NantKwest, Inc.
Form 10-Q
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From _____ to _____

Commission file number: 001-37507

NANTKWEST, INC.

(Exact name of registrant as specified in its charter)

Delaware	43-1979754
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3530 John Hopkins Court	92121

San Diego, California
(Address of principal executive offices) (Zip Code)

(858) 633-0300

(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of November 5, 2018 the registrant had 79,226,083 shares of common stock, par value $0.0001 per share, outstanding.

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NANTKWEST, INC.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NantKwest, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except for share amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,310	$ 23,872
Due from related parties	107	154
Prepaid expenses and other current assets	16,432	4,152
Marketable debt securities, available-for-sale	67,998	104,280
Notes receivable, held-to-maturity	723	—
Total current assets	100,570	132,458
Marketable debt securities, noncurrent	12,585	29,600
Property, plant and equipment, net	77,273	76,726
Equity investment	8,500	8,500
Intangible assets, net	1,130	2,826
Other assets	1,583	330
Total assets	$ 201,641	$ 250,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,525	$ 5,865
Accrued expenses	22,785	11,267
Due to related parties	2,175	2,363
Other current liabilities	1,919	1,373
Total current liabilities	30,404	20,868
Build-to-suit liability, less current portion	—	4,909
Financing obligation, less current portion	6,108	1,741
Deferred rent	2,897	3,325
Deferred tax liability	122	498
Other liabilities	24	255
Total liabilities	39,555	31,596
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock, $0.0001 par value; 500,000,000 shares authorized; 79,226,083 and 79,021,878 issued and outstanding as of September 30, 2018 and December 31, 2017	8	8

Additional paid-in capital	739,839	717,930
Accumulated other comprehensive loss	(348)	(381)
Accumulated deficit	(577,413)	(498,713)
Total stockholders' equity	162,086	218,844
Total liabilities and stockholders' equity	$ 201,641	$ 250,440

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

NantKwest, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except for share and per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$31	$8	$40	$33
Operating expenses:				
Research and development (including amounts to related parties)	14,559	11,069	43,238	30,023
Selling, general and administrative (including amounts to related parties)	9,580	13,381	37,472	43,736
Total operating expenses	24,139	24,450	80,710	73,759
Loss from operations	(24,108)	(24,442)	(80,670)	(73,726)
Other income:				
Investment income, net	447	680	1,442	2,140
Interest expense (including amounts to related parties)	(149)	(393)	(288)	(584)
Other income (expense), net (including amounts to related parties)	47	87	255	(87)
Total other income	345	374	1,409	1,469
Loss before income taxes	(23,763)	(24,068)	(79,261)	(72,257)
Income tax benefit	128	99	375	321
Net loss	$(23,635)	$(23,969)	$(78,886)	$(71,936)
Net loss per share:				
Basic and diluted	$(0.30)	$(0.30)	$(1.00)	$(0.89)
Weighted-average number of shares during the period:				
Basic and diluted	79,204,765	79,440,591	79,116,805	80,996,732

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

NantKwest, Inc.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(23,635)	$(23,969)	$(78,886)	$(71,936)
Other comprehensive income (loss), net of income taxes:				
Net unrealized gain (loss) on available-for-sale securities	100	59	33	(177)
Reclassification of net realized gains on available-for-sale securities included in net loss	—	(24)	—	(25)
Total other comprehensive income (loss)	100	35	33	(202)
Comprehensive loss	$(23,535)	$(23,934)	$(78,853)	$(72,138)

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

NantKwest, Inc.

Condensed Consolidated Statement of Stockholders' Equity

(in thousands, except for share amounts)

(Unaudited)

	Common Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at December 31, 2017	79,021,878	$ 8	$ 717,930	$ (381)	$ (498,713)	$ 218,844
Stock-based compensation expense	—	—	21,975	—	—	21,975
Vesting of restricted stock units	172,330	—	—	—	—	—
Exercise of warrants	93,254	—	57	—	—	57
Employee payroll taxes withheld related to vesting of restricted stock units	(61,379)	—	(123)	—	—	(123)
Cumulative effect of the adoption of the new revenue standard	—	—	—	—	186	186
Other comprehensive income, net	—	—	—	33	—	33
Net loss	—	—	—	—	(78,886)	(78,886)
Balance at September 30, 2018	79,226,083	$ 8	$ 739,839	$ (348)	$ (577,413)	$ 162,086

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

NantKwest, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net loss	$(78,886)	$(71,936)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	21,975	28,113
Depreciation and amortization	6,768	3,997
Amortization of net premiums on marketable debt securities	382	1,298
Non-cash interest items, net	323	648
Loss on disposal of assets	134	64
Deferred income tax benefit	(376)	(315)
Gain on sales of marketable debt securities	—	(25)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(12,452)	(576)
Other assets	(1,217)	464
Accounts payable	(66)	1,493
Accrued expenses and other liabilities	14,619	(446)
Due to related parties	(182)	759
Deferred rent and revenue	(370)	1,322
Net cash used in operating activities	(49,348)	(35,140)
Investing activities:		
Purchases of property, plant and equipment	(11,057)	(23,382)
Purchase of equity investment	—	(8,500)
Purchases of debt securities, held-to-maturity	(723)	—
Purchases of marketable debt securities, available-for-sale	(82,257)	(75,115)
Sales/maturities of marketable debt securities	135,204	186,815
Proceeds from sales of property, plant and equipment	20	—
Net cash provided by investing activities	41,187	79,818
Financing activities:		
Principal payments of financing/capital lease obligations	(335)	(19,868)
Proceeds from exercise of stock options and warrants	57	1,192
Repurchase of common stock with commissions	—	(12,456)
Net share settlement for RSU vesting and option exercises	(123)	(709)
Net cash used in financing activities	(401)	(31,841)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(8,562)	12,837
Cash, cash equivalents and restricted cash, beginning of period	24,051	8,262
Cash, cash equivalents, and restricted cash, end of period	$15,489	$21,099
Reconciliation of cash, cash equivalents, and restricted cash at end of period:		
Cash and cash equivalents	$15,310	$20,920

Restricted cash included in other assets	179	179
Cash, cash equivalents, and restricted cash, end of period	$15,489	$21,099
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$217	$632
Income taxes	$4	$3
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment purchases acquired under capital lease	$—	$19,448
Property and equipment purchases included in accounts payable, accrued expenses, and other liabilities	$4,437	$17,561
Unrealized gains on marketable debt securities	$33	$108
Cashless exercise of warrants	$94	$16

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

NantKwest, Inc.

Notes to Condensed Consolidated Financial Statements

1. Description of Business

Organization

NantKwest, Inc. (the Company) 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. The Company is a pioneering clinical-stage immunotherapy biotechnology company headquartered in San Diego, California with certain operations in Culver City and El Segundo, California and Woburn, Massachusetts.

The Company is focused on harnessing the power of the innate immune system by using the natural killer cell to treat cancer, infectious diseases, and inflammatory diseases. A critical aspect of the Company's strategy is to invest significantly in expanding the activated natural killer (aNK) platform and the development of the Company's product candidates.

The Company holds the exclusive right to commercialize aNK cells, a commercially viable natural killer cell-line, and a variety of genetically modified derivatives capable of killing cancer and virally infected cells. The Company owns corresponding United States (U.S.) and foreign composition and methods-of-use patents and applications covering the clinical use of aNK cells as a therapeutic to treat a spectrum of clinical conditions.

The Company also licensed exclusive commercial rights to a CD16 receptor expressing improvement of our aNK cell line, covered in a portfolio of U.S. and foreign composition and methods-of-use patents and applications covering both the non-clinical use in laboratory testing of monoclonal antibodies, as well as clinical use as a therapeutic to treat cancers in combination with antibody products. The Company has non-exclusively licensed or sub-licensed its CD16 bearing aNK cell lines and corresponding intellectual property to numerous pharmaceutical and biotechnology companies for such non-clinical uses. The Company also licensed exclusive commercial rights to a unique Her2 Chimeric Antigen-Receptor (CAR) bearing aNK cell clone, along with the corresponding U.S. and foreign composition and methods-of-use patents and applications covering clinical use as a therapeutic to treat cancers.

The Company retains exclusive worldwide rights to clinical and research data, intellectual property, and know-how developed with the Company's aNK cells, as well as the only clinical grade master cell bank.

Liquidity

As of September 30, 2018, the Company had an accumulated deficit of approximately $577.4 million. The Company also had negative cash flow from operations of approximately $49.3 million during the nine months ended September 30, 2018. The Company expects that it will likely need additional capital to further fund development of, and seek regulatory approvals for, its product candidates, and begin to commercialize any approved products. The Company is currently focused primarily on the development of immunotherapeutic treatments for cancers and debilitating viral infections using targeted cancer killing cell lines, and believes such activities will result in the Company's continued incurrence of significant research and development and other expenses related to those programs. If the clinical trials for any of the Company's product candidates fail or produce unsuccessful results and those product candidates do not gain regulatory approval, or if any of the Company's product candidates, if approved, fail to achieve market acceptance, the Company may never become profitable. Even if the Company achieves

profitability in the future, it may not be able to sustain profitability in subsequent periods. The Company intends to cover its future operating expenses through cash and cash equivalents and marketable debt securities on hand and 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. Additional financing may not be available to the Company when needed and, if available, financing may not be obtained on terms favorable to the Company or its stockholders.

While the Company expects its existing cash and cash equivalents and marketable debt securities will enable it to fund operations and capital expenditure requirements for at least the next twelve months, it may not have sufficient funds to reach commercialization. Failure to obtain adequate financing when needed may require the Company to delay, reduce, limit, or terminate some or all of its development programs or future commercialization efforts or grant rights to develop and market product candidates that the Company might otherwise prefer to develop and market itself, which could adversely affect the Company's ability to operate as a going concern. If the Company raises additional funds from the issuance of equity securities, substantial dilution to existing stockholders may result. If the Company raises additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict the Company's ability to operate its business.

2. Summary of Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies other than the adoption of accounting pronouncements below, as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Basis of Presentation

The accompanying condensed financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the results for the interim periods presented and have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended December 31, 2017.

The unaudited condensed consolidated financial statements do not include all information and notes necessary for a complete presentation of results of income, comprehensive income, financial position, and cash flows in conformity with GAAP. Accordingly, these financial statements should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended December 31, 2017 included in the Company’s Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to stock-based compensation, the valuation allowance for deferred tax assets, preclinical and clinical trial accruals, impairment assessments, and the valuation of build-to-suit lease assets. 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. Actual results could differ from those estimates.

Principles of Consolidation and Equity Investments

The Company’s condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Inex Bio, Inc. and 557 Doug St, LLC, and have been prepared in accordance with GAAP. All intercompany amounts have been eliminated.

The Company applies the variable interest model under Accounting Standards Codification (ASC) Topic 810, Consolidation, to any entity in which the Company holds an equity investment in 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 (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.

For entities the Company holds an equity investment in and are not consolidated under the VIE Model, the Company considers whether its 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 the Company is able to exercise significant influence, but not control, are accounted for using the equity method. The Company’s ability to exercise significant influence is generally indicated by ownership of 20 to 50 percent interest in the voting securities of the entity.

All other unconsolidated equity investments on which the Company is not able to exercise significant influence will be subsequently measured at fair value with unrealized holding gains and losses included in other income, net on the consolidated statements of operations. In the instance the equity investment does not have a readily determinable fair value, the Company will apply the practicability exception and estimate the fair value at its cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The Company owns non-marketable equity securities that are accounted for as an equity investment at cost minus impairment and plus or minus changes resulting from observable price changes because the preferred stock held by the Company is not considered in-substance common stock and such preferred stock does not have a readily determinable fair value. All investments are reviewed on a regular basis for possible impairment. 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' earning 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 the Company 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 the Company's investment and the rights and preferences of those equity instruments compared to the Company's.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to concentrations of risk consist principally of cash and cash equivalents and marketable debt securities.

The Company's cash and cash equivalents are with one major financial institution in the U.S. and one in Korea.

Drug candidates developed by the Company will require approvals or clearances from the U.S. Food and Drug Administration (FDA) or international regulatory agencies prior to commercial sales. There can be no assurance that the Company's drug candidates will receive any of the required approvals or clearances. If the Company was to be denied approval or clearance or any such approval or clearance was to be delayed, it would have a material adverse impact on the Company.

Basic and Diluted Net Loss per Share of Common Stock

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted loss per share is computed similarly to basic loss per share except that the denominator is increased to include 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 September 30,	
	2018	2017
Outstanding options	6,493,250	5,693,250
Outstanding restricted stock units	947,461	1,066,993
Outstanding warrants	17,589,250	17,735,527
Total	25,029,961	24,495,770

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

Recently Adopted Accounting Policies

Financial Assets and Financial Liabilities

Effective January 1, 2018, the Company adopted Accounting Standard Update (ASU) 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2016-01, associated with the recognition and measurement of financial assets and liabilities. During the first quarter of 2018, the Financial Accounting Standards Board (FASB) issued further clarifications with the issuance of ASU 2018-03, effective for fiscal years beginning after December 15, 2017 and interim periods beginning after June 15, 2018, and ASU 2018-04, effective upon issuance. The Company has early adopted ASU 2018-03 and adopted ASU 2018-04 effective January 1, 2018 concurrently with ASU 2016-01. ASU 2016-01 requires that equity investments, except those accounted for under the equity method of accounting, be measured at fair value and changes in fair value are recognized in net income. ASU 2016-01 also provides a new measurement alternative for equity investments that do not have a readily determinable fair value (cost method investments). These investments are measured at cost, less any impairment, adjusted for observable price changes. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. Effective January 1, 2018, the Company elected to record its preferred stock equity investment in Viracta

Therapeutics, Inc. (Viracta), which does not have a readily determinable fair value, using the alternative method. Adoption of the updates did not have a material effect on the Company's accounting for equity investments, fair value disclosures, and other disclosure requirements.

Revenue Recognition

Beginning January 1, 2018, the Company follows the provisions of ASC Topic 606, Revenue from Contracts with Customers. The guidance provides a unified model to determine how revenue is recognized. The Company has applied the guidance to all contracts as of the date of initial application.

The Company derives substantially all of its revenue from non-exclusive license agreements with a limited number of pharmaceutical and biotechnology companies granting them the right to use the Company's 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 Company's licensee's products developed or manufactured using the Company's intellectual property and cell lines.

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 Topic 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 the Company's license agreements with customers, the Company typically promises to provide a license to use certain cell lines and related patents, the related know-how, and future research and development data that affects the license. The Company concluded that these promises represent one performance obligation due to the highly interrelated nature of the promises. The Company provides the cell lines and know-how immediately upon entering into the contracts. The research and development data is provided throughout the term of the contract when and if available.

The Company's license agreement with Intrexon included a nonrefundable upfront payment of $0.4 million, received when the Company entered into the contract in 2010. In this instance, the Company determined that under ASC 606 it would be appropriate to recognize the initial milestone payment at a point in time, when it 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, the Company adjusted its opening retained deficit for the effects of recognizing revenue upfront for the initial milestone. The adjustment to opening retained deficit upon adoption was not material.

The license agreements may include nonrefundable upfront payments, event-based milestone payments, sales-based royalty payments, or some combination of these. The event-based milestone payments represent variable consideration and the Company uses the most likely amount method to estimate this variable consideration. Given the high degree of uncertainly around achievement of these milestones, the Company does not recognize revenue from these milestone payments until the uncertainty associated with these payments is resolved. The Company currently estimates variable consideration related to milestone payments to be zero and, as such, no revenue has been recognized for milestone payments. The Company will recognize revenue 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 revenue prospectively.

Upon adoption, the Company changed its accounting policy from accounting for milestones 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, the Company has generated minimal revenue related to the non-clinical use of its cells lines and intellectual property. The Company has no products approved for commercial sale and has not generated any revenue from product sales. If the Company fails to complete the development of its product candidates in a timely manner or fails to obtain regulatory approval for them, the Company may never be able to generate substantial future revenue.

Statement of Cash Flows

Effective January 1, 2018, the Company adopted ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. Also, effective January 1, 2018, the Company adopted ASU 2016-18, Statement of Cash Flows: Restricted Cash, a consensus of the FASB's Emerging Issues Task Force. ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities are also required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. Prior periods were retrospectively adjusted to

conform to the current period's presentation. There was no material impact on the Company's statement of cash flows on adoption of either ASU 2016-15 or ASU 2016-18.

Recently Issued Accounting Pronouncements – Not Yet Adopted

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 current guidance for employee share-based payments. This ASU 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. ASU 2018-07 will be effective for the Company beginning January 1, 2019, with early adoption permitted. Adoption of ASU 2018-07 is not expected to have a significant impact on the Company's consolidated financial statements and disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This new standard provides financial statement preparers with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. ASU 2018-02 will be effective for the Company beginning January 1, 2019, with early adoption permitted. Adoption of ASU 2018-02 is not expected to have a significant impact in the Company's consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This new guidance is intended to present credit losses on available-for-sale debt securities as an allowance rather than as a write-down. ASU 2016-13 will be effective for the Company beginning January 1, 2020, with early adoption permitted beginning in 2019. Adoption of ASU 2016-13 is not expected to have a significant impact on the Company's consolidated financial statements and disclosures.

In February 2016, the FASB issued 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. The update also requires improved disclosures to help users of financial statements better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016 02 will be effective for the Company beginning January 1, 2019, with early adoption permitted. The Company continues to assess the effect the guidance will have on its accounting policies, internal controls, and consolidated financial statements and anticipates a material increase in assets and liabilities due to the recording of the required right-of-use asset and corresponding liability for its lease obligations. The Company plans to adopt the new guidance as of the effective date.

Other recent authoritative guidance issued by the FASB (including technical corrections to the ASC), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission (SEC) during the three months ended September 30, 2018 did not, or are not expected to, have a material effect on the Company's consolidated financial statements.

3. Financial Statement Details

Prepaid Expenses and Other Current Assets

As of September 30, 2018 and December 31, 2017, prepaid expenses and other current assets consisted of (in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017
Insurance claim receivable	$ 12,991	$ 340
Insurance premium financing asset	590	—
Prepaid rent	531	373
Prepaid services	498	416
Interest receivable - marketable debt securities	441	764
Prepaid insurance	362	572
Prepaid license fees	327	597
Prepaid equipment maintenance	300	123
Prepaid supplies	189	210
Equipment deposits	—	482
Other	203	275
	$ 16,432	$ 4,152

Property, Plant and Equipment, Net

As of September 30, 2018 and December 31, 2017, property, plant and equipment, net consisted of (in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017
Construction in progress	$ 1,200	$ 42,281
Buildings	59,356	23,811
Equipment	20,333	9,625
Leasehold improvements	4,071	3,918
Software	1,247	1,092
Furniture & fixtures	381	302
	86,588	81,029
Accumulated depreciation	(9,315)	(4,303)
	$ 77,273	$ 76,726

Depreciation expense related to property, plant and equipment was $2.2 million and $0.9 million for the three months ended September 30, 2018 and 2017, respectively, and $5.1 million and $2.3 million for the nine months ended September 30, 2018 and 2017, respectively.

Buildings of $59.4 million include buildings under build-to-suit leases of $39.9 million and $19.5 million related to the Company's purchased warehouse and distribution facility. Building value under build-to-suit leases represents the estimated fair market value of the buildings and capitalized construction costs where the Company is the "deemed owner" of the assets, for accounting purposes only. See Note 8 – Financing Lease Obligation for further discussion on the Company's build-to-suit leases.

Intangible Assets, Net

As of September 30, 2018 and December 31, 2017, intangible assets consisted of (in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017
Technology license	$ 9,042	$ 9,042
Less accumulated amortization	(7,912)	(6,216)
	$ 1,130	$ 2,826

Amortization expense related to intangible assets was $0.6 million and $0.6 million for the three months ended September 30, 2018 and 2017, respectively, and $1.7 million and $1.7 million for the nine months ended September 30, 2018 and 2017, respectively. Amortization for the Company's technology license is included in research and development expense on the condensed consolidated statements of operations.

Other Assets

As of September 30, 2018 and December 31, 2017, other assets consisted of (in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017
Prepaid rent	$ 1,245	$ —
Restricted cash	179	179
Security deposits	113	127
Other	46	24
	$ 1,583	$ 330

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

Accrued Expenses

As of September 30, 2018 and December 31, 2017, accrued expenses consisted of (in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017

Litigation settlement accrual	$ 12,000	$ —
Accrued construction costs	3,341	6,212
Accrued bonus	1,936	1,930
Accrued professional and service fees	1,808	1,048
Accrued compensation	1,264	944
Accrued preclinical and clinical trial costs	1,076	521
Accrued laboratory equipment and supplies	881	—
Other	479	612
	$ 22,785	$ 11,267

Other Current Liabilities

As of September 30, 2018 and December 31, 2017, other current liabilities were made up of (in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017
Financing obligation - current portion	$ 1,195	$ 284
Deferred rent - current portion	577	520
Build-to-suit lease liability - current portion	—	334
Other	147	235
	$ 1,919	$ 1,373

Investment Income, Net

Net investment income includes interest income from all bank accounts as well as marketable debt securities, net realized gains or losses on sales of investments, and the amortization of the premiums and discounts of the investments and is as follows for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Interest income	$486	$1,005	$1,822	$3,408
Investment amortization accretion expense, net	(39)	(359)	(382)	(1,298)
Net realized gains on investments	—	34	2	30
	$447	$680	$1,442	$2,140

The Company did not recognize an impairment loss on any investments for the three and nine months ended September 30, 2018 and 2017.

4. Equity Investment

In March 2017, the Company participated in a Series B convertible preferred stock financing and invested $8.5 million in Viracta, a clinical stage drug development company. The Company did not exercise its option to purchase up to an additional $8.5 million worth of shares of the Series B convertible preferred stock by the expiration date of September 30, 2017. In May 2017, the Company 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.

Based on the level of equity investment at risk, Viracta is not a VIE and therefore is not consolidated under the VIE Model. Also, the Company does not hold a controlling financial interest in Viracta and therefore is not consolidating 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, the Company has elected to apply the practicability exception noted under ASC 825 and estimates the fair value at its $8.5 million cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

As of September 30, 2018, the Company's qualitative impairment assessment did not indicate there were events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment. The Company has not recorded any impairments as of September 30, 2018 or on a cumulative basis. Further, the Company has not identified any downward or upward adjustments due to observable price changes in the investment as of September 30, 2018 or on a cumulative basis. The $8.5 million cost of the investment is recorded in equity investment on the condensed consolidated balance sheet as of September 30, 2018.

In June 2018, Viracta executed a 2018 Note and Warrant Purchase Agreement with existing and new investors, including the Company. The initial closing under the Purchase Agreement occurred in June 2018, at which point the Company purchased a convertible note, for $0.4 million, which under certain circumstances is convertible into Series B Preferred Stock, and a warrant to purchase Viracta's common shares. The convertible note accrues interest at 8% and has a one year maturity date.

In September 2018, Viracta executed the milestone closing under the 2018 Note and Warrant Purchase Agreement, at which point the Company purchased a second convertible note, for $0.4 million, which is also convertible into Series B Preferred Stock under certain circumstances, and a warrant to purchase Viracta's common shares. The convertible note accrues interest at 8% and has a nine-month maturity date.

The Company classified the convertible notes as debt securities, held-to-maturity, on the condensed consolidated balance sheets.

5. Cash Equivalents and Marketable Debt Securities

As of September 30, 2018, all of the Company's marketable debt securities are classified as available-for-sale or held-to-maturity and are scheduled to mature within 3.0 years. At September 30, 2018, the detail of the Company's cash equivalents and marketable debt securities is as follows (in thousands):

	September 30, 2018 (Unaudited)			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Current:				
Available-for-sale				
Corporate debt securities	$58,598	$ 1	$ (81)	$ 58,518
Government sponsored securities	4,000	—	—	4,000
Commercial paper	3,983	1	—	3,984
U.S. treasury securities	1,496	—	—	1,496
Total available-for-sale	68,077	2	(81)	67,998
Held-to-maturity, notes receivable	723	—	—	723
Current portion	68,800	2	(81)	68,721
Noncurrent:				
Corporate debt securities	10,097	—	(203)	9,894
Government sponsored securities	2,757	—	(66)	2,691
Noncurrent portion	12,854	—	(269)	12,585
Total	$81,654	$ 2	$ (350)	$ 81,306

At December 31, 2017, the detail of the Company's cash equivalents and marketable debt securities is as follows (in thousands):

	December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Current:				
Corporate debt securities	$82,188	$ 5	$ (84)	$ 82,109
Government sponsored securities	19,261	—	(28)	19,233
Foreign government bonds	6,441	—	(5)	6,436
Current portion	107,890	5	(117)	107,778
Noncurrent:				
Corporate debt securities	27,109	—	(226)	26,883
Government sponsored securities	2,760	—	(43)	2,717
Noncurrent portion	29,869	—	(269)	29,600
Total	$137,759	$ 5	$ (386)	$ 137,378

Included in foreign government bonds is $3.5 million of cash equivalents at December 31, 2017.

Available-for-sale investments that had been in an unrealized loss position for more and less than 12 months at September 30, 2018 and December 31, 2017 are as follows (in thousands):

	September 30, 2018 (Unaudited)			
	Less than 12 months		More than 12 months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Corporate debt securities	$41,746	$ (44)	$20,141	$ (240)
Government sponsored securities	—	—	2,691	(66)
U.S. treasury securities	1,496	—	—	—
Total	$43,242	$ (44)	$22,832	$ (306)

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	December 31, 2017			
	Less than 12 months		More than 12 months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Corporate debt securities	$67,522	$ (104)	$35,918	$ (206)
Government sponsored securities	9,744	(20)	12,205	(51)
Foreign government bonds	1,542	—	1,396	(5)
Total	$78,808	$ (124)	$49,519	$ (262)

The Company evaluated its securities for other-than-temporary impairment and concluded that the decline in value was primarily caused by current economic and market conditions. The Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases. Therefore, the Company did not have any other-than-temporary impairment loss during the nine months ended September 30, 2018. At September 30, 2018, 39 of the securities are in an unrealized loss position.

The Company recorded realized gains and losses on sales or maturities of available-for-sale debt securities as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Gross realized gains	$ —	$ 43	$ 2	$ 45
Gross realized losses	—	(9)	—	(15)
Net realized gains	$ —	$ 34	$ 2	$ 30

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.

Recurring Valuations

In accordance with the authoritative guidance for financial assets and liabilities measured at fair value on a recurring basis (ASC Topic 820), the Company prioritizes the inputs used to measure fair value from market-based assumptions to entity specific assumptions as follows:

- Level 1—Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.
- Level 2—Observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
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Level 3—Inputs which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instruments valuation.

The following tables present the Company's hierarchy for its assets measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 (in thousands):

	Fair Value Measurements at September 30, 2018 (Unaudited)			
	Total	Level 1	Level 2	Level 3
Assets:				
Current:				
Cash and cash equivalents	$15,310	$15,310	$—	$ —
Corporate debt securities	58,518	—	58,518	—
Government sponsored securities	4,000	—	4,000	—
Commercial paper	3,984	—	3,984	—
U.S. treasury securities	1,496	1,496	—	—
Noncurrent:				
Corporate debt securities	9,894	—	9,894	—
Government sponsored securities	2,691	—	2,691	—
Total assets measured at fair value	$95,893	$16,806	$79,087	$ —

	Fair Value Measurements at December 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Current:				
Cash and cash equivalents	$23,872	$20,374	$3,498	$ —
Corporate debt securities	82,109	—	82,109	—
Government sponsored securities	19,233	—	19,233	—
Foreign government bonds	2,938	—	2,938	—
Noncurrent:				
Corporate debt securities	26,883	—	26,883	—
Government sponsored securities	2,717	—	2,717	—
Total assets measured at fair value	$157,752	$20,374	$137,378	$ —

Non-recurring Valuation

Non-financial assets and liabilities are recognized at fair value subsequent to initial recognition when they are deemed to be other-than-temporarily impaired. There were no material non-financial assets and liabilities deemed to be other-than-temporarily impaired and measured at fair value on a non-recurring basis for the three months ended September 30, 2018.

7. Collaboration and License Agreements

Collaborative Arrangement

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. There were no new collaborative agreements during the

three months ended September 30, 2018.

License Agreement

Chemotherapeutisches Forschungsinstitut Georg-Speyer-Haus (GSH) and DRK-Blutspendedienst Baden-Wurttenberg-Hessen gGmbH (BSD) License Agreement

In August 2015, the Company entered into a license agreement with GSH and BSD under which the Company was granted an exclusive license to certain GSH-BSD patents, materials, and know-how that specifically targets ErbB2 expressing cancers. In addition, GSH granted the Company an exclusive license to certain GSH only technology and materials. In consideration for the licenses, the Company agreed to pay initial and annual licensing fees, regulatory and commercial milestones, and low single-digit percentage royalties on net sales of licensed products. The royalty term shall continue in a particular country until the later of (i) the expiration of the valid patent claims in such country or (ii) a specified period of time after the first commercial sale of licensed product in such country. The license agreement shall continue until no further payments are due at which time the licenses and rights will continue on a non-exclusive, royalty-free basis. The license agreement can be terminated earlier: (i) for material breach by either party after 60 days cure period, (ii) if the Company declares bankruptcy or insolvency or (iii) by the Company in its sole discretion upon 60 days prior written notice. In January 2018, the Company began expensing the first annual license fee of $0.5 million. The license fee is currently in prepaid expenses and other current assets on the condensed consolidated balance sheet. The Company is amortizing the license over the twelve month period and recorded $0.1 million and $0.4 million of expense in research and development on the condensed consolidated statements of operations for the three and nine months ended September 30, 2018.

8. Commitments and Contingencies

Contingencies

The Company records accruals for loss contingencies to the extent that the Company concludes it is probable that a liability has been incurred and the amount of the related loss can be reasonably estimated. The Company evaluates, 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. Additionally, the Company records its rights to insurance recoveries, limited to the extent of incurred or probable losses, as a receivable when such recoveries have been agreed to with its third-party insurers and when receipt is deemed probable. This includes instances when the Company’s third-party insurers have agreed to pay, on the Company’s behalf, certain legal defense costs and settlement amounts directly to applicable law firms and a settlement fund.

Appeal of USPTO Decision

In March 2009, the Company received a final rejection in one of the Company’s original patent applications pertaining to certain limited methods of use claims for NK-92 from the U.S. Patent and Trademark Office (the USPTO), but the USPTO allowed claims on all of the other proposed claims, including other methods of use. The Company appealed this decision with the USPTO Board of Appeals and, in the fall of 2013, the Board of Appeals reversed the Examiner’s rejection of the claim to certain limited methods of use with NK-92, but affirmed the Examiner’s rejection of the remaining patent claims. In December 2013, the Company brought an action in the U.S. District Court for the Eastern District of Virginia to review the decision of the USPTO as the Company disagreed with the decision as to the certain limited non-allowed claims. On September 2, 2015, the U.S. District Court granted the USPTO’s motion for summary judgment. On September 24, 2015, the Company filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit. In September 2015, the USPTO filed a Motion for Expenses seeking $0.1 million for attorney’s fees and the USPTO’s expert witness fees. In February 2016, the U.S. District Court denied the USPTO’s Motion for Expenses for attorney’s fees and granted Director’s Motion for Expenses for the USPTO’s expert witness fees. The USPTO filed a notice of appeal on April 5, 2016. In May 2017, the Federal Circuit affirmed the U.S. District Court’s summary judgment ruling. The formal mandate was issued on June 26, 2017. In June 2017, the Federal Circuit reversed the U.S. District Court’s fees ruling and remanded the case for the U.S. District Court to enter an award of $0.1 million in favor

of the USPTO. On August 31, 2017, a majority of active Federal Circuit judges voted to vacate the June 2017 decision and hear the case en banc sua sponte. On July 27, 2018, the Federal Circuit sitting en banc affirmed the U.S. District Court. The USPTO may seek rehearing or Supreme Court review. Based on the information available at present, the Company cannot reasonably estimate a range of loss for this action beyond the attorney and expert witness fees. The Company is expensing legal costs associated with defending this litigation as the costs are incurred.

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 the Company's 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 court in California. The actions originally filed in state court were removed to federal court, and the various related actions have been consolidated. Plaintiffs assert 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 and Rule 10b-5 promulgated thereunder. Plaintiffs seek unspecified damages, costs and attorneys' fees, and equitable/injunctive or other relief on behalf of putative classes of persons who purchased or acquired the Company's securities during various time periods from July 28, 2015 through March 11, 2016. In September 2017, the court denied defendants' motion to dismiss the third amended consolidated complaint. On August 13, 2018, the district court granted plaintiffs' motions for class certification and to strike plaintiffs' claims under the Securities Exchange Act of 1934 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 interlocutory appeal of the class certification order. On September 7, 2018, defendants answered the fourth amended consolidated complaint. On September 21, 2018, the parties informed the Ninth Circuit that they have reached a settlement in principle, and the parties moved to stay appellate proceedings. On September 24, 2018, the parties notified the district court that they have reached a settlement in principle and that, after the settlement is documented, lead plaintiffs will move for preliminary approval.

Under the terms of the settlement, which is subject to preliminary and final approval by the court, the Company agreed to pay $12 million to the plaintiffs as full and complete settlement of the litigation. The Company is responsible for $1.2 million of the settlement amount which has been recognized in selling, general and administrative expense on the condensed consolidated statements of operations, while the remaining $10.8 million will be fully funded by the Company's insurance carriers under its directors' and officers' insurance policy.

Management intends to continue to vigorously defend these proceedings. If for some reason the settlement is not approved and the Company is ultimately found liable, the liability could have a material adverse effect on the Company's consolidated financial statements for the period or periods in which it is incurred.

On September 6, 2016, a putative shareholder derivative complaint captioned Bushansky v. Soon-Shiong, et al., No. 37-2016-00030867-CU-SL-CTL was filed in California Superior Court, San Diego County also related to the Company's restatement of certain interim financial statements. The complaint named as defendants the Company's directors and outside auditor at the time of the IPO. The Company is named solely as a nominal defendant. The complaint alleges the directors breached their fiduciary duties to the Company and wasted corporate assets, and that the outside auditors committed malpractice. The complaint seeks, on behalf of the Company, unspecified damages, the return of directors' salaries for unspecified periods, and injunctive relief. In April 2017, the court entered a written order of dismissal after granting the Company's motion to dismiss the California complaint based on a corporate charter provision specifying a Delaware forum. Plaintiffs have appealed. On May 25, 2018, the California court of appeal affirmed the dismissal. On July 3, 2018, plaintiffs filed a petition for review with the California Supreme Court. On July 26, 2018, the Company filed an answer to the petition for review with the California Supreme Court. On September 12, 2018, the California Supreme Court denied the petition for review.

In October 2017, the first of two putative stockholder derivative complaints were filed in the Delaware Court of Chancery. The Delaware actions have been consolidated as In re NantKwest, Inc. Derivative Litigation, Cons. C.A. No. 2017-0774-VCL. A consolidated complaint was filed asserting that various of the Company's current and former directors and officers breached their fiduciary duties to the Company based on factual allegations similar to those in the Sudunagunta and Bushansky actions. The complaint seeks damages and other relief on behalf of the Company, which is named solely as a nominal defendant. On February 5, 2018, the defendants filed a motion to dismiss the consolidated complaint. On May 18, 2018, the Court granted the motion and dismissed the action. No appeal has been

filed, and the deadline for appeal has passed.

Insurance Recoveries

The Company has reflected its right to insurance recoveries, limited to the extent of incurred or probable losses, as a receivable when such recoveries have been agreed to with its third-party insurers and receipt is deemed probable. This includes instances where the Company's third-party insurers have agreed to pay, on the Company's behalf, certain legal defense costs and settlement amounts directly to applicable law firms and a settlement fund. The amount of such receivable recorded at September 30, 2018 was $13 million and is included in prepaid expenses and other current assets on the Company's condensed consolidated balance sheets.

Contractual Obligations - Leases

The Company leases: (i) a research facility and office space in San Diego, California; (ii) a research and manufacturing space in Culver City, California, from a related party; (iii) a research and manufacturing facility in El Segundo, California, also from a related party; (iv) a research facility in Torrance, California, through an assignment agreement with a related party, and (v) a research facility in Woburn, Massachusetts. See Note 9 – Related Party Agreements for additional details.

The Company recognizes rent expense under its operating leases on a straight-line basis. Rent expense for the three months ended September 30, 2018 and 2017 was $0.7 million and $0.6 million, respectively, and $2.1 million and $2.0 million for the nine months ended September 30, 2018 and 2017, respectively.

Financing Lease Obligation – El Segundo

In September 2016, the Company entered into a lease agreement with 605 Doug St, LLC, a related party (Note 9), for approximately 24,250 square feet in El Segundo, California, which has been converted to a research and development laboratory and a current Good Manufacturing Practices (cGMP) manufacturing facility. The lease runs from July 2016 through July 2023. The Company has 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. The Company records the rent payments as (1) a reduction of the financing obligation; (2) imputed interest expense; and (3) rent expense on the imputed cost to lease the underlying land of the facility, which is considered an operating lease. Rent expense for this facility is recorded in research and development expense on the condensed consolidated statements of operations and was $0.1 million and $0.1 million for the three months ended September 30, 2018 and 2017, respectively, and was $0.2 million and $0.2 million, for the nine months ended September 30, 2018 and 2017, respectively.

The Company was responsible for costs to build out the facility and has incurred costs of approximately $30.4 million. Additionally, in order for the facility to meet the Company's research and development laboratory and cGMP specifications, the Company made certain structural changes to the facility as part of the conversion. As a result of these changes, the Company concluded that it is the “deemed owner” of the building (for accounting purposes only) during the construction period. The Company recorded the build out costs as an asset with a corresponding build-to-suit liability, which was recorded as a component of other current and non-current liabilities on the condensed consolidated balance sheet while the building was under construction.

Upon completion of construction of this building in May 2018, the Company evaluated the derecognition of the asset and liability under the provisions of ASC 840-40, Leases – Sale-Leaseback Transactions. The Company determined that the lease does not meet the criteria for sale-leaseback accounting treatment, due to the continuing involvement in the project resulting from the significant collateral the Company provided to the landlord in the form of building improvements. As a result, the building is being accounted for as a financing obligation. The underlying assets amount to approximately $35.6 million. The Company determined its incremental borrowing rate for the purpose of calculating the interest and principal components of each lease payment. However, as the use of any reasonable incremental borrowing rate resulted in a built-in-loss at the end of the lease (i.e., net book value exceeding the financing obligation), depreciation is being accelerated to eliminate such result. At the conclusion of the lease term, the Company will derecognize both the remaining net book values of the assets and financing obligation.

Financing Lease Obligation – Culver City

In November 2015, the Company entered into a facility license agreement with NantWorks LLC (NantWorks) (Note 9) 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 license was effective in May 2015 and extends through December 2020. The Company has the option to extend the license through December 2023. The monthly license fee is $47,000, with annual increases of 3% beginning in January 2017. The Company records the rent payments as (1) a reduction of the financing obligation; (2) imputed interest expense; and (3) rent expense on the imputed cost to lease the underlying land of the facility, which is considered an operating lease. Rent expense for this facility is recorded in research and development expense on the consolidated statements of operations and was $47,000 for each of the three months ended September 30, 2018 and 2017, and was $0.1 million for each of the nine months ended September 30, 2018 and 2017.

Under the facility license agreement, the Company was responsible for costs to build out the laboratory and manufacturing facility space and incurred costs of approximately $3.5 million. The Company concluded that it was

the “deemed owner” of the building (for accounting purposes only) during the construction period. The Company recorded the build out costs as an asset with a corresponding build-to-suit liability, which was recorded as a component of other current and non-current liabilities on the condensed consolidated balance sheet while the building was under construction.

Upon completion of construction of this building in August 2016, the Company evaluated the derecognition of the asset and liability under the provisions of ASC 840-40, Leases – Sale-Leaseback Transactions. The Company determined that the lease does not meet the criteria for sale-leaseback accounting treatment, due to the continuing involvement in the project resulting from the significant collateral the Company provided to the landlord in the form of building improvements. As a result, the building is being accounted for as a financing obligation. The underlying assets amount to approximately $4.3 million. The Company determined its incremental borrowing rate for the purpose of calculating the interest and principal components of each lease payment. However, as the use of any reasonable incremental borrowing rate resulted in a built-in-loss at the end of the lease (i.e., net book value exceeding the financing obligation), depreciation is being accelerated to eliminate such result. At the conclusion of the lease term, the Company will derecognize both the remaining net book values of the assets and financing obligation.

Commitments

The Company did not enter into any significant contracts during the nine months ended September 30, 2018 other than those disclosed in this document.

9. Related Party Agreements

The Company's Chairman and CEO founded and has a controlling interest in NantWorks, which is a collection of multiple companies in the healthcare and technology space. As described below, the Company has entered into arrangements with NantWorks and certain affiliates of NantWorks to facilitate the development of new genetically modified NK cells for the Company's product pipeline.

NantHealth Labs, Inc. (formally known as Liquid Genomics, Inc.)

In March 2018, the Company entered into an agreement with NantHealth Labs, Inc. (NantHealth Labs), formally known as Liquid Genomics, Inc., to obtain blood-based tumor profiling services. NantHealth Labs is a related party of the Company as it is a wholly owned subsidiary of NantHealth, Inc., a majority owned subsidiary of NantWorks. The Company is 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 three and nine months ended September 30, 2018, $0.2 million and $0.3 million, respectively, has been recognized in research and development expense on the condensed consolidated statements of operations. As of September 30, 2018, the Company owes NantHealth Labs $0.1 million, which is included in due to related parties on the condensed consolidated balance sheets.

John Lee, M.D. and Leonard Sender, M.D., Inc., a professional medical corporation, dba Chan Soon-Shiong Institutes for Medicine (CSSIM)

In 2017 and 2018, the Company entered into multiple agreements with John Lee, M.D. and Leonard Sender, M.D., Inc., a professional medical corporation, dba Chan Soon-Shiong Institutes for Medicine (CSSIM), in El Segundo, California, to conduct various clinical trials. CSSIM is a related party as it is owned by two officers of the Company and NantWorks provides administrative services to CSSIM. One of the Company's officers is an investigator for the trials on behalf of CSSIM. During the three months ended September 30, 2018 and 2017, $0.7 million and $36,000, respectively, has been recognized in research and development expense on the condensed consolidated statements of operations. During the nine months ended September 30, 2018 and 2017, $2.1 million and $36,000, respectively, has been recognized in research and development expense on the condensed consolidated statements of operations. As of September 30, 2018, the Company owes CSSIM $0.7 million, which is included in due to related parties on the condensed consolidated balance sheet.

Tensorcom, Inc.

In April 2017, the Company entered into a sublease agreement with Tensorcom, Inc. (Tensorcom) for a portion of its San Diego, California, research and development laboratory and office space, with a lease from May 1, 2017 through its expiration in April 30, 2018. The Company's Chairman and CEO indirectly owns all of the outstanding equity of Tensorcom. Rent income from this sublease is recorded in other income on the condensed consolidated statements of operations and was $0 and $0.1 million for the three months ended September 30, 2018 and 2017, respectively, and was $0.1 million and $0.1 million, for the nine months ended September 30, 2018 and 2017, respectively. As the sublease expired in April 2018, there is no balance due between the parties as of September 30, 2018.

VivaBioCell S.p.A.

In February 2017, the Company entered into a research grant agreement with VivaBioCell S.p.A. (VBC), a subsidiary of NantCell, Inc. (NantCell). NantCell is an affiliate of NantWorks. Pursuant to this research grant agreement, VBC conducted research and development activities related to the Company's NK cell lines using VBC's proprietary technology. The Company paid $0.6 million to VBC, which was recorded in prepaid expenses and other current assets on the condensed consolidated balance sheet and benefited from the research and development activities over a one year timeframe. The Company recognized research and development expense of $0 and $0.2 million on the condensed consolidated statements of operations for the three months ended September 30, 2018 and 2017, respectively, and $0.1 million and $0.4 million for the nine months ended September 30, 2018 and 2017,