID-19 vaccine and therapeutics programs, which we initiated during 2020 in response to the coronavirus pandemic. Overall, we experienced a $10.4 million increase related to higher manufacturing costs driven mainly by our COVID-19 programs, including lease expense, depreciation expense, property tax, insurance, equipment maintenance costs, and equipment qualification and certification costs. We also acquired $8.2 million of equipment to be utilized in the manufacture of the hAd5 vaccine candidate which was included in research and development expense. We expensed this equipment because we concluded that it does not have an alternative future use. Compensation and related expenses increased by $6.4 million mainly due to additional headcount needed to support our business activities. Laboratory and supplies expense increased by $3.8 million, mainly driven by our COVID-19 programs. We also incurred higher third party research costs of $3.8 million, in support of our expanded clinical and pre-clinical product pipeline, and higher clinical trial costs of $0.3 million. These increases in research and development expenses were partially offset by decreases of $1.5 million for fair value adjustments related to Receptome and VivaBioCell, S.p.A. contingent consideration obligations, as described further in the "*Notes to Combined Consolidated Financial Statements*" included in Exhibit 99.2 to this Current Report on Form 8-K/A, $1.4 million for shared services driven mainly by bringing personnel in-house, $1.0 million for stock-based compensation due mostly to completion of vesting of certain awards during 2019, $0.9 million for impairment of laboratory equipment during 2019, and a decrease of $0.6 million in amortization expense due to the underlying asset being fully amortized as of March 2019.

We expect our research and development expense to increase significantly for the foreseeable future as we advance our product candidates through clinical development and conduct our ongoing and planned clinical trials.

Selling, General and Administrative

Selling, general and administrative expense increased $24.9 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019. The increase in selling, general and administrative expense was primarily attributable to higher financial advisory, legal and other professional fees of $20.9 million driven primarily by $10.1 million related to strategic initiatives, including our merger, which was announced in December 2020 and closed in March 2021, as well as by higher costs associated with litigation, contracting, trademark, and patent related legal fees and other matters. Selling, general and administrative expense also increased by $2.9 million due to higher insurance expense, which was driven by increases in directors' and officers' insurance rates. Compensation and related expenses increased by $2.1 million mainly due additional headcount needed to support our business activities. In addition, we incurred an increase of $0.8 million due to higher software license fees, and higher corporate relations costs of $0.2 million driven by an increase in corporate communications. These increases in selling, general and administrative expense were offset in part by decreases in travel and tradeshow related expenses of $0.8 million and $0.4 million, respectively, due mainly to a decline in activity as a result of the ongoing COVID-19 pandemic, and other decreases in selling, general and administrative expenses of $0.8 million.

Impairment of Intangible Assets

During the year ended December 31, 2020, NantCell discontinued the LMP1 and LMP/IPS programs efforts based on the preclinical data gathered during the third quarter of 2020. As a result, the carrying value of the indefinite-lived intangible assets, which consist of acquired in-process research and development, relating to the LMP1 and LMP/IPS programs was written down to zero resulting in an impairment charge of $10.7 million.

Other Income and Expense

Other expense increased by $1.1 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019. This increase was primarily attributable to higher interest expense of $3.2 million due mainly to additional related party borrowings, which were in part offset by an increase in other income of $2.0 million mainly driven by other income in 2020 related to Receptome, whereas 2019 mainly included losses related to sales of laboratory equipment and other assets.

Income Taxes

Our income tax benefit increased by $1.7 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019. This increase was primarily attributable to income tax benefits resulting from the impairment of intangible assets discussed above.

Liquidity and Capital Resources

Sources of Liquidity

Our principal sources of liquidity are our existing cash, cash equivalents, and marketable securities. We have historically invested our cash primarily in investment grade short- to intermediate-term corporate debt securities, commercial paper, government sponsored securities, U.S. treasury securities, and foreign government bonds and classify these investments as available-for-sale. Certain of these investments are subject to general credit, liquidity and other market risks. The general condition of the financial markets and the economy may increase those risks and may affect the value and liquidity of investments and restrict our ability to access the capital markets.

On June 29, 2020, the company closed an underwritten public offering of an aggregate of 8,521,500 shares of common stock, which included 4,811,500 shares issued to the public at a price of $9.50 per share (which included 1,111,500 shares sold to the public upon full exercise of the underwriters' option to purchase additional shares at a public offering price of $9.50 per share), less underwriting discounts and commissions, and 3,710,000 shares issued to our Executive Chairman and principal stockholder, Dr. Patrick Soon-Shiong, at a price of $12.12 per share, less underwriting discounts and commissions. All of the shares were offered by the company. Including the underwriters' option exercise, the aggregate gross proceeds from the offering were $90.7 million, before deducting underwriting discounts, commissions and other offering expenses of $4.4 million.

As of December 31, 2020, we had cash and cash equivalents, and restricted cash of $35.1 million compared to $76.0 million as of December 31, 2019. The decrease was attributable to cash used in operating and investing activities of $171.7 million and $19.8 million, respectively, partially offset by cash flows provided by financing activities of $150.7 million.

Investments in marketable securities were $62.1 million as of December 31, 2020, of which $61.1 million were short-term investments, as compared to $41.7 million as of December 31, 2019, of which $39.5 million were short-term investments.

As of December 31, 2020, we had related party notes payable together with accrued interest thereon of $254.4 million compared to $181.6 million as of December 31, 2019. The increase in related party notes payable included new cash borrowings of $63.7 million and compounded interest of $9.1 million. Such notes bear interest at 3% to 6% per year and may be prepaid by us without penalty. The notes allow for additional advances as we may request with the consent of the applicable lender. All outstanding principle and accrued and unpaid interest on these notes is due and payable on September 30, 2025.

In connection with our acquisition of Altor, we issued CVRs under which we have agreed to pay the prior stockholders of Altor approximately $304.0 million upon successful approval of the BLA or foreign equivalent for Anktiva by December 31, 2022 and approximately $304.4 million upon the first calendar year prior to December 31, 2026 in which worldwide net sales of Anktiva exceed $1.0 billion (with payments payable in cash or shares of our common stock or a combination thereof). Dr. Patrick Soon-Shiong and his related party hold approximately $279.5 million in the aggregate of CVRs and they have both irrevocably agreed to receive shares of common stock in satisfaction of their CVRs. We may need to seek additional sources of capital to satisfy the CVR obligations if they are achieved.

Cash Flows

The following table sets forth our primary sources and uses of cash for the years ended December 31, 2020 and 2019 (in thousands):

	Year Ended December 31,	
	2020	2019
Cash (used in) provided by:		
Operating activities	$(171,724)	$(152,109)
Investing activities	(19,812)	18,552
Financing activities	150,675	114,280
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(25)	(22)
Net decrease in cash, cash equivalents, and restricted cash	$ (40,886)	$ (19,299)

Operating Activities

For the year ended December 31, 2020, our net cash used in operating activities of $171.7 million consisted of a net loss of $224.2 million, partially offset by $36.1 million in adjustments for non-cash items, and $16.4 million of cash provided by net working capital changes. Adjustments for non-cash items primarily consisted of $12.7 million in depreciation and amortization, $10.7 million related to impairment of intangible assets, $8.5 million in non-cash interest related primarily to related party loans, $5.2 million of non-cash lease expense related to operating lease right-of-use assets, $2.2 million in stock compensation expense, $1.4 million of unrealized losses attributable to an observable price change associated with a non-marketable equity investment, $0.8 million in amortization of premiums on marketable debt securities, and $0.4 million related to other non-cash items, reduced by $2.9 million related to changes in deferred tax liabilities, and $2.9 million in unrealized gains on marketable equity securities driven primarily by an increase in the value of our investments in marketable equity securities. The change in net working capital consisted primarily of increases in amounts due for accrued expenses of $12.5 million including an increase in accrued research and development costs and also for accrued professional and consulting fees and accrued compensation, prepaid expenses and other current assets of $4.2 million including changes related to insurance claim receivables and prepaid manufacturing services, due to related parties of $3.4 million, and accounts payable of $2.6 million. These increases in net working capital were partially offset by decreases related to operating lease liabilities of $5.6 million, and other long-term assets of $0.7 million. The $19.6 million increase in cash used in operating activities, as compared to the year ended December 31, 2019, was primarily due to costs incurred in ramp-up of manufacturing, including our COVID-19 vaccine and therapeutic programs, costs associated with our merger with NantCell (which was approved and closed in March 2021), and ongoing clinical trials.

For the year ended December 31, 2019, our net cash used in operating activities of $152.1 million consisted of a net loss of $160.2 million, and $15.6 million of cash used by net working capital changes, partially offset by $23.7 million in adjustments for non-cash items. Adjustments for non-cash items primarily consisted of $14.0 million in depreciation and amortization, $4.1 million of non-cash lease expense related to operating lease right-of-use assets, $3.4 million in stock compensation expense, $1.6 million of impairment related to laboratory equipment, $0.3 million in unrealized losses on marketable equity securities, and $0.9 million in other non-cash items, partially offset by $0.7 million in non-cash interest. The decrease in net working capital consisted primarily of decreases related to accrued expenses of $11.8 million, other long-term assets of $4.0 million, operating lease liabilities of $4.5 million, and due to related parties of $2.4 million, partially offset by an increase related to prepaid expenses and other current assets of $5.8 million, and accounts payable of $1.2 million.

Investing Activities

For the year ended December 31, 2020, net cash used in investing activities was $19.8 million, which included cash outflows of $91.8 million for purchases of marketable securities, and $1.7 million for purchases of property, plant and equipment, partially offset by cash inflows of $65.4 million and $8.3 million from maturities and sales of marketable securities, respectively. Our investments in property, plant and equipment for the year ended December 31, 2020, related primarily to acquisitions of equipment which will be used for the manufacturing of our product candidates.

For the year ended December 31, 2019, net cash provided by investing activities was $18.6 million, which was primarily attributable to cash inflows of $109.7 million and $2.6 million from maturities and sales of marketable securities, respectively, partially offset by cash outflows of $87.2 million for purchases of marketable securities. In addition, we had cash outflows of $4.3 million for purchases of property, plant and equipment, offset in part by cash inflows of $0.2 million from sales of equipment. We also had cash outflows of $2.5 million to facilitate the disposition of an investment in Precision Biologics, as described further in the *"Notes to Combined Consolidated Financial Statements"* included in Exhibit 99.2 in this Current Report on Form 8-K/A. Our investments in property, plant and equipment during the year ended December 31, 2019 mainly related to our manufacturing facilities.

Financing Activities

For the year ended December 31, 2020, net cash provided by financing activities was $150.7 million, which consisted of net proceeds of $86.3 million from the issuance of common stock related to our June 2020 secondary offering, proceeds of $63.7 million from issuances of related party notes related to NantCell, and proceeds of $1.2 million resulting from exercises of stock options. Net cash used in financing activities for the year ended December 31, 2020, consisted of $0.5 million related to net share settlement of vested RSUs for payment of employee payroll taxes.

For the year ended December 31, 2019, net cash provided by financing activities was $114.3 million, which consisted of proceeds of $47.7 million related to issuances of related party notes related to NantCell, $39.2 million from issuances of common stock upon the exercise of warrants and stock options by our Executive Chairman, and $30.0 million from the issuance of common stock through a private placement. These increases were partially offset by cash outflows of $2.5 million used for stock repurchases, including commissions, and $0.1 million related to net share settlement of vested RSUs and option exercises for payment of employee payroll taxes.

Future Funding Requirements

To date, we have generated minimal revenue, and we have no products approved for commercial sale and have not generated any revenue from product sales. We do not expect to generate significant revenue unless and until we obtain regulatory approval of and commercialize any of our product candidates, and we do not know when, or if, this will occur. In addition, we expect our expenses to significantly increase in connection with our ongoing development activities, particularly as we continue the research, development and clinical trials of, and seek regulatory approval for, our product candidates. We have also incurred and expect that we will continue to incur in the future additional costs associated with operating as a public company as well as costs related to future fundraising efforts. In addition, subject to obtaining regulatory approval of our product candidates, we expect to incur significant commercialization expenses for product sales, marketing, manufacturing and distribution. We anticipate that we will need substantial additional funding in connection with our continuing operations. We expect that our expenses will increase substantially if and as we:

- continue research and development, including preclinical and clinical development of our existing product candidates;
- potentially seek regulatory approval for our product candidates;
- seek to discover and develop additional product candidates;
- establish a commercialization infrastructure and scale up our manufacturing and distribution capabilities to commercialize any of our product candidates for which we may obtain regulatory approval;
- seek to comply with regulatory standards and laws;
- maintain, leverage and expand our intellectual property portfolio;
- hire clinical, manufacturing, scientific and other personnel to support our product candidates' development and future commercialization efforts;
- add operational, financial and management information systems and personnel; and
- incur additional legal, accounting and other expenses in operating as a public company.

As a result of continuing anticipated operating cash outflows, we believe that substantial doubt exists regarding our ability to continue as a going concern without additional funding or financial support. However, we believe our existing cash, cash equivalents, and investments in marketable debt securities, and our ability to borrow from affiliated entities, will be sufficient to fund operations through at least the next 12 months following the issuance date of the financial statements based primarily upon our Executive Chairman's intent and ability to support our operations with additional funds, including loans from affiliated entities, as required, which we believe alleviates such doubt. We have based this estimate on assumptions that may prove to be incorrect, and we may use our available capital resources sooner than we currently expect. The successful development of any product candidate is highly uncertain. Due to the numerous risks and uncertainties associated with the development and commercialization of our product candidates, if approved, we are unable to estimate the amounts of increased capital outlays and operating expenses associated with completing the development of our product candidates.

Our future capital requirements will depend on many factors, including:

- progress, timing, scope and costs of our clinical trials, including the ability to timely initiate clinical sites, enroll subjects and manufacture Anktiva and other therapies for the treatment of patients in our ongoing, planned and potential future clinical trials;
- time and cost necessary to obtain regulatory approvals that may be required by regulatory authorities to execute clinical trials;
- our ability to successfully commercialize any product candidates, if approved;
- our ability to have clinical and commercial product successfully manufactured consistent with FDA and European Medicines Agency regulations;
- amount of sales and other revenues from product candidates that we may commercialize, if any, including the selling prices for such potential products and the availability of adequate third-party coverage and reimbursement for patients;
- sales and marketing costs associated with commercializing any product candidates, if approved, including the cost and timing of building our marketing and sales capabilities;
- cost of building, staffing and validating our own manufacturing facilities in the United States;
- terms and timing of our current and any potential future collaborations, contingent value rights ("CVRs"), milestones, royalties, licensing or other arrangements that we have established or may establish;
- cash requirements of any future acquisitions or the development of other product candidates;
- time and cost necessary to respond to technological, regulatory, political and market developments;
- costs of filing, prosecuting, maintaining, defending and enforcing any patent claims and other intellectual property rights; and
- costs associated with any potential business or product acquisitions, strategic collaborations, licensing agreements or other arrangements that we may establish.

Because all of our product candidates are in various stages of preclinical and clinical development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of any of our product candidates or whether, or when, we may achieve profitability. Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and/or licensing arrangements. We do not have any committed external source of funds. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or licensing arrangements with pharmaceutical partners, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates, or grant licenses on terms that may not be favorable to us. Our current license and collaboration agreements may also be terminated if we are unable to meet the payment obligations under those agreements. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market our product candidates that we would otherwise prefer to develop and market ourselves.

Contractual Obligations, Commitments and Contingencies

Contractual Obligations and Commitments

See Note 8, *Commitments and Contingencies, Contractual Obligations – Leases, and* Note 9, *Related Party Agreements*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A.

Contingencies

From time to time, we may be involved in various claims and legal proceedings relating to claims arising out of our operations. We are not currently a party to any legal proceedings that, in the opinion of our management, are likely to have a material adverse effect on our business. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any off-balance sheet arrangements as defined under SEC rules.

Critical Accounting Policies, Significant Judgements and Use of Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our combined consolidated financial statements, which are prepared in accordance with U.S. GAAP. The preparation of combined consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to the valuation of equity-based awards, deferred income taxes and related valuation allowances, preclinical and clinical trial accruals, impairment assessments, the measurement of right-of-use assets and lease liabilities, useful lives of long-lived assets, loss contingencies, fair value measurements, and the assessment of our ability to fund our operations for at least the next twelve months from the date of issuance of these financial statements. We base our estimates on historical experience and on various other market-specific and relevant assumptions that we believe to be reasonable under the circumstances. Estimates are assessed each period and updated to reflect current information, such as the economic considerations related to the impact that the ongoing coronavirus pandemic could have on our significant accounting estimates. Actual results could differ from those estimates.

The following is not intended to be a comprehensive discussion of all of our significant accounting policies. See the notes accompanying our financial statements appearing elsewhere in this Form 8-K/A for a summary of all of our significant accounting policies and other disclosures required by U.S. GAAP.

Cash, Cash Equivalents and Restricted Cash

Cash equivalents include highly liquid investments with an original maturity of three months or less from the date of purchase.

Restricted cash includes a certificate of deposit held as a substitute letter of credit for one of our leased properties. This certificate of deposit is included in *Other assets* on the combined consolidated balance sheets as the landlord is the beneficiary of the account and we are not able to access the funds during the term of the lease.

Marketable Securities

We invest our excess funds in investment grade short- to intermediate-term corporate debt securities, government-sponsored securities, and foreign government bonds and classify these investments as available-for-sale. Marketable debt securities with remaining maturities of 12 months or less are classified as short-term and marketable securities with remaining maturities greater than 12 months are classified as long-term. All marketable debt securities are reported at fair value and any unrealized gains and losses are reported as a component of *accumulated other comprehensive loss* on the combined consolidated statements of stockholders' (deficit) equity, with the exception of unrealized losses believed to be other-than-temporary, which are recorded in *interest and investment income, net*, on the combined consolidated statements of operations. Realized gains and losses from sales of securities and the amounts, net of tax, reclassified out of accumulated other comprehensive loss, if any, are determined on a specific identification basis.

Investments in mutual funds and equity securities, other than equity method investments, are recorded at fair market value, if fair value is readily determinable and any unrealized gains and losses are included in *interest and investment income, net* on the combined consolidated statements of operations. Realized gains and losses from the sale of the securities are determined on a specific identification basis and the amounts are included in *interest and investment income, net*.

We periodically evaluate whether declines in fair values of our investments below their book value are other-than-temporary. This evaluation consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss, as well as our ability and intent to hold the investment until a forecasted recovery occurs. Additionally, we assess whether we have plans to sell the security or whether it is more likely than not we will be required to sell any investment before recovery of its amortized cost basis. Factors considered include quoted market prices, recent financial results and operating trends, implied values from any recent transactions or offers of investee securities, credit quality of debt instrument issuers, other publicly available information that may affect the value of our investments, duration and severity of the decline in value, and our strategy and intentions for holding the investment. There were no other-than-temporary impairments recorded in the years ended December 31, 2020 and 2019.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*, or ASC 805. These standards require that the total cost of acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition, with the excess purchase price recorded as goodwill. The allocation of the purchase price is dependent upon certain valuations and other studies. Acquisition costs are expensed as incurred.

Contingent consideration obligations incurred in connection with a business combination are recorded at their fair values on the acquisition date and re-measured at their fair values each subsequent reporting period until the related contingencies are resolved. The resulting changes in fair values are recorded as *Research and development expenses* on the combined consolidated statements of operations and comprehensive loss. Changes in fair values reflect changes to our assumptions regarding probabilities of successful achievement of related milestones, the timing in which the milestones are expected to be achieved, and the discount rate used to estimate the fair value of the obligation.

Intangible Assets

Intangible assets acquired in a business combination are initially recognized at their fair value on the acquisition date. The in-process research and development, or IPR&D, assets are required to be classified as indefinite-lived assets and are not amortized until they become definite lived assets, upon the successful completion of the associated research and development effort. At that time, we will evaluate whether recorded amounts are impaired and make any necessary adjustments, and then determine the useful life of the asset and begin amortization. If the associated research and development effort is abandoned, the related IPR&D assets will be written-off and an impairment charge recorded. Intangible assets are tested for impairment at least annually or more frequently if indicators of potential impairment exist.

Acquired definite life intangible assets are amortized using the straight-line method over their respective estimated useful lives. Intangible assets, which consisted of the cost of reacquiring a technology license during 2015, were amortized using the straight-line method over an estimated useful life of 4 years. As of December 31, 2019, our definite-lived intangible assets were fully amortized.

Fair Value of Financial Instruments

We record our available-for-sale investments at fair value. At December 31, 2020, our cash equivalents and investments in marketable debt securities totaled $97.0 million. FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC 820, establishes three levels of inputs that may be used to measure fair value. Each level of input represents varying degrees of subjectivity and difficulty involved in determining fair value. Valuations using Level 1 and 2 inputs are generally based on price quotations and other observable inputs in active markets and do not require significant management judgment or estimation. We utilize a third-party pricing service to assist us in obtaining fair value pricing for these investments. While pricing for these securities is based on proprietary models, the inputs used are based on observable market information; therefore, we have classified our inputs as Level 1 and Level 2. For additional information, see Note 6, *Fair Value Measurements*, of the “Notes to Combined Consolidated Financial Statements” included in Exhibit 99.2 in this Current Report on Form 8-K/A.

Investment in Non-Marketable Equity Securities Without a Readily Determinable Fair Value

We own non-marketable equity securities that are accounted for using the measurement alternative under ASC 321 because the preferred stock held by us is not considered in-substance common stock and such preferred stock does not have a readily determinable fair value. All investments are reviewed for possible impairment on a regular basis. If an investment's fair value is determined to be less than its net carrying value, the investment is written down to its fair value. Such an evaluation is judgmental and dependent on specific facts and circumstances. Factors considered in determining whether an impairment indicator is present include: the investees' earnings performance and clinical trial performance, change in the investees' industry and geographic area in which it operates, offers to purchase or sell the security for a price less than the cost of the investment, issues that raise concerns about the investee's ability to continue as a going concern, and any other information that we may be aware of related to the investment. Factors considered in determining whether an observable price change has occurred include the price at which the investee issues equity instruments similar to those of our investment and the rights and preferences of those equity instruments compared to ours.

Collaboration Arrangements

We analyze our collaboration arrangements to assess whether they are within the scope of ASC Topic 808, *Collaborative Arrangements*, or ASC 808. A collaborative arrangement is a contractual arrangement that involves a joint operating activity. These arrangements involve two or more parties who are active participants in the activity, and are exposed to significant risks and rewards dependent on the commercial success of the activity. This assessment is performed throughout the life of the arrangement based on changes in the responsibilities of all parties in the arrangement. To the extent the collaboration agreement is within the scope of ASC 808, we also assess whether the arrangement contains multiple elements that are within the scope of other accounting literature. If we conclude that some or all aspects of the agreement are distinct and represent a transaction with a customer, we account for those aspects of the arrangement within the scope of ASC Topic 606, *Revenue from Contracts with Customers*, or ASC 606. Amounts that are owed by collaboration partners within the scope of ASC 808 are recognized as an offset to research and development expenses as such amounts are incurred by the collaboration partner. The amounts owed to a collaboration partner are classified as research and development expenses.

Our collaboration arrangements require us to acquire certain equipment for exclusive use in the joint operating activities. These equipment purchases do not have an alternative use and are therefore expensed as incurred within research and development expenses.

Our collaboration arrangements are further discussed in Note 7, *Collaboration and License Agreements*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A.

Preclinical and Clinical Trial Accruals

As part of the process of preparing the financial statements, we are required to estimate expenses resulting from obligations under contracts with vendors, clinical research organizations and consultants. The financial terms of these contracts vary and may result in payment flows that do not match the periods over which materials or services are provided under such contracts.

We estimate clinical trial and research agreement-related expenses based on the services performed, pursuant to contracts with research institutions and clinical research organizations and other vendors that conduct clinical trials and research on our behalf. In accruing clinical and research-related fees, we estimate the time period over which services will be performed and activity expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, we will adjust the accrual accordingly. Payments made under these arrangements in advance of the receipt of the related services are recorded as prepaid expenses until the services are rendered.

Transactions with Related Parties

As discussed above and in Note 9, *Related Party Agreements*, of the "Notes to Combined Consolidated Financial Statements" included in Exhibit 99.2 in this Current Report on Form 8-K/A, we have various agreements with related parties. Some are billed and settled in cash monthly. Others are billed quarterly and settled in cash the following month. Monthly accruals are made for all quarterly billing arrangements.

Lease Obligations

On January 1, 2019, we adopted ASC Topic 842, *Leases*, or ASC 842. We elected the following practical expedients, which must be elected as a package and applied consistently to all of its leases at the transition date (including those for which the entity is a lessee or a lessor): i) we did not reassess whether any expired or existing contracts are or contain leases; ii) we did not reassess the lease classification for any expired or existing leases (that is, all existing leases that were classified as operating leases in accordance with ASC 840 are classified as operating leases, and all existing leases that were classified as capital leases in accordance with ASC 840 are classified as finance leases); and iii) we did not reassess initial direct costs for any existing leases.

For contracts entered into on or after the effective date, we determine if an arrangement is, or contains, a lease at lease inception. Our assessment is based on: (1) whether the contract involves the use of a distinct identified asset; (2) whether we obtain the right to substantially all of the economic benefit from the use of the asset throughout the period; and (3) whether we have the right to direct the use of the asset. Leases entered into prior to January 1, 2019, which were accounted for under ASC 840, *Leases*, were not reassessed as we elected the package of practical expedients permitted under the transition guidance within ASC 842, which among other things, allowed us to carry forward the historical lease classification. We determine the lease term by assuming the exercise of renewal options that are reasonably assured. The exercise of lease renewal options is at our sole discretion. Several of our leases have renewal options, however, the exercise of renewal is only assured for two of our current Good Manufacturing Practices, or cGMP, facilities, where we have made significant improvements or extended the lease.

For all leases other than short-term leases, at the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset represents the right to use the leased asset for the lease term. At lease commencement, leases are classified as either finance leases or operating leases. A lease is classified as a finance lease if any one of the following criteria are met: (1) the lease transfers ownership of the underlying asset by the end of the lease term; (2) the lease contains an option to purchase the underlying asset that is reasonably certain to be exercised; (3) the lease term is for a major part of the remaining economic life of the underlying asset; (4) the present value of the sum of the lease payments and any guaranteed residual value that is not already included in the lease payments equals or exceeds substantially all of the fair value of the underlying asset; or (5) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. A lease is classified as an operating lease if it does not meet any one of these criteria.

We do not currently have any leases classified as finance leases. Our operating lease assets and liabilities are included in *Operating lease right-of-use assets, net*, and current and non-current *Operating lease liabilities*, respectively, on the combined consolidated balance sheets. At the commencement date, operating lease right-of-use assets and operating lease liabilities are determined based on the present value of lease payments to be made over the lease term. As the rate implicit in lease contracts are not readily determinable, we utilize its incremental borrowing rate as a discount rate for purposes of determining the present value of lease payments, which is based on the estimated interest rate at which we could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. To estimate its incremental borrowing rate, a credit rating applicable to the company is estimated using a synthetic credit rating analysis since we do not currently have a rating agency-based credit rating. Prospectively, we will remeasure the lease liability at the net present value of the remaining lease payments using the same incremental borrowing rate that was in effect as of the lease commencement or transition date. Operating lease right-of-use assets also include any rent paid prior to the commencement date, less any lease incentives received, and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have elected to combine our lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) with non-lease components (e.g., common-area maintenance costs and equipment maintenance costs) and as such, we account for lease and non-lease components as a single component. Lease expense also includes amounts relating to variable lease payments. Variable lease payments include amounts relating to common area maintenance and real estate taxes.

We also elected not to recognize right-of-use assets and lease liabilities for qualifying short-term leases with an initial lease term of 12 months or less at lease inception. Such leases are expensed on a straight-line basis over the lease term. The lease term includes the non-cancellable period of the lease and any additional periods covered by either options to renew or not to terminate when the company is reasonably certain to exercise.

The depreciable life of operating right-of-use-assets and leasehold improvements is limited by the expected lease term.

Research and Development Costs

Major components of research and development costs include cash compensation and other personnel-related expenses, stock-based compensation, depreciation and amortization expense on research and development property and equipment and intangible assets, costs of preclinical studies, clinical trials costs, including contract research organizations, or CROs and related clinical manufacturing, including contract manufacturing organizations, or CMOs, costs of drug development, costs of materials and supplies, facilities cost, overhead costs, regulatory and compliance costs, and fees paid to consultants and other entities that conduct certain research and development activities on our behalf. Costs incurred in research and development are expensed as incurred.

Included in *Research and development* costs are clinical trial and research expenses based on the services performed pursuant to contracts with research institutions and clinical research organizations and other vendors that conduct clinical trials and research on our behalf. We record accruals for estimated costs under these contracts. When evaluating the adequacy of the accrued liabilities, we analyze the progress of the studies or clinical trials, including the phase or completion of events, invoices received, contracted costs and purchase orders. Significant judgments and estimates are made in determining the accrued balances at the end of any reporting period based on the facts and circumstances known at that time. Although we do not expect the estimates to be materially different from the amounts actually incurred, if the estimates of the status and timing of services performed differ from the actual status and timing of services performed, we may report amounts that are too high or too low in any particular period. Actual results could differ from our estimates. We adjust the accruals in the period when actual costs become known.

Stock-Based Compensation

We account for stock-based compensation under the provisions of FASB ASC Topic 718, *Compensation—Stock Compensation*, or ASC 718, which applies to share-based payments issued to employees and nonemployees in exchange for goods or services. Under ASC 718, the fair value of an equity-classified award is estimated on the grant date without regard to service or performance conditions. The grant date fair values for options and warrants are estimated using the Black-Scholes-Merton option pricing model, and the grant date fair values for restricted stock units, or RSUs, are based upon the closing market price of our common stock on the date of grant.

We use the straight-line method to recognize stock-based compensation expense for our outstanding share awards that do not contain a performance condition. For awards subject to performance-based vesting conditions, we assess the probability of the individual milestones under the award being achieved and stock-based compensation expense is recognized over the service period commencing once management believes the performance criteria is probable of being met. For awards with service or performance conditions, we recognize the effect of forfeitures in compensation cost in the period that the award was forfeited.

Contingencies

We record accruals for loss contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the related loss can be reasonably estimated. We evaluate, on a quarterly basis, developments in legal proceedings and other matters that could cause a change in the potential amount of the liability recorded or of the range of potential losses disclosed. Moreover, we record gain contingencies only when they are realizable, and the amount is known. Additionally, we record our rights to insurance recoveries, limited to the extent of incurred or probable losses, as a receivable when such recoveries have been agreed to with our third-party insurers and when receipt is deemed probable. This includes instances when our third-party insurers have agreed to pay, on our behalf, certain legal defense costs and settlement amounts directly to applicable law firms and a settlement fund.

Recent Accounting Pronouncements

Application of New or Revised Accounting Standards – Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The FASB subsequently issued amendments to ASU 2016-13, which have the same effective date and transition dates as described below. The new guidance supersedes existing U.S. GAAP for measuring and recording of credit losses on financial assets measured at amortized cost by replacing the incurred-loss model with an expected-loss model. Accordingly, these financial assets will be presented at the net amount expected to be collected. This new standard also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income rather than reducing the carrying amount under the current, other-than-temporary-impairment model. For public business entities that meet the definition of a Securities and Exchange Commission, or SEC, filer, except entities that are eligible to be a smaller reporting company as defined by the SEC, the standard is effective for annual periods beginning after December 15, 2019, and interim periods therein. For all other entities, the standard is effective for annual periods beginning after December 15, 2022, and interim periods therein. Early adoption is permitted

for all entities for annual periods beginning after December 15, 2018. With certain exceptions, adjustments are to be applied using a modified-retrospective approach by reflecting adjustments through a cumulative-effect impact on retained earnings as of the beginning of the fiscal year of adoption. We continue to evaluate the impact that this new standard and its related amendments will have on our combined consolidated financial statements and we do not intend to early adopt this new standard.

Other recent authoritative guidance issued by the FASB (including technical corrections to the ASC), the American Institute of Certified Public Accountants, and the SEC during the three months ended December 31, 2020 did not, or are not expected to, have a material effect on our combined consolidated financial statements.

Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk in the ordinary course of business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates and prices of equity instruments. We do not hold or issue financial instruments for trading purposes.

Interest Rate Risk

Our cash and cash equivalents primarily consist of highly liquid checking and money market funds. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates would not be expected to have a material impact on our consolidated financial statements.

We invest a portion of our cash in a number of diversified fixed and floating rate securities, consisting of marketable debt securities and debt funds that are subject to interest rate risk. Changes in the general level of interest rates can affect the fair value of our investment portfolio. If interest rates in the general economy were to rise, our holdings could lose value.

We have outstanding related party debt that is subject to fixed interest rates. Changes in interest rates do not affect interest expense on fixed-rate debt. Changes in interest rates would, however, affect the fair values of fixed-rate debt.

Equity Investment Risk

Our marketable and non-marketable equity securities are subject to a wide variety of market-related risks that could substantially reduce or increase the fair value of our holdings. Our marketable equity securities are publicly traded stocks in the biotechnology industry sector that are subject to market price volatility. Our non-marketable equity security is an investment in a privately held company in the biotechnology industry sector. For additional information, see Notes 1, 4, 5 and 6 of the “Notes to Combined Consolidated Financial Statements” included in Exhibit 99.2 in this Current Report on Form 8-K/A.

Foreign Currency Risk

We have operations and hold assets in Italy through a subsidiary as a result of a business combination. The functional currency of the subsidiary is the euro and the assets and liabilities of this subsidiary are translated to U.S. dollars according to accounting principles generally accepted in the U.S. In addition, we contract with clinical research organizations, investigational sites and suppliers in foreign countries and we have a bank account in Korea and Italy. We are, therefore, subject to fluctuations in foreign currency rates in connection with these agreements. We have not entered into any material foreign currency hedging contracts although we may do so in the future. To date we have not incurred any material effects from foreign currency changes. However, fluctuations in currency exchange rates could harm our business in the future.

Effects of Inflation

Inflation generally affects us by increasing our cost of labor, clinical trial, and other costs. We do not believe that inflation has had a material effect on our business, financial condition or results of operations for any period presented herein.